



Staff Report

January 13, 2015

TO: Honorable Mayor and Town Council
FROM: Roger Carroll, Finance Officer
DATE: November 21, 2014
RE: Receipt of 2014 Fiscal Audit from Boler & Associates

RECOMMENDED ACTION:

Receive and file.

ISSUE STATEMENT AND DISCUSSION:

The town contracts with an outside audit firm, Boler & Associates which performed the audit for the fiscal year ended June 30, 2014 and gave an "Unqualified Opinion". An Unqualified Opinion means that the financial statements fairly represent the Town's financial position without attaching adverse qualifications or conditions. The audit does not reflect any material areas of concern, but if the Council desires, a representative from Boler & Associates would be glad to make a presentation to the Council at a future meeting.

The question on most minds would be "How did we do last year?" The short answer is, we received an "Unqualified Opinion" (which is the best one to get), and our revenues exceeded expenditures by \$647,998 (see page 15).

For the long answer, read on.

Copies of three documents are included with your council packet:

- Audited Financial Statements
- Report on Agreed-Upon Procedures on the Appropriates Limit
- Communication with Those Charged with Governance

Audited Financial Statements

The audit report was prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, which prescribes the way the financial statements are presented. I will give a brief description of the sections of the report.

The Independent Auditor's Report is found on pages 1 and 2. In this report, our auditor gives his opinion on whether he feels the financial statements are properly prepared and whether or not they fairly represent the financial position and activities of the Town. Our financial statements received an "Unqualified" opinion, which means that the information in the report can be taken at face value without any qualifications or reservations about the information presented.

The Management's Discussion and Analysis is found on pages 3 through 13. On these pages you find the management's summarization of the financial data. This is an opportunity for the Town Staff to give an overview of what we find fiscally interesting or pertinent, rather than the prescribed data format the auditor is required to present. We are allowed, here, to present graphs for comparison, overview of important projects undertaken and brief projection of where the Town is headed.

The Basic Financial Statements are on pages 14 through 26. These are the statements required to be presented by the GASB and in their proscribed formats. They are:

- **Government-Wide Statement of Net Position (page 14)**. This shows us the recorded value of things we own (assets) and the estimated value of the things we owe (liabilities). The difference between the two is "net position," known as equity in the private world. Our net position is a positive \$24,431,645, because the value of our assets (what we own) exceeds our liabilities (what we owe). You will notice that a lot of our net position is restricted for specific purposes, or fixed assets.
- **Government-Wide Statement of Activities (page 15)**. This report groups the Town's expenditures into governmental categories (General Government, Public Safety, etc.) and the revenues specifically collected for those purposes. The column at the right, Net (expense)/revenue shows us that most of the governmental functions are not self-sustaining, and by themselves end in the deficit. Below that subtotal, we apply all the general revenues, such as property and sales taxes, to come to the positive change in net position of \$647,998.
- **Balance Sheet – Governmental Funds (page 16)** is another iteration of the Statement of Net Position. In this format, we see the assets, liabilities and fund balances (net positions) in the traditional governmental format. In this format, fixed assets and long term debt are not included. The funds are grouped into "Major Funds" by the auditor based on formulas and GASB requirements. The Town is showing the following "Major Programs:"
 - **General Fund** – this fund is required to be separately reported, regardless of its size.

- **Streets and Roads Fund** – This is another fund that by the nature of the revenue – received from another local government – requires it to be separately accounted for.
 - **Low Income Density Special Revenue Fund** – This fund accounts for 3% of the Town's assets, minor, in the Finance Director's opinion because of the minimal annual activity and projected draws, but because of the large receivable, considered a Major Fund by the GASB.
 - **Maintenance District Funds** – here is a good use of combining funds. All of the maintenance districts for the Town are combined for annual reporting. There are sixteen different maintenance districts, the largest of which only accounts for 1.5% of the Town's assets. All the districts are similar in purpose and financial make-up and together account for 15% of the assets. This is a good use of creating "Major Funds."
 - **Road Circulation Capital Projects Fund** – This fund combines all the impact fee funds that relate to road improvements, drainage system, community buildings and parks. This is another good use of the Major Fund grouping system, as it lumps together funds that account for similar revenues for similar purposes, totaling 26% of the Town's assets.
 - **Nonmajor Governmental Funds** – all other funds, regardless of their source or purpose are combined into this column. A few of the funds included are money received from the County for transit purposes, taxes from assessment districts for road repairs and State funds for high technology sheriff equipment and recycling.
- **The Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position (Page 18)** does just what it says. It reconciles the two statements and shows the differences between Net Position in one versus Fund Balance in the other.
 - **The Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds (Page 19)** shows the revenues and expenditures categorized in the same fund groupings as the Balance Sheet – Governmental Funds.
 - Page 21 reconciles the two different formats of change in fund balance (known as Net Income in private sector).
 - Page 22 to 25 compare actual revenues and expenditures to the adopted budget.

The **Notes to the Basic Financial Statements** are an integral part of the financial statements. They describe significant accounting policies, and give narrative and detail to the basic statements.

The **Combining Fund Financial Statements** show the detail of which funds make up the Major and Non-Major funds.

The final section of the Basic Financial Statements is a report by the auditor regarding the Town's internal controls and compliance. Mostly, this report describes what a deficiency in internal controls is, and finally, that the auditors found no deficiencies during the audit.

In addition to the bound Audited Financial Statements, the auditor has provided us with two additional reports:

Report on Agreed-Upon Procedures on the Appropriations Limit. We are required to have our calculation of the Gann limit (as found in Appendix B of the Adopted Budget) tested for appropriateness, in accordance with the State Constitution. The report lists the steps performed and shows the calculation. No exceptions were noted.

Communication with Those Charged with Governance. This report is to the Council and Management. It details the responsibilities of the auditor under generally accepted auditing standards and the auditor's findings and managements responsibilities to the audit. There were no findings.

Finally, and quite importantly, there is no **Management Comment Letter**. This letter is an additional report often given from the auditor to the management regarding items that came to the auditor's attention that may not at the time rise to a level of concern, but could someday grow to be an issue during an audit. The auditors found no issues with the Town's accounting, whether minor or major, and therefor issued no Management Comment Letter.

POLICY AND/OR FINANCIAL IMPLICATIONS:

None.

Attachments: Audited Financial Statements

Report on Agreed-Upon Procedures on the Appropriations Limit
Communication with Those Charged with Governance.