

TOWN OF ADDISON, TEXAS
FEDERAL SINGLE AUDIT REPORT
YEAR ENDED SEPTEMBER 30, 2014

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Honorable Mayor and
Members of the Town Council
Town of Addison, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Town of Addison (the Town), which comprise the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated February 20, 2015, which included an emphasis paragraph on the implementation of a new accounting standard.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as items 14-01 and 14-02 that we consider to be significant deficiencies.

Compliance and Other Matters

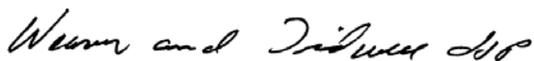
As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Town's Response to Findings

The Town's responses to the findings identified in our audit are described in the accompanying, Schedule of Findings and Questioned Costs. The Town's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
February 20, 2015

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-
133 AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

The Honorable Mayor and
Members of the Town Council
Town of Addison, Texas

Report on Compliance for Each Major Federal Program

We have audited the Town of Addison, Texas (the Town) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Town's major federal programs for the year ended September 30, 2014. The Town's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Town's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Town's compliance.

Opinion on Each Major Federal Program

In our opinion, the Town, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2014.

Report on Internal Control Over Compliance

Management of the Town is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered the Town's internal control over compliance with the requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town as of and for the year ended September 30, 2014 and the related notes to the financial statements, which collectively comprise the Town's basic financial statements.

We issued our report thereon dated February 20, 2015, which contained unmodified opinions on those financial statements, which included an emphasis paragraph on the implementation of a new accounting standard. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in cursive script that reads "Weaver and Tidwell LLP".

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
February 20, 2015

**TOWN OF ADDISON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2014**

I. Summary of the Auditor's Results:

Financial Statements

- a. An unmodified opinion was issued on the financial statements.
- b. Internal control over financial reporting:
- Material weakness(es) identified? _____ Yes X No
 - Significant deficiency(ies) identified that are not considered a material weakness? X Yes _____ No
- c. Noncompliance material to financial statements noted _____ Yes X No

Major Programs

- d. Internal control over major programs:
- Material weakness(es) identified? _____ Yes X No
 - Significant deficiency(ies) identified that are not considered a material weakness? _____ Yes X No
- e. An unmodified opinion was issued on compliance for major programs.
- f. Any audit findings disclosed that were required to be reported under Section 510(a) or OMB Circular A-133. _____ Yes X No
- g. Identification of major programs:
- 20.106 Airport Improvement Plan
- h. The dollar threshold used to distinguish between Type A and Type B programs. \$300,000
- i. Auditee qualified as a low-risk auditee? X Yes _____ No

**TOWN OF ADDISON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2014**

II. Findings Relating to the Financial Statements Which Are Required To Be Reported in Accordance with *Generally Accepted Government Auditing Standards*.

Finding 14-01 Investment Allocation and Collateral

Type of Finding: Significant deficiency in internal control over financial reporting

Questioned Cost: Not Applicable

CRITERIA OR SPECIFIC REQUIREMENT:

It is the Town's policy to avoid a concentration of assets in a specific maturity, a specific issue, or a specific class of securities. The applicable limits on the Town's current investments are Instrumentality securities- 70%, Commercial paper- 30%, Certificate of Deposits- 30%, Local government investment pools- 40%. In addition, the Town's deposits exceeding FDIC deposit insurance amount shall be fully collateralized. The financial condition of banks may change rapidly, therefore the Town should maintain adequate levels of collateral to support deposit amounts.

CONDITION AND CONTEXT:

As of September 30, 2014, the Town's portfolio held 36% in Certificates of Deposit which were above the applicable limits set by the Town's policy. The concentration occurred during the last quarter of fiscal year 2014. During the first three quarters of the year, the Town maintained an investment allocation within the Town's limits. At September 30, 2014, the Town was under collateralized by \$1,169. During the first three quarters of the year, the Town maintained deposits fully collateralized.

CAUSE:

Town Management did not evaluate how security purchases fit into the Town's overall investment strategy and did not evaluate collateral for its deposits held.

EFFECT:

The Town is operating with an increased concentration of credit risk and with under collateralized deposits.

RECOMMENDATIONS:

The Town should evaluate the Town's overall investment strategy before an investment purchase is made in order to avoid a concentration of credit risk. The Town should monitor deposits and collateral held to maintain deposits fully collateralized.

**TOWN OF ADDISON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2014**

Finding 14-01 Investment Allocation and Collateral – Continued

MANAGEMENT RESPONSE:

The Town's Investment Policy was updated in October 2014 to allow up to 50% of the Town's portfolio to be Certificates of Deposit. Additionally, in FY 2015 the Town has implemented mitigating controls that allow for calculation of the impact a security purchase will have related to concentration of assets in a specific maturity, a specific issue, and a specific class. Since the end of FY 2014 the Town has obtained adequate collateralization related to the security in question. However, the Town does agree that financial conditions at banks can change rapidly and considers the Town's current Investment Policy inadequate to adjust to these potential changes. Town staff plans to modify the Town's Investment Policy to require 102% collateralization of purchased securities to prevent under collateralization (the Town's current policy requires 100% collateralization). Additionally, in FY 2015 the Town has implemented mitigating controls that allow staff to monitor collateralization levels more effectively.

Finding 14-02 Financial Close Process

Type of Finding: Significant deficiency in internal control over financial reporting

Questioned Cost: Not Applicable

CRITERIA OR SPECIFIC REQUIREMENT:

The Town should maintain a comprehensive period end closing checklist to ensure financial information is complete and accurate.

CONDITION AND CONTEXT:

The Town did not accrue a municipal court liability for the state criminal cost and fees. During the fiscal year end close a financial close checklist was not utilized which led to the understatement of liabilities.

CAUSE:

Due to the business office turnover over the past three years, the Town did not maintain a financial close checklist to ensure financial information is complete and accurate.

EFFECT:

The Town's liabilities were understated by approximately \$95,000.

**TOWN OF ADDISON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2014**

Finding 14-02 Financial Close Process – Continued

RECOMMENDATIONS:

The Town should maintain a comprehensive period end closing checklist in order to ensure financial information is complete and accurate.

MANAGEMENT RESPONSE:

The Town does maintain a financial close process, but does agree that the process should be reviewed and updated to be more comprehensive to meet the Town's current needs. Additionally, key Town staff were added during the early stages of the audit which directly affected the timeliness in which some end of year procedures were completed. The Town plans to have a more comprehensive financial close process implemented prior to the FY 2015 audit.

III. Findings and Questioned Costs for Federal Awards Including Audit Findings as Described in I.f Above

None were noted in current year.

**TOWN OF ADDISON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2014**

<u>Federal grantor/pass-through grantor/program title</u>	<u>CFDA Number</u>	<u>Pass-Through Grantor Program Number</u>	<u>Federal Expenditures</u>
Federal Aviation Agency			
Pass-through Texas Department of Transportation			
Airport Improvement Program	20.106	n/a	\$ 7,514,757
Total Federal Aviation Agency			<u>7,514,757</u>
Total Federal Assistance Expended			<u><u>\$ 7,514,757</u></u>

**TOWN OF ADDISON
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

NOTE 1. BASIS OF ACCOUNTING

Federal grant funds were accounted for in the proprietary fund types. Grant expenditures are recognized in the accounting period when the liability is incurred.

NOTE 2. PERIOD OF AVAILABILITY

The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 30 days beyond the federal project period ending date, in accordance with provisions in Section H, Period of Availability of Federal Funds, Part 3, OMB Circular A-133 Compliance Statement - Provisional 6/97.

NOTE 3. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Amounts reported in the accompanying schedule may not agree with amounts reported in the related federal financial reports since the Town used the modified accrual basis of accounting in preparing the schedule and the cash basis in preparing the federal financial reports.