



Presentation to

TOWN OF ADDISON

Town Council Meeting | February 24, 2015

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Today's Agenda

- Introduction
- Audit Process
- Audit Results
- Required Auditor Communications
- GAGAS Report on Internal Control over Financial Reporting
- Financial Highlights
- Other Matters
- Standards Required to be Implemented in FY2015
- Questions

Introductions



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Today's Presenters

Jerry Gaither, CPA, CGFM

Partner, Assurance Services

Partner-in-Charge, Public Sector Industry

Aracely Rios, CPA

Senior Manager, Assurance Services



Engagement Team

Town of Addison

Jerry Gaither, CPA, CGFM
Public Sector Leader

Audit

Aracely Rios, CPA
Audit Senior Manager

Bimpe McMillon
Audit Senior Associate

Consulting

Marlon Williams, CPA
ACL Data Specialist

Brittany Teare, CISA
IT Advisory Services Manager



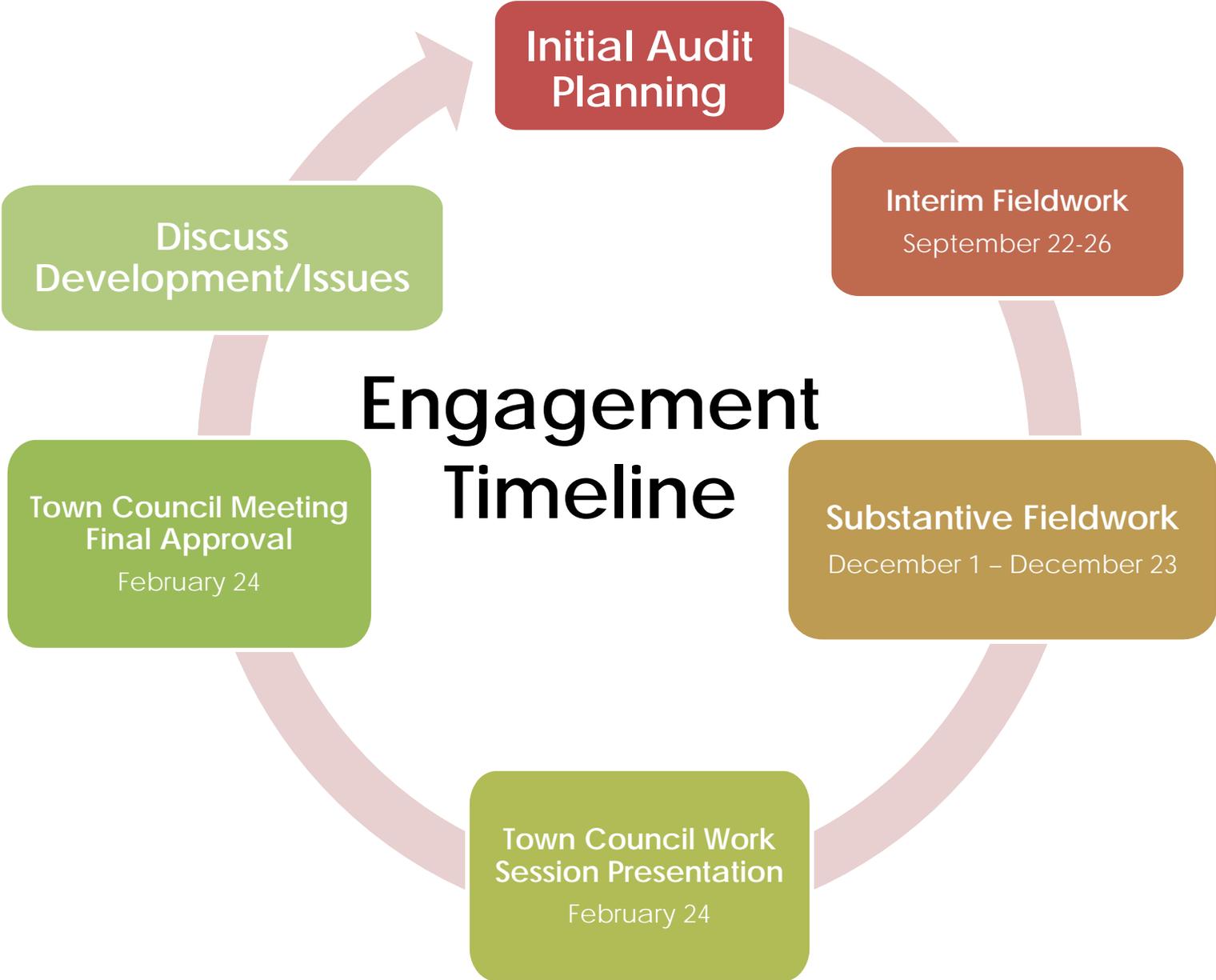
Firm of Texas

- Largest independent accounting firm in the Southwest
 - Founded in Fort Worth in 1950
 - Seven offices across all major Texas markets
 - Approximately 500 professionals and 60+ partners
- Consistently ranked as a top firm nationally and regionally



Audit Process





- The audit was performed in accordance with General Accepted Auditing Standards (GAAS), Generally Accepted Government Auditing Standards (GAGAS), and the Single Audit Act (U.S. Office of Management and Budget (OMB Circular A-133)
- The audit process was a risk-based approach in which we identified potential areas of risk that could lead to material misstatement of the financial statements . We tailored our audit programs and resources to address these risks.
 - Risk areas identified:
 - Payables, accrued liability and expenditures
 - Revenues, receivables, billing and collections
 - Capital projects, purchasing, and compliance with bidding procedures
 - State and Federal revenues and expenditures and compliance requirements related thereto

- Internal audit planning and scheduling began September 2014
- Interim fieldwork and risk assessment was performed in September 2014 including:
 - Walkthrough of accounting controls over significant transaction cycles:
 - A. Cash Disbursements
 - B. Payroll
 - C. Cash Receipts
 - D. Utility Billing
 - Test of accounting controls over:
 - A. Payroll
 - B. Cash Disbursements
 - C. Utility Billing
 - Identification of major federal financial assistance program and test controls over compliance

Auditor Results



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Auditor Results

- We issued the Independent Auditor's Report on the financial statements
 - ✓ Unmodified Opinion
- We issued the 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
 - ✓ No material weaknesses noted.
 - ✓ Two significant deficiencies noted.
- We issued the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133
 - ✓ Unmodified Opinion
 - ✓ No findings noted

Auditor Communications

for the year ended September 30, 2014

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Required Communications to Those in Charge of Governance

Communication

Auditor's responsibility under generally accepted auditing standards (GAAS)

Results

The financial statements are the responsibility of the Town. Our audit was designed in accordance with GAAS in the U.S. and provide for reasonable rather than absolute assurance that the financial statements are free of material misstatement. Our responsibility is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

An unmodified opinion was issued.



Required Communications to Those in Charge of Governance

Communication

Auditor's Responsibility under Government Auditing Standards

Results

In addition to the GAAS responsibilities, we are required to issue a written report on our consideration of internal controls and identify significant deficiencies, including material weaknesses, if any. Our reports do not provide assurance on internal controls. We design our audit to provide reasonable assurance of detecting material misstatements resulting from noncompliance with provisions of contracts or grant agreements that have a direct or material effect on the financial statements. We issue a written reports on the results of these procedures; however, our report does not express an opinion on compliance. Significant deficiencies in internal control over financial reported were noted.



Required Communications to Those in Charge of Governance

Communication

Auditor Responsibility under OMB Circular A-133

Results

Our testing includes all major federal financial assistance programs. We report on such testing, and disclose significant deficiencies in internal control over compliance, including material weaknesses we identify. Our report does not provide assurance on internal control over compliance. We perform procedures for the purpose of expressing an opinion on whether major federal financial assistance programs have been administered in compliance with applicable laws and regulations.

The audit of the fiscal year 2014 major federal financial assistance programs has been completed and we issued a clean opinion.



Required Communications to Those in Charge of Governance

Communication

Unusual transactions and the adoption of new accounting principles

Results

The significant accounting policies used by the Town are described in Note 1 to the financial statements.

The new GASB pronouncement implemented in 2015 was GASB Statement No. 65. The impact of the implementation of GASB 65 is described in note IV.

We noted no transactions entered into by the Town during the year for which there is a lack of authoritative guidance or consensus.



Required Communications to Those in Charge of Governance

Communication	Results
Fraud and illegal acts	No material errors, irregularities, or illegal acts were noted.
Material weakness in internal control	No material weaknesses noted. Two significant deficiencies in internal control over financial reporting were noted.
Other information contained in documents containing audited financial statements	We provided an "in relation to opinion" on supplementary information accompanying the financial statements. We performed limited procedures on the RSI,. We did not provide any assurance on this information. The Introductory and Statistical sections were both unaudited.
Management judgments and accounting estimates	Management's estimates of allowance for uncollectible taxes, estimate of other postemployment benefits which were calculated based on the annual required contribution, an amount actuarially determined in accordance with parameters of GASB Statement 45 and estimated useful lives for capital assets were evaluated and determined to be reasonable in relation to the financial statements as a whole.



Required Communications to Those in Charge of Governance

Communication	Results
Difficulties encountered	No difficulties or disagreements arose during the course of our audit.
Management representations	We will request certain representation from management that will be included in the management representation letter.
Management consultations	We are not aware of management consulting with other accountants for a second opinion.
Auditor independence	No independence issues noted.
Audit adjustments	Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were a number of entries prepared by management after fieldwork began and we proposed two entries- an entry to accrue court costs and an entry to record Oktoberfest revenues collected in October. There are no passed adjustments to report.



Required Communications to Those in Charge of Governance

Communication	Results
Other material written communications between Weaver and Tidwell, L.L.P., and the Town	None

GAGAS Report On Internal Control Over Financial Reporting

for the year ended September 30, 2014



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. We did not identify any deficiencies in internal control that we consider to be material weaknesses. 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. The following were identified as significant deficiencies:

Investment Allocation and Collateral

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.

Investment Allocation and Collateral- Continued

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.

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.

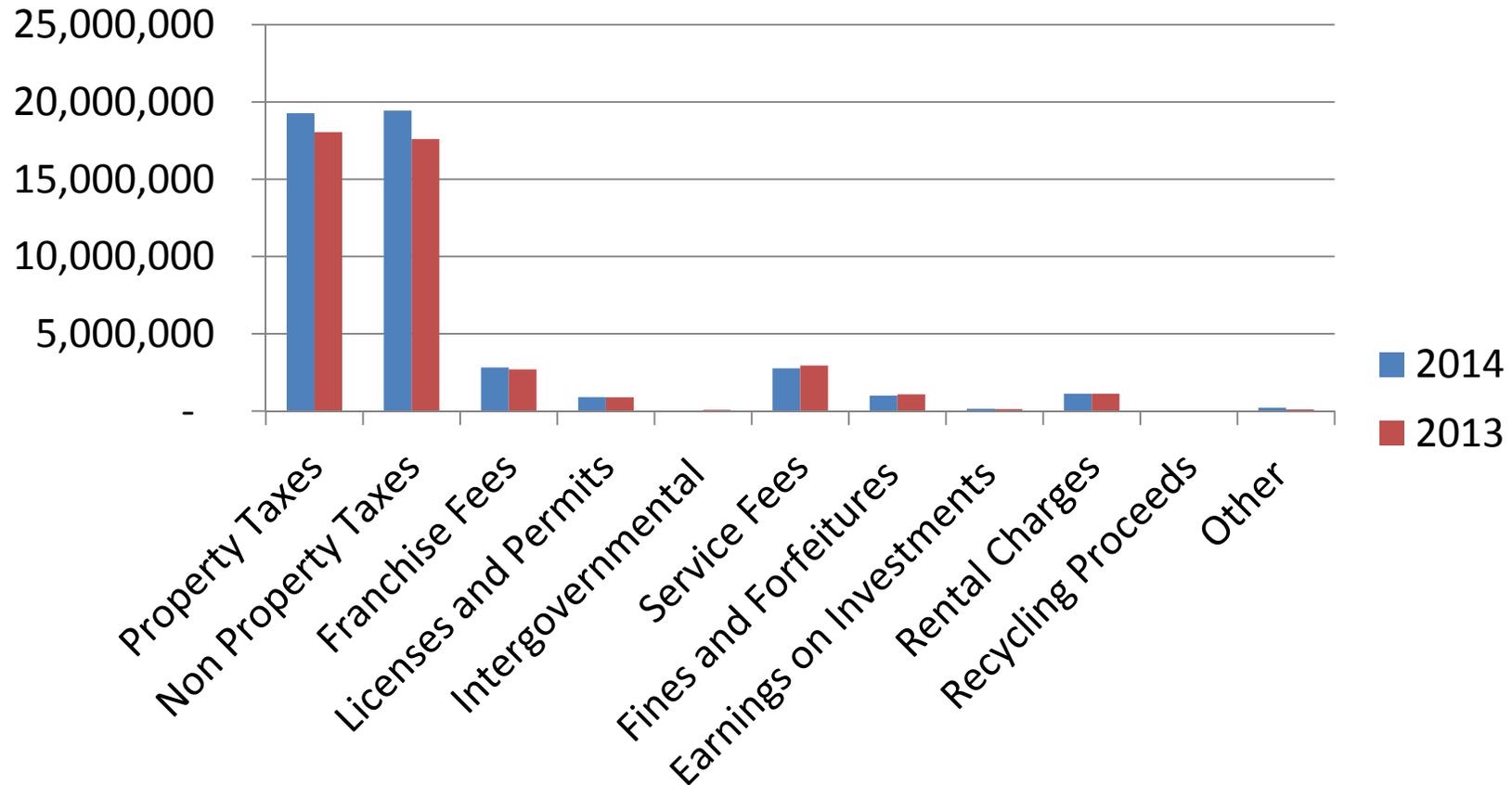
Financial Close Process

During our audit, we noted that the Town did not accrue a municipal court liability for the state criminal cost and fees. We noted a comprehensive period ending close checklist was not utilized which would help ensure all transactions were reflected in the proper period. The Town's liabilities were understated by approximately \$95,000. We recommend that the Town should maintain a comprehensive period end closing checklist in order to ensure financial information is complete and accurate.

Financial Highlights

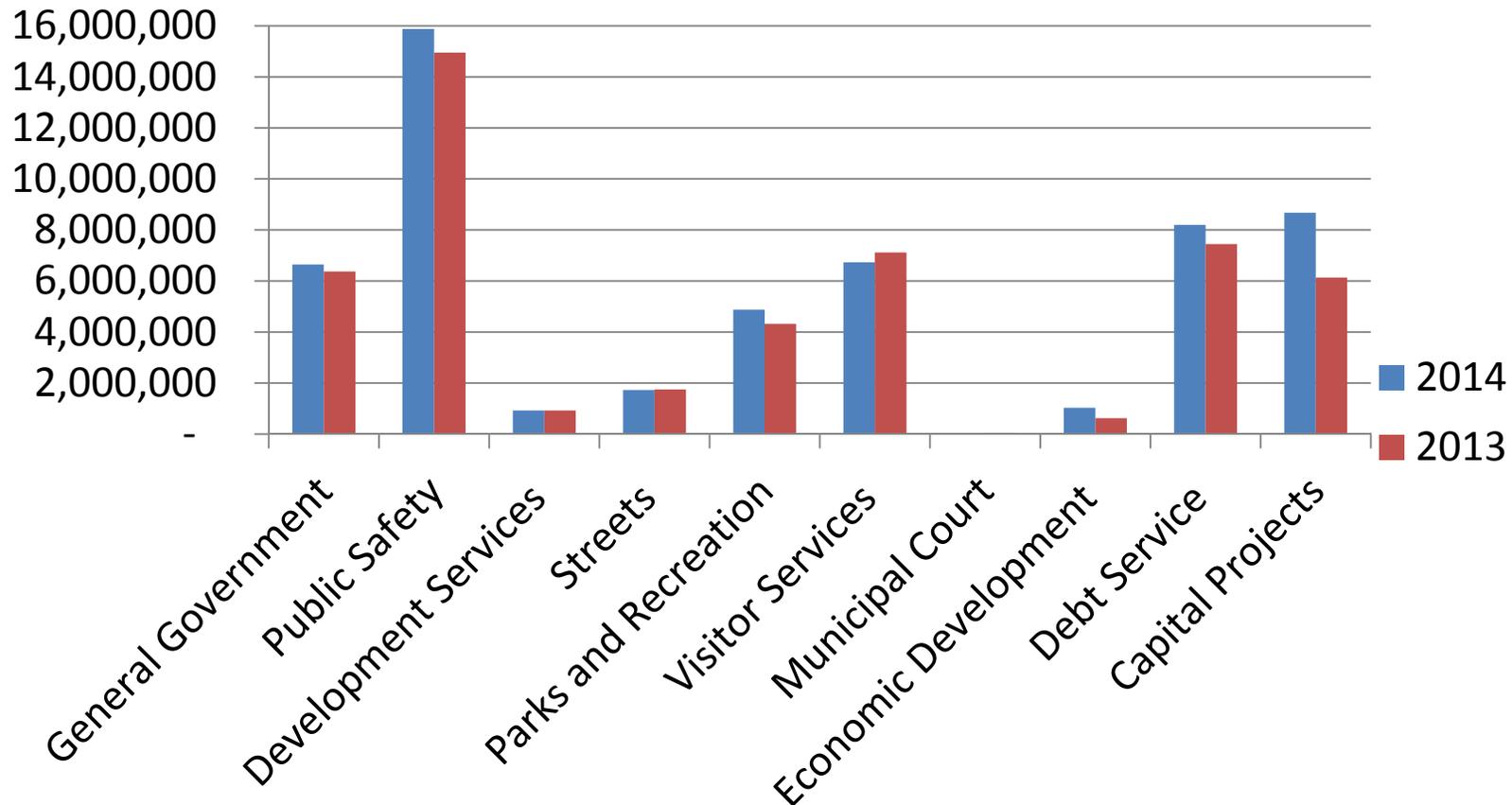


Comparison of Governmental Revenue



Revenues for FY 2014 totaled \$47.7 million, an increase of \$3.0 million. The increase is primarily due to an increase in property tax and non property tax revenues of \$3.0 million. There was an increase of property tax revenues of \$1.2 million due to an increase in assessed property valuations and increase of \$1.8 million in non property taxes.

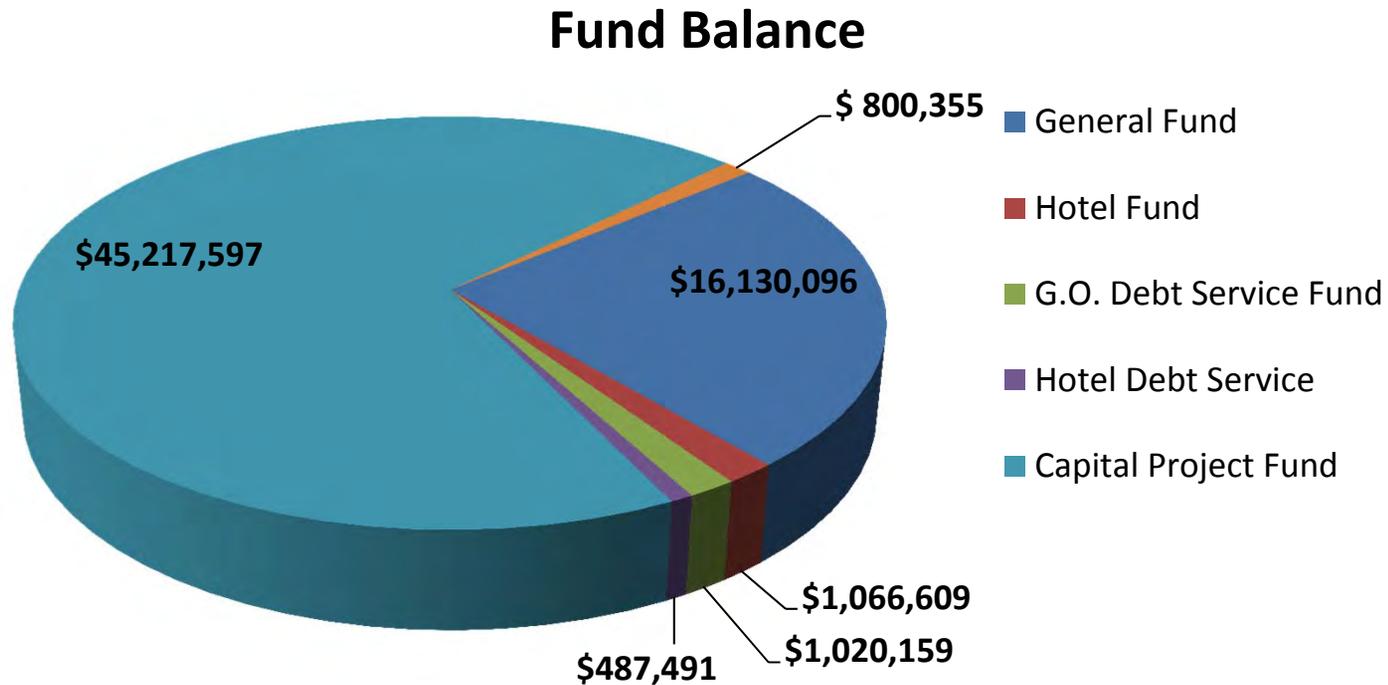
Comparison of Governmental Fund Expenditures



Expenditures for FY 2014 totaled \$54.8 million, a \$5 million increase.

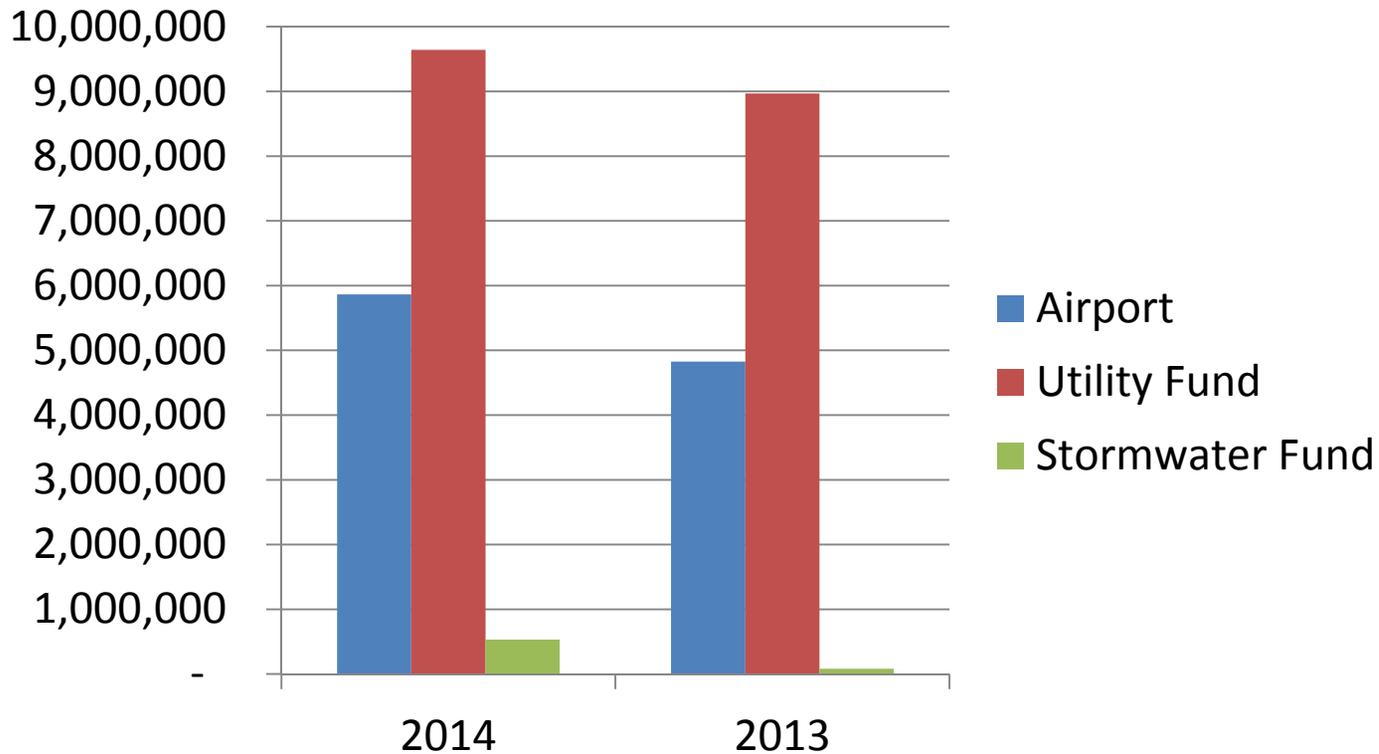
- Public Safety had a \$931k increase due primarily to a budgeted increase in payroll.
- Parks and recreation had a \$558k increase primarily due to an increase in maintenance of \$263k and contractual services of \$187k related to new, large landscaping projects and increased service costs.
- Economic Development had a \$406k increase due to the Addison Treehouse Project.
- Capital Projects had a \$2.5 million increase primarily due to the radio replacement project.

Governmental Funds' Fund Balances



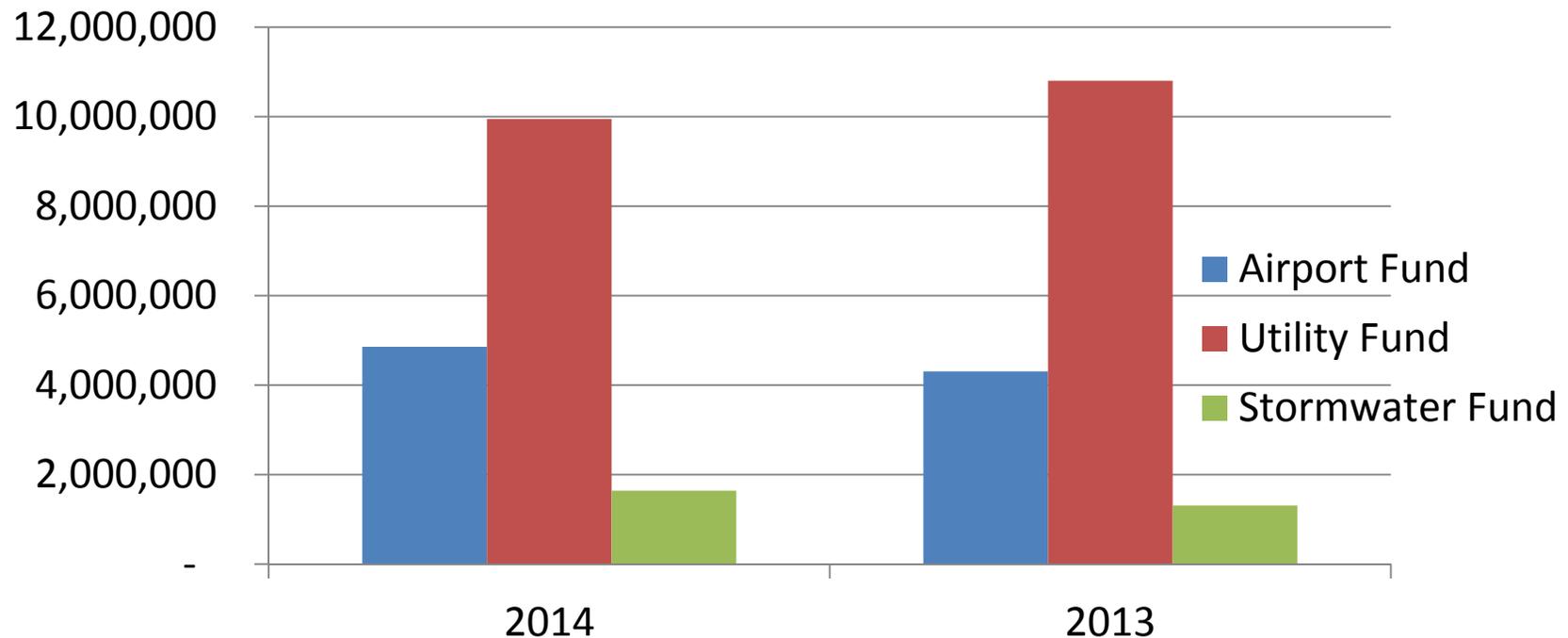
The Town's governmental funds reported in FY 2014 a combined ending fund balance of \$64.7 million. A net increase in fund balance of \$5 million, primarily relates to an increase of \$2.2 million in the General Fund and a \$3.5 million increase in the Capital Projects Fund. During FY 14 there was a \$12 million issuance of bonds.

Comparison of Business Type Expenditures by Fund



Expenditures for FY 2014 totaled \$16 million, a \$2.1 million increase. The Airport had a \$839k increase in expenditures primarily due to an increase in airport management expenses of \$418k, \$270k in expenditures related to a wildlife study and airport master plan funded by the airport grant. The Utility fund had \$745k increase in expenditures due to an increase of \$236k in water purchases and an increase of \$534k in utility and sewer plant repair. The Storm water fund had an increase of \$531k which was primarily due to feasibility studies for the Hutton Branch Basin and drainage studies.

Comparison of Business Type Revenue by Fund

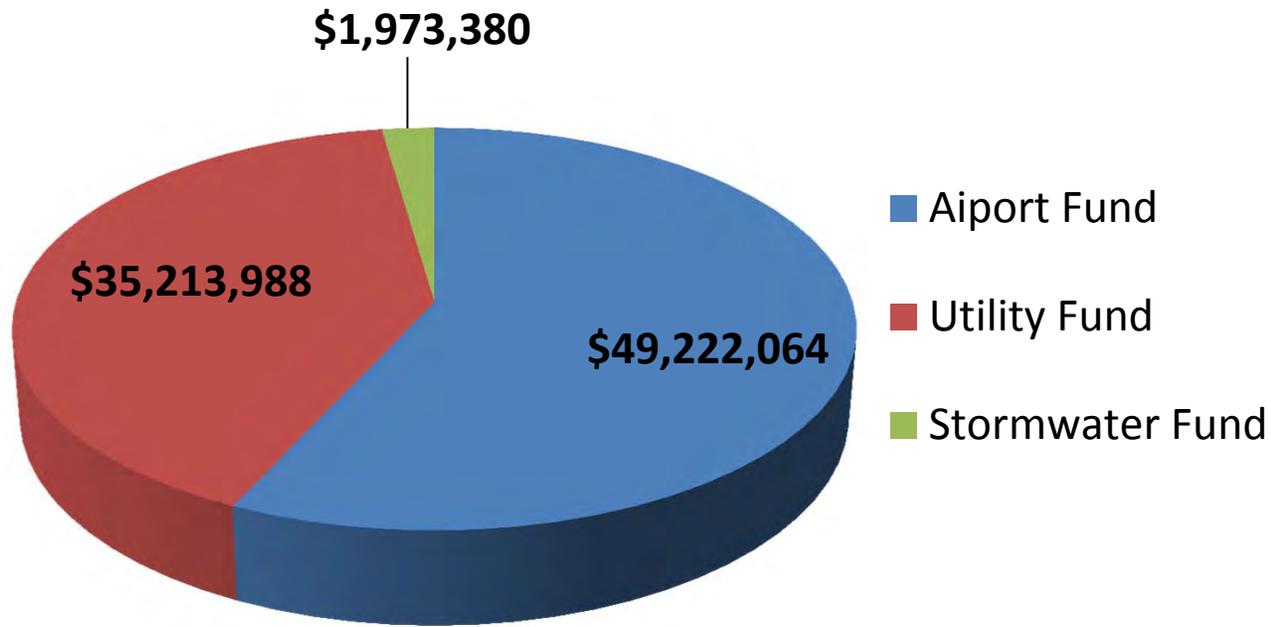


Operating revenues for the FY 2014 totaled \$16.4 million, a decrease of approximately \$172k.

- The decrease is due to a \$858k decrease in the utility fund due to a 12% decrease in water consumption
- An increase in the airport fund of \$352k – primarily due to an increase in hangar lease income
- An increase in the storm water fund of \$333k – due to an increase in storm water fees, 2014 was the first full year of storm water fee collections.

Proprietary Funds' Fund Balances

Fund Balance



The Town's combined proprietary fund balance in FY 2014 reported a net increase in net position of \$11.6 million. The increase primarily relates to the Airport Improvement grant and capital contributions of \$12.3 million received and of \$897k increase in the Stormwater Fund, this fund was established during FY 2013 and FY 2014 was the first full year of operations. Additionally

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OTHER MATTERS

- 30 day revenue recognition policy
- Infrastructure depreciation

The background image shows a high-angle view of a grand, ornate interior space, likely a government building or a large hall. It features a large, circular opening with a decorative, carved metal railing. In the center of the opening, there is a circular light fixture. The overall color palette is dominated by warm, golden-brown tones, with a semi-transparent orange overlay at the top. The text is white and positioned in the upper right quadrant.

New Standards

For Fiscal Years 2014 through 2015

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Effective for the year ended September 30, 2014

- GASB 65 – Items Previously Reported as Assets and Liabilities
 - *Objective*: establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows or inflows of resources, certain items that were previously reported as assets and liabilities.
 - *Effect*:
 - Gain/loss on refunding – reported as deferred outflow/inflow
 - Debt issuance costs – expensed in the current period, except prepaid insurance costs
 - Sales leaseback – gain/loss on sale of property reported as deferred inflow/outflow
 - In non-exchange transactions, such as a receipt of property taxes before levy period, in which the district is unable to recognize revenue under GASB 33 would be treated as deferred inflows.
 - Major Fund calculation will combine assets and deferred outflows and combine liabilities and deferred inflows, which could result in a change in the number of major funds presented for financial reporting purposes.

Effective for the year ended September 30, 2014 (continued)

- GASB 66 – Technical Corrections – an amendment of GASB No. 16 and 62
 - *Objective:* to improve accounting and financial reporting by resolving conflicting guidance caused by the issuance of two recent pronouncements, GASB No. 54 and 62.
 - *Effect:* No significant effect to the Town



Effective for the year ended September 30, 2015

- GASB 67/68 – Accounting and Financial Reporting for Pensions
 - *Objective:* to improve financial reporting by state and local governmental pension plans
 - *Effect:* GASB 67 only impacts the accounting and financial reporting of pension plans and not the employers or participants of plans. GASB 68 will require the recognition of net pension liabilities of employers in financial statements prepared on the accrual basis.
- GASB 69 – Government Combinations and Disposals of Government Operations
 - *Objective:* establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations.
 - *Effect:* No significant effect on the Town

Effective for the year ended September 30, 2015

- GASB 70 – Accounting and Financial Reporting for Nonexchange Financial Guarantees
 - *Objective:* requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is *more likely than not* that the guarantor will be required to make a payment to the obligation holders under the agreement
 - *Effect:* No significant effect to the Town



- Proposed Single Audit Changes
 - Increase threshold to \$750,000
 - Increase major program determination threshold to \$500,000
 - Modify coverage requirements
 - Decrease number of compliance requirements to be tested
 - Likely effective for fiscal year ended 2015

Questions



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