

FINANCIAL AUDIT 2019

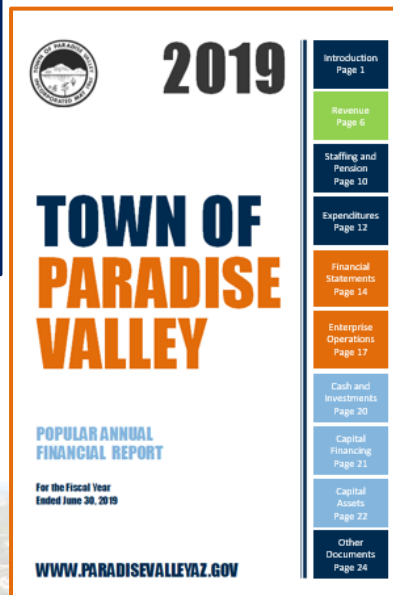
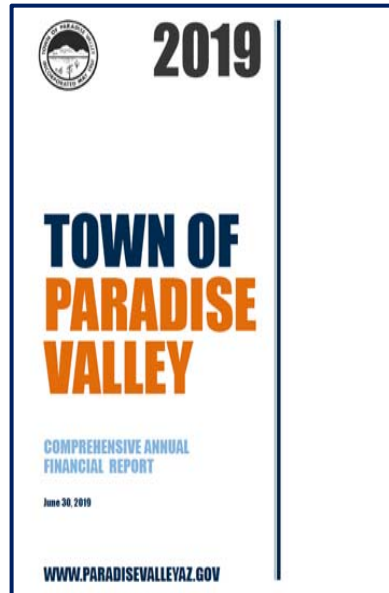
HIGHLIGHTS



December 5th, 2019

Audit Roles & Responsibilities

Documents



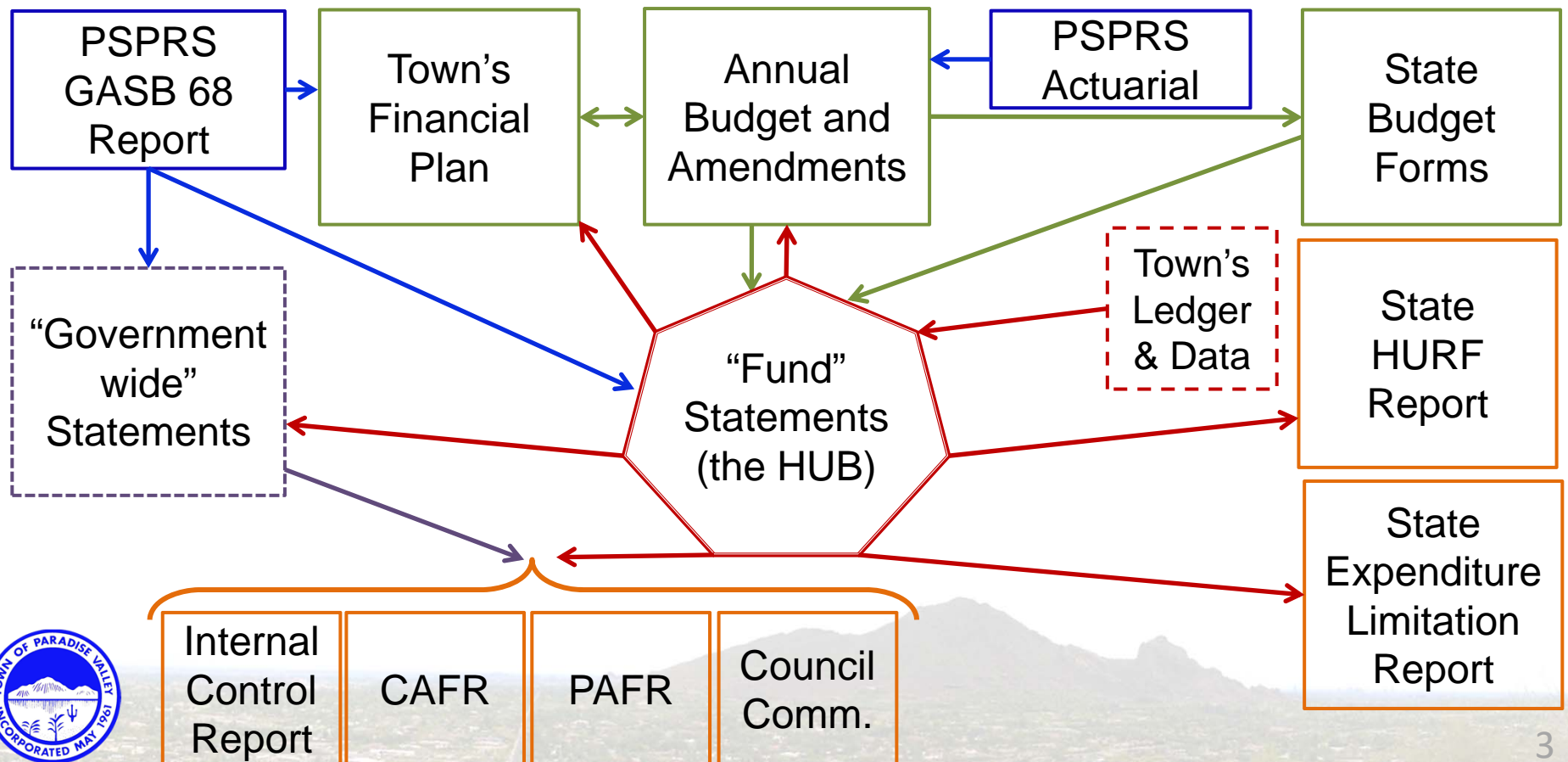
PREPARED / AUDITED / REVIEWED
Financial Statements - CAFR
(Comprehensive Annual Financial Report)
AELR (Annual Expenditure Limitation)
HURF (Highway User Revenue Fund)
Auditor Communication to Council
Internal Control Communication

NOT AUDITED
DERIVED FROM AUDIT
PAFR (Popular Annual Financial Report)
Quarterly Report – Q4
Corrective Action Plan



Flow of Financial Date

From the Source



EXECUTIVE SUMMARY

Revenues closed **8.0% (\$2,658,613) higher** than estimated; revenue estimates were purposefully flat to protect the Town form over extending expenditures.

Expenditures were **2.3% (\$687,687) higher** than estimated; included \$3mm additional PSPRS.

Transfers out ended the year **9.2% (\$505,141) more** than estimated; driven by Town policy.

Ending operating **fund balance** is **1.4% (\$439,563) higher** than estimated; meeting expectations.



HIGHLIGHTS for 2019

Remaining debt and **unfunded PSPRS liability** balances closed better than expected.

The **expenditure limitation** carryforward increased **capacity by \$1,422,568** or 627% since FY17 and is equivalent to 4.3% of FY2019 spending.

All Town departments ended the year **within** their legally approved operating budgets.

Projects funded with the 2016 excise tax debt proceeds closed well under budget; by contract, excess proceeds were directed to the debt payment fund.

The Capital projects fund has accumulated a cash balance in excess of the Council approved Capital Improvement Plan and will be presented to Council for consideration with the FY2021 budget.

There were 2 audit findings; the Finance Division has implemented a Corrective Action Plan.

No changes are recommended for the FY2020 budget resulting from FY2019 audit.



Expenditure Limit Carryforward

Q4 Page 2

GOVERNMENTAL FUNDS: Annual Expenditure Limitation Carryforward Balance

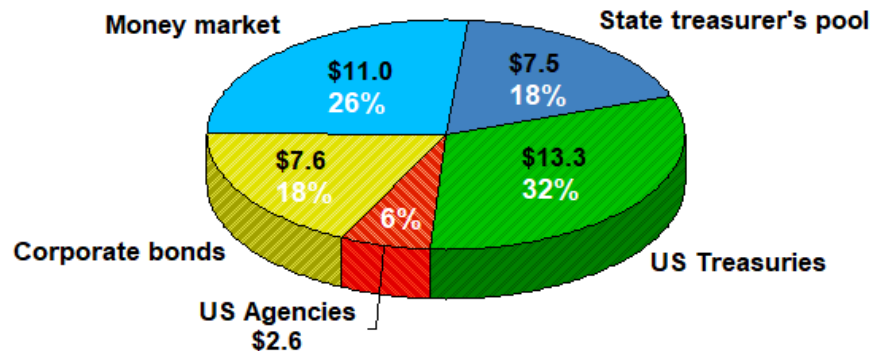
Governmental funds Carryforward balance	Audited 2016	Audited 2017	Audited 2018	Audited 2019	% of Exp
Beginning balance, July 1	\$ 7,251,581	\$ 6,939,146	\$ 226,856	\$ 740,055	1.9%
Interest income	296,422	185,141	250,226	1,309,610	3.4%
Interest from grant funds	(18,688)	(16,438)	(14,200)	(11,925)	0.0%
LTAIF and HURF	(28,697)	38,330	277,173	(388,316)	-1.0%
Enterprises	(561,472)	-	-	-	-
Carryforward used	-	(6,919,323)	-	-	-
Ending bal, June 30	\$ 6,939,146	\$ 226,856	\$ 740,055	\$ 1,649,424	4.3%
Total under AEL	\$ 977,501	\$ -	\$ 8,333,512	\$ 2,767,675	7.3%
Use of 2016 proceeds	2,409,374	4,268	4,107,440	-	-



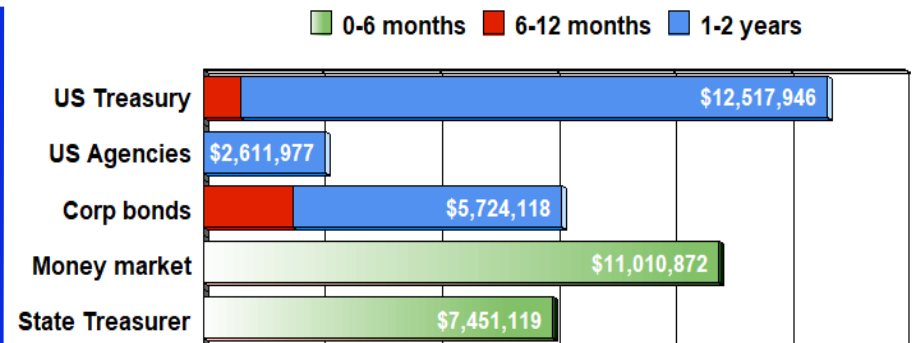
2019 AELR Note 7; Page 9

Cash and Investments

Use is "Exempt from" AEL



Investment type	Fair Value at Fiscal Year End			
	2019	2018	2017	2016
U.S. Treasuries	\$13,315,322	\$ 6,720,095	\$ 2,454,377	\$10,483,503
U.S. Agencies	2,611,977	6,385,866	13,180,689	12,140,405
Corporate Bonds	7,638,794	9,022,387	5,532,987	-
Commercial paper	-	-	895,631	-
Money Markets	11,010,872	1,440,431	5,556,132	5,609,698
Supra-National Agencies	-	567,497	577,105	-
State Treasurer's Pool	7,451,119	16,215,062	6,024,395	3,985,048
Total Investments	\$42,028,084	\$40,351,338	\$34,221,316	\$32,218,654
Cash in bank / trustee	10,481,644	11,549,124	6,821,805	11,932,184
Restricted cash	(5,386,381)	(5,473,155)	(6,885,134)	(6,883,581)
Cash & Investments	\$47,123,347	\$46,427,307	\$34,157,987	\$37,267,257



Fair Value at Fiscal Year End				Earnings by Year	
2015	2014	2013	2012	Fiscal Year	Investment Earnings
-	-	-	-	2019	\$ 1,330,269
-	\$ 1,003,822	\$13,066,313	\$20,110,590	2018	250,226
-	-	-	-	2017	185,141
-	-	-	-	2016	274,390
-	-	-	-	2015	91,159
\$20,454,326	13,435,115	3,422,370	3,357,470	2014	94,521
\$20,454,326	\$14,438,937	\$16,488,683	\$23,468,060	2013	174,833
11,979,771	19,822,758	17,991,742	9,144,523	2012	161,897
(1,492,602)	(621,571)	(149,577)	(176,448)	2011	231,090
\$30,941,495	\$33,640,124	\$34,330,848	\$32,436,135	2010	358,326

Data from CAFR: Note 3(A)(1) pages 39-42

PSPRS Unfunded Liability

CAFR pages 54-55

PSPRS Police

	Reporting Fiscal Year (Measurement Date)		Reporting Fiscal Year (Measurement Date)		
	2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)
Total Pension Liability					
Service Cost	\$ 653,388	\$ 625,699	\$ 503,757	\$ 413,268	\$ 359,518
Interest on the Total Pension Liability	2,526,602	2,325,975	2,201,463	2,160,197	1,795,059
Changes of Benefit Terms	-	388,150	745,131	-	710,651
Differences Between Expected and Actual Experience in the Measurement of the Pension Liability	477,835	572,004	692,654	24,766	514,325
Changes of Assumptions or Other Inputs	-	1,461,598	1,116,822	-	3,303,865
Benefit Payments, Including Refunds of Employee Contributions	(2,263,213)	(2,250,789)	(2,453,037)	(1,782,549)	(2,335,144)
Net Change in Total Pension Liability	1,394,612	3,122,637	2,806,790	815,682	4,348,274
Total Pension Liability - Beginning	34,948,185	31,825,548	29,018,758	28,203,076	23,854,802
Total Pension Liability - Ending (a)	36,342,797	34,948,185	31,825,548	29,018,758	28,203,076
Plan Fiduciary Net Position					
Contributions - Employer	2,971,262	8,029,673	3,056,411	1,708,529	1,045,144
Contributions - Employee	237,556	320,063	312,821	411,948	303,349
Net Investment Income	1,121,032	1,380,854	57,574	307,573	917,883
Benefit Payments, Including Refunds of Employee Contributions	(2,263,213)	(2,250,789)	(2,453,037)	(1,782,549)	(2,335,144)
Administrative Expenses	(17,762)	(12,618)	(8,686)	(7,885)	(7,393)
Other Changes	(442,067)	182,874	679,608	(5,169)	34,308
Net Change in Plan Fiduciary Net Position	1,606,808	7,650,057	1,644,691	632,447	(41,853)
Plan Fiduciary Net Position - Beginning	16,999,937	9,349,880	7,705,189	7,072,742	7,114,595
Plan Fiduciary Net Position - Ending (b)	18,606,745	16,999,937	9,349,880	7,705,189	7,072,742
Town's Net Pension Liability (Asset) - Ending (a) - (b)	\$ 17,736,052	\$ 17,948,248	\$ 22,475,668	\$ 21,313,569	\$ 21,130,334
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	51.20%	48.64%	29.38%	26.55%	25.08%
Covered Payroll	\$ 2,929,989	\$ 2,757,599	\$ 2,706,916	\$ 2,290,190	\$ 2,200,151
Town's Net Pension Liability (Asset) as a Percentage of Covered Payroll	605.33%	650.87%	830.31%	930.65%	960.40%



PSPRS Unfunded Liability

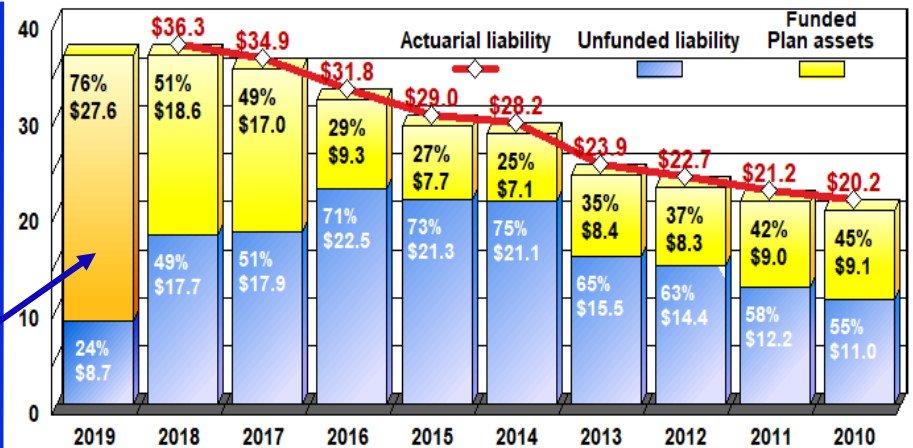
PAFR pages 11

Sworn police officers participate in the Public Safety Personnel Retirement System ("PSPRS"). The Town Council adopted resolution 2016-19 to reduce the **unfunded liability** as "quickly as reasonably possible".

In measurement year 2018, when the Town's **actuarial liability** increased to \$36.3 million, the **plan assets** increased to 49% and the **unfunded liability** decreased to \$17.7 million which is 49% of the total.

The Town's 2019 CAFR reports the most recent PSPRS audit from 2018 as the "measurement year" for PSPRS financial information.

In fiscal year 2019, the Town contributed \$9 million to pay down the unfunded liability. This will be recognized by PSPRS in their 2019 reporting and will be reported as the "measurement year" is in the Town's 2020 CAFR. This is represented in the **orange** column in the chart and graph illustrating the impact of this lump payment.



PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM

PSPRS Measurement Year is one year arrears	Fiscal 19	Measurement Year 20xx								
		18	17	16	15	14	13	12	11	10
Town's plan assets	\$27.6	\$18.6	\$17.0	\$ 9.3	\$ 7.7	\$ 7.1	\$ 8.4	\$ 8.3	\$ 9.0	\$ 9.1
Unfunded liability	8.7	17.7	17.9	22.5	21.3	21.1	15.5	14.4	12.2	11.0
Actuarial liability	\$36.3	\$36.3	\$34.9	\$31.8	\$29.0	\$28.2	\$23.9	\$22.7	\$21.2	\$20.2
Percentage funded	76%	51%	49%	29%	27%	25%	35%	37%	42%	45%
Percentage unfunded	24%	49%	51%	71%	73%	75%	65%	63%	58%	55%
Contribution rate teir 1/2	59%	59%	67%	70%	72%	60%	50%	49%	38%	32%



Audit Findings 2019-01

From Auditors

“We proposed and the Town subsequently recorded an entry to restate beginning net position of the governmental activities for an error in the previously issued financial statements. In the prior year, the Town made pension contributions to the Public Safety Personnel Retirement System in excess of the required contributions; however, the excess contribution was recognized as an expense in the governmental activities and should have been reported as a deferred outflow of resources.”

“We recommend the management reviews the summary of pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense and reconcile the recorded pension activity to the reports provided by the public safety personnel retirement system and to the contributions recorded as an expenditure at the fund level financial statements. Any variances should be investigated and resolved to prevent and detect a similar error in the future.”



Restatement Note

CAFR page 49

B. Restatement for a Correction of an Error

During the year ended June 30, 2018, the Town made contributions to the Public Safety Personnel Retirement System pension plan in excess of the required contributions. The June 30, 2018 financial statements reported the PSPRS pension liability using a measurement date of June 30, 2017. As a result, the additional contributions should have been recorded as a deferred outflow of resource. The additional contribution was recorded as an expense in error. This error requires a restatement of the June 30, 2018, net position of the governmental activities as follows:

	Net Position as Previously Stated	Restatement for Payments to PSPRS That Should Have Been Reported as Deferred Outflows	Net Position As Restated
Governmental Activities	\$ 100,790,965	\$ 1,001,163	\$ 101,792,128

This pension reporting “restatement” does not impact:

The Town’s adherence to

- State Budget Law; or
- Annual Expenditure Limitation.

It does not change the amount of the:

- PSPRS Unfunded Liability;
- Annual Expenditure Limitation Carryforward; or
- the General Fund balance.



“Governmental Activities” = only impacts “Government-wide” statements
Timing the PSPRS measurement dates with the CAFR

Corrective Action Plan 2019-01

Finance Division

Completion Date & Implemented Fiscal Year	Action
June 30, 2018 (FY2018)	✓ Create line items for the "Unfunded Liability" and "Prefunding" to separate from the "Minimum Contributions". This will help year end reporting and departments follow their budget status.
* October 2019 (FY2019)	✓ Correctly restate the FY2018 PSPRS Unfunded Liability ending balance for the FY2019 CAFR only; the General Ledger was correct.
September 2019 (FY2019)	✓ Run parallel financial statements to compare with auditor prepared statements.
* October 2019 (FY2019)	✓ Validate PSPRS source documents and obtain previous financial statement preparer's workpapers to reconcile the FY2019 CAFR to FY2018 PSPRS GASB 68 reports.
May 2020 (FY2020)	Update the Town's accounting structure to include recording all long-term assets and liabilities for the "statement of net position" and activities for the "statement of activities".
June 2020 (FY2020)	Facilitate third-party reviews of various finance related processes in the Town including systems, documentation, and internal controls.
September 2020 (FY2020)	Town take ownership of all financial reporting, including preparing the CAFR in-house. Be firmer when the Town believes is correct with understanding of GASB including reporting pensions as prescribed by GASB 68 during audits.
On-going (FY2021+)	Continue professional development for staff to stay current with GASB reporting requirements. Though the current staff has combined for preparing over 53 CAFRs for municipalities before coming to PV, it is important to stay current.

- The Town is responsible for the preparation and presentation of the Town's financial statements.
- For years, the Town had a separate engagement with its auditing firm to draft the statements.
- In FY2018, the Town provided the proper information to accurate report the pension.
- In FY2018, the Town reviewed the statements, had some changes, and presumed pensions were being reported correctly. But the Town did not catch the pension reporting misstatement.
- The PSPRS pension reporting misstatement was missed when audited; and wasn't caught by the audit firm's concurring review team.
- In FY2019, the PSPRS pension misstatement from FY2018 was discovered.



Audit Findings 2019-02

From Auditors

“During our audit we noted that two management level employees had full user access rights to the financial accounting software. Maintaining segregation of duties and limiting user access rights will mitigate the threat of management override of controls over financial reporting.”

“We believe the Town should limit user access rights to those functions necessary to perform each employee’s job function. Additionally, the Town should ensure user access rights are segregated so an individual does not have access to create, post, alter, and review transactions.”



Corrective Action Plan 2019-02

Finance Division

Town management takes the integrity and protection of its data very seriously and is a top priority.

The Finance Division will facilitate third-party review(s) of various finance related systems to assess processes and internal controls, provide documentation and recommendations. This service is in the Council approved FY2020 budget.

Estimated completion: August 2020; report to Council September 2020.

The Finance Division will semi-annually review the access rights of all individuals whom use the financial accounting software to determine what is needed to do their assigned duties. A representative from the Town's financial accounting and billing software company will be back on-site to examine the Town's utilization of the programs and ensure the appropriate levels of security are in place.

Estimate completion: March 2020; report to Council April 2020.



FINANCIAL AUDIT 2019

HIGHLIGHTS



December 5th, 2019