



Legislation Text

File #: 20-430, Version: 1

TO: Mayor Bien-Willner and Town Council Members

FROM: Jill Keimach, Town Manager
Douglas Allen, CFO

DATE: December 3, 2020

DEPARTMENT: Finance

AGENDA TITLE:

Adoption of Resolution 2020-36 Accepting the FY2019-20 Comprehensive Annual Financial Report (CAFR) and Associated Financial Reports

RECOMMENDATION:

Adopt Resolution 2020-36 Accepting the FY2019-20 Comprehensive Annual Financial Report (CAFR) and Associated Financial Reports

SUMMARY STATEMENT:

I. INDEPENDENT AUDITORS

The accounting firm of Henry + Horne conducted the annual financial audit and concluded the Town's financial statements present fairly in all material respects, the financial positions of the governmental activities, each major fund, and the aggregate remaining fund information for the Town of Paradise Valley. This is the first year Henry + Horne where the Town's auditors.

II. AUDIT OPINION AND FINDINGS

The Town received an unmodified (clean) audit opinion and the Comprehensive Annual Financial Report (CAFR), Annual Expenditure Limitation Report (AELR) and the Highway User Revenue Fund (HURF) Compliance Letter. The Town did not receive and new or repeat reportable "findings" over internal controls over financial reporting.

III. FISCAL PERFORMANCE AND RECOMMENDATIONS FOR THE FY2021 BUDGET

Overall, the final numbers in the audited financial statements are virtually the same as staff

previewed during the Monthly Financial Update on September 24, 2020. Audited “Revenues” and “Changes in balance” are both \$250.00 more than estimated for the Monthly Financial Update. Audited “Expenditures”, “Transfers in, net” and “Transfers out, net” are the same as presented in the Monthly Financial Update. *No further amendments or changes are recommended for the FY2021 budget resulting from the FY2019 audit.*

The chart below compares the *unaudited* figures presented on 09/24/2020 and the actual *audited* figures in the FY2020 CAFR.

A)	"OPERATING FUND" (General Fund + HURF)	Presented 9/24/2020	Actual AUDITED	Difference	
				Amount	%
+	Total revenue	\$ 35,577,508	\$ 35,577,758	\$ (250)	0%
+	Total transfers in, net	1,500,000	1,500,000	-	0%
-	Total expenditures	23,215,538	23,215,538	-	0%
-	Total transfers out, net	7,025,321	7,025,321	-	0%
	Change in fund balance	\$6,836,649	\$6,836,899	\$ (250)	\$0

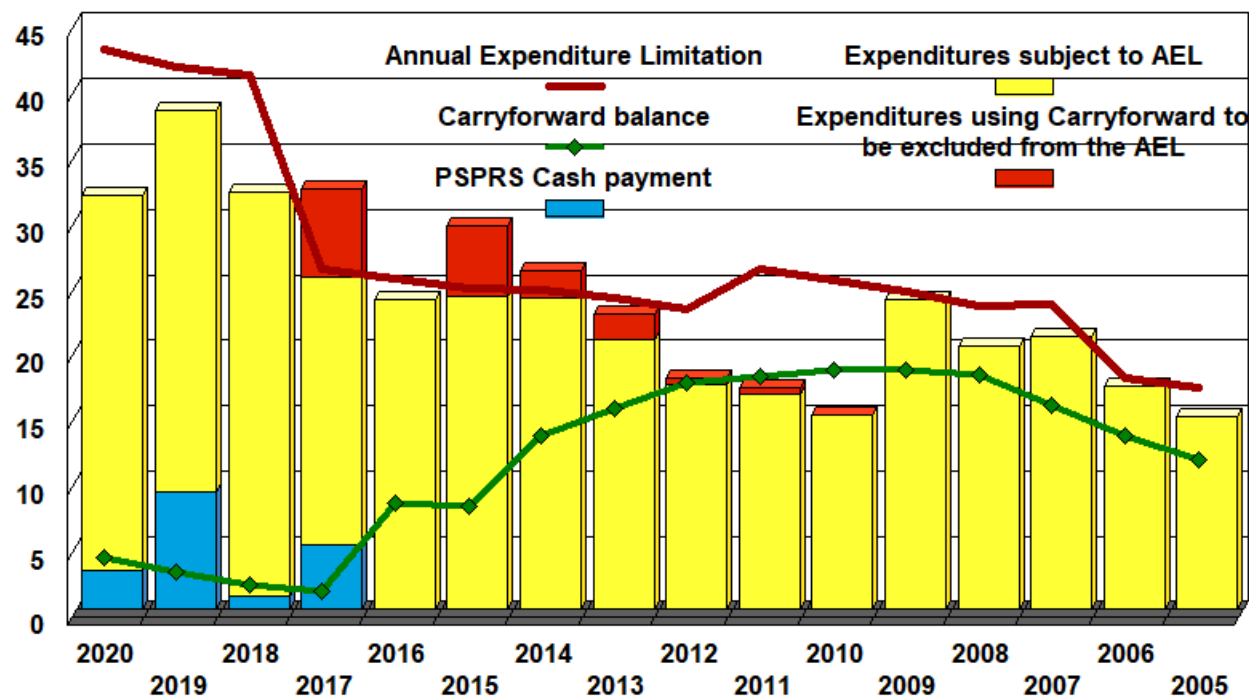
IV. ANNUAL EXPENDITURE LIMITATION (“AEL”)

Paradise Valley voters approved a permanent increase to the base Annual Expenditure Limitation (“AEL”) in 2016; effective FY2018 (July 1, 2017-June 30, 2018).

With the onset of the Town’s sudden revenue drops in March 2020, major road improvement and PSPRS Unfunded Liability cash payments were deferred until the Town’s revenues rebound. It was then expected that the Town would close FY2020 well under the AEL. This excess capacity is not fully carried forward to FY2021. Only Investment earnings and other grant activities can be carried forward.

In FY2020, the Town was \$10.4M under the AEL and added \$1.3M or 52% to the AEL carryforward for a total balance of \$3.4M. Experiencing two years of solid investment returns to add to the AEL carryforward is important since the carryforward had falling under \$800,000 in 2017.

The graph below illustrates the Town’s “Annual Expenditure Limitation”, “Expenditures subject to the AEL”, “Expenditures using the Carryforward to be excluded from the AEL”, and the “Carryforward balance”.



V. CHANGES IN REPORTING

In an effort to improve presentations, there are a few reporting changes this fiscal year:

Historically, the “HURF compliance letter” and the “Independent Auditors’ Report on Internal Control over Financial Reporting” were both reported as separate documents. This year, these reports are included in the CAFR (Comprehensive Annual Financial Report).

In previous fiscal years, the amounts the Wastewater fund is repaying the General fund was considered an “interfund loan” and was recorded as a “*due from other funds*” in the General fund’s **assets** and a “*due to other funds*” in the Wastewater fund’s **liabilities**. Since there is not an official time line or payment schedule for the loan or advance, this classification was modified to better align with Generally Accepted Accounting Principles. The classification changes “*due from other funds*” to “*Advances to other funds*” in the General fund’s **assets** **AND** “*Advances to other funds*” in the “Nonspendable” category in the General fund’s **fund balance**. This better communicates that this portion of fund balance is not spendable until the advance is physically repaid.

Traditionally, the Town has one Capital Projects Fund to record all projects in the Capital Improvement Plan (“CIP”). However, in the spirit of full disclosure, transparency and expenditure limitation monitoring purposes, management determined it better to use a separate fund to solely account for the receipt and use of the Excise tax series 2020 private placement proceeds. Series 2020 was issued to hedge cash flows of a development agreement where the Town pays for construction costs and then invoices a developer for reimbursement; and can be used for other CIP project as reimbursements are received. Use of these proceeds are excluded from the Annual Expenditure Limitation.

VI. OBSERVATIONS AND RECOMMENDATIONS

Included in the FY2019/20 adopted budget was an initiative to have an independent 3rd party assess various business processes of the Town and make recommendations. This project would assist in the Town's Change Management and correlate to the timing of financial audits.

The core of this initiative is routed in the Town's goal of continuous improvement and regular review of processes and supporting the Town's prudent fiscal management. This project is not a result of dissatisfaction or concern with the Town's current service providers, policies and practices or employee's performance.

With the sudden drop in the Town's revenues in March 2020, this initiative was postponed and considered a Priority two for the FY2020/21 budget. This project was not included in the November budget amendment to ease into Priority two programs. This project is expected to save money in the long run, but immediate needs of staff time was in other priorities.

With the hiring of a 3rd party on-hold, efforts were moved forward include, but not limited to:

- The Banking and Investment Summer Workgroup reviewed the Town's [banking services and investment policies and strategies](#) (follow up is in staff's workplan);
- The Mayor and Council approved Town code and Financial Management Policies amendments to [convert paper driven processes](#) and function in a secured electronic format; and enhance flexibility and clarity to fiscal policies for budget decisions; and
- Though the independent financial auditor's scope is broader, this FY2020 audit has an integral role through observations made while conducting the audit.

The auditors observed various Town operations and offered comments and suggestions in two areas. Recommendations provided to improve valuing for [1\) Court receivable and 2\) Customer deposits liabilities](#). These recommendations will be included in the Auditor's report to the Mayor and Council; and Town Management concurs with the auditor's recommendations.

VII. PRESENTING DECEMBER 3RD

Brian Hemmerle, CPA, CFE was the lead partner on the Town's 2020 financial audit and will present to the Mayor and Council the results of the Financial audit and available for questions.

Finance Office staff will open the presentation and be available for questions afterwards.

ATTACHMENT(S):

- 01 - Resolution No. 2020-36 Accepting the FY2019-20 CAFR and associated reports;
- 02 - Comprehensive Annual Financial Report (CAFR);
- 03 - Annual Expenditure Limitation Report (AELR);
- 04 - Auditor Communication to Those Charge with Governance;
- 05 - Introduction presentation; and
- 06 - H+H Auditors' presentation.

