

Presentation

Agenda Item #	1
Meeting Date	November 25, 2013
Prepared By	Yovonda D. Brooks Director of Finance
Approved By	Brian T. Kenner City Manager

Discussion Item	Presentation of Fiscal Year 2013 Comprehensive Annual Financial Report
Background	<p>As required by both Section 821 of the Charter of the City of Takoma Park and State law, an independent audit is conducted of the City's basic financial statements on an annual basis. The auditor's responsibility is to express an opinion on these financial statements based on their review.</p> <p>The Fiscal Year 2013 audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in <i>Government Auditing Standards</i>, issued by the Comptroller General of the United States of America. Those standards require that the auditing firm plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. The audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.</p> <p>The report of CohnReznick LLP states as follows:</p> <p>"In our opinion, the financial statements...present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the City of Takoma Park, Maryland as of June 30, 2013, and the respective changes in financial position and the respective budgetary comparison for the General, Speed Camera and Special Revenue Funds, for the year then ended in conformity with accounting principles generally accepted in the United States of America."</p> <p>Management's Discussion and Analysis and historical pension information accompany the basic financial statements. They are not a required part of the basic financial statements but constitute supplementary information required by the Governmental Accounting Standards Board.</p> <p>In accordance with <i>Government Auditing Standards</i>, CohnReznick LLP also issued a report on its consideration of the City's internal control over financial reporting and on its tests of the City's compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of the report is to describe the scope of the firm's testing of internal control over financial reporting and compliance and the results of that testing. It does not constitute an opinion on the internal control over financial reporting or on compliance.</p> <p>The City of Takoma Park's basic financial statements consist of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the basic financial statements.</p>

The following are some highlights from the FY13 financial report:

- As presented in the government-wide financial statements, the assets of the City exceeded its liabilities as of June 30, 2013 by \$38,089,445 (net position). This represents an increase of \$3,402,669 from the prior year. Approximately fourteen percent or \$465,674 of this amount was due to increases in property tax revenues resulting from higher real property tax assessments. Revenues from the tax duplication payments from Montgomery County increased \$954,000. Of the City's total net position, \$5,711,016 may be used to meet the City's ongoing obligations to residents and creditors (unrestricted net assets).
- As of June 30, 2013, the City's governmental funds reported combined ending fund balances of \$13,965,708—an increase of \$1,926,558 or sixteen percent from the prior year. The ending fund balances of \$13,965,708 include \$5,434,260 that is available for spending at the government's discretion (unassigned fund balance). The increase in the combined ending governmental fund balances was due primarily to increases in property taxes and tax duplication payments from Montgomery County and unexpended cable equipment grant funds.
- As of June 30, 2013, the General Fund (the City's primary fund) had a total fund balance of \$11,199,139, an increase of \$2,115,684. This increase was due primarily to the fiscal year 2013 increases in tax duplication payments from Montgomery County for Police and other services (\$953,714) and the increase in property taxes (\$454,096). Other revenues from the County increased \$86,362. Revenues from passport services and parking meters increased \$26,452. Funding totaling \$88,081 was received from the Maryland State Highway Administration for street improvement design. The General Fund fund balance includes \$225,248 which is restricted for street improvements and \$581,896 which is nonspendable (e.g., deposits and prepaid expenditures). A portion of the General Fund fund balance, totaling \$3,764,492 or 34 percent, is committed for the following purposes:
 - Equipment Replacement \$ 2,832,761
 - Emergency 430,881
 - Facility Maintenance 500,850

The unassigned portion of the General Fund fund balance as of June 30, 2013 was \$5,434,260.

- The City's long-term debt decreased by \$1,394,881 during the fiscal year. The decrease was primarily due to the early redemption of bonds in the amount of \$1,158,393. Additional principal payments on existing debt totaled \$254,500. Compensated absences increased \$18,012. The City had \$3,752,797 in outstanding debt at June 30, 2013.

Policy

Section 821 of the Charter of the City of Takoma Park states, "The financial books and accounts of the City shall be audited annually in a manner determined by the Council but not contrary to applicable State law."

Fiscal Impact	None
Attachments	<p>Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2013</p> <p>Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based upon an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i></p>
Recommendation	Staff recommends that the City Council hear the presentation of CohnReznick LLP and staff and discuss the City's Comprehensive Annual Financial Report for Fiscal Year 2013.
Special Consideration	

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

To the City Council
City of Takoma Park, Maryland

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 governmental activities, each major fund, and the aggregate remaining fund information, the budgetary comparison for the General, Speed Camera and Special Revenue Funds of City of Takoma Park, Maryland, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise City of Takoma Park, Maryland's basic financial statements, and have issued our report thereon dated October 11, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Takoma Park, Maryland'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 City of Takoma Park, Maryland's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Takoma Park, Maryland'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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Takoma Park, Maryland's financial statements are free from 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*.

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.

A handwritten signature in black ink that reads "Cohn Reznick LLP". The signature is written in a cursive, flowing style.

Baltimore, Maryland
October 11, 2013