

## MEMORANDUM

TO: Roger L. Stancil, Town Manager

FROM: Kenneth C. Pennoyer, Director of Business Management

SUBJECT: Comprehensive Annual Financial Report (CAFR) for FY2011-12

DATE: December 13, 2012

As we distribute the Town's CAFR for the last completed fiscal year and post it on the internet, I would like to point out a few things about the report. First, as has been the case in prior years, we have received a "clean" opinion from our auditors and we have received our 27<sup>th</sup> consecutive GFOA award for excellence in financial reporting for the FY11 report. We believe that the FY12 report meets all of the standards necessary for the receiving the GFOA award.

After receiving the award for excellence for more than 20 consecutive years, we might be tempted to take it for granted. However, we understand the importance of the award to those who use our financial statements to judge the Town's financial condition and our credit-worthiness. The award is a sign to readers that they can depend on the financial information in the CAFR and that the Town is committed to maintaining the highest standards for financial reporting.

A great deal of work and commitment are involved in producing a CAFR that continues to meet these high standards. Fairly representing the results of thousands of transactions representing tens of millions of dollars in payments, receipts and transfers is a daunting task that requires a high level of teamwork, communication and professionalism. Luckily we have a Financial Reporting Team, along with support staff in other departments, that work throughout the year to ensure that transactions are properly recorded, accurately accounted for and faithfully reported. I would like to acknowledge the members of the Financial Reporting Team, the names of which are listed at the end of this memo, for their continued excellence and dedication to a task that is always challenging and often underappreciated.

The FY12 CAFR represents a minor milestone in the Town's recent financial history. In the FY12 report we are starting to see evidence of some improvements that represent recovery from the recessionary pressure we have felt over the last 4 years. That is not to say we are out of the woods. Taken as a whole, our financial condition is a mixed bag at the end of FY12. The following are some of the "takeaways" from the report, many of which we will be exploring further during the upcoming budget worksessions.

## GENERAL FUND

- Current revenues exceeded expenditures for the fiscal year. This reverses the results from FY11 when GF expenditures exceeded revenues.
- The General Fund added \$1.8 million to fund balance, of which about \$120,000 is available for appropriation. Not a big change in spendable resources, but we are moving in the right direction overall and our GF fund balance has been relatively stable during a difficult economic period.
- GF revenues exceeded budget by \$1.2 million, with Sales and Property taxes showing significant increases from the prior year.
- GF Expenditures finished significantly under-budget, but overall we were about \$1 million closer to budget than the prior year. In other words, there is less “margin of error” in the expenditure budget, but there is still room to tighten some areas, thereby reducing our dependence on non-current revenues (fund balance).
- Unassigned (available for appropriation) fund balance as a percent of appropriations declined slightly from 26.2% to 25.4%. Historically this is on the high end of the spectrum for the Town. There has been a great deal of discussion in the past 4 years of what constitutes an appropriate amount of fund balance. Many jurisdictions that had what were considered “safe” levels of fund balance before the recession found themselves unable to offset their revenue losses with reserves, and were forced to make dramatic budget cuts to offset what in many cases was a temporary reduction in revenues. The new buzz phrase for local governments is “financial resiliency” or the ability to weather economic downturns through a combination of reserves, diversified revenues sources, and a flexible service delivery structure.
- During FY12 the Town issued \$33.45 million in bonds including refunding bonds that will save the Town more than \$800,000 in interest payments over the next 13 years. The Town received a Triple A rating for its General Obligation Debt.

## ENTERPRISE FUNDS

- The Transit Fund’s results for FY12 were skewed somewhat by the timing of a major (\$1.9 million) grant, which was received after the accounting period. Even adjusting for the grant timing, the results are significantly worse than the prior year. At this point there is a structural miss-match between revenues and expenditures that is unsustainable.
- Financing activities in the Parking Fund, related to the 140 West parking structure financing, have created a net asset deficit in the fund that is reflected in the Parking Fund statements. Otherwise the parking revenues are up slightly as are expenditures which reflect recent capital improvements such as the paving of the Rosemary & Columbia Lot (Lot 2). With the addition of the 140 West debt service, the Parking Fund’s reserves will be depleted over the next few years unless there is change in the rate structure.

- The Public Housing Fund numbers have improved for FY12 with the receipt of a capital improvement grant and an increase in rental revenue over the prior year with completion of a major renovation project.
- The Stormwater Fund finished slightly worse than the previous year with expenses exceeding revenues. Unrestricted net assets remain healthy, however there is no ongoing capacity for executing the Stormwater capital program.

Overall FY12 results were a mix of positives signs and warning signs. On the positive side, GF revenues increased, we have made improvements in budget discipline and there is stability in the GF fund balance. The warning signs include concerns about the long-term sustainability of the Transit and Parking Funds, and the ability of the Stormwater Fund to execute its capital program.

We have a number of major budgetary issues (big rocks) pending that are not reflected in the financial statements for FY12, but will be addressed in the upcoming budget deliberations. These include the expanded Library operations, Solid Waste operations, OPEB, Pay and Classification Study implementation and funding for street paving. As we transition to a priority based budget system we will work to define these major issues (big rocks) in terms how they help us achieve our budget objectives. This should help us understand where they fit among our budget priorities, once those have been established.

A limited number of additional copies of the CAFR are available in the Business Management Office. As we have done in prior years, we have reduced the number of paper copies and have encouraged the use of the on-line version in order to save printing costs.

### **Financial Reporting Team**

Jeanne Tate - Assistant Director Business Management

Amy Oland - Accounting Manager

Tripti Dahal - Accountant

Emily Dipierro - Accountant

Nicole Mazyck - Accountant