

January 20, 2010 Board of Finance Meeting

Audit Notes presented and copies provided to the BOF & BOS & Treasurer

The 2008/2009 Town's Independent Auditors Report has identified potential areas of concern and recommendations that will need to be addressed by the Board of Finance.

1. **Material weakness in internal control over general ledger maintenance. The December 19, 2009 Audit Cover Letter reflected \$676,203 Journal Entry JE #41 corrections that were made by the auditors to balance interfund and reverse a/r entries posted incorrectly.**
2. **Federal and State Single Audits identified significant deficiencies in the General Ledger Maintenance and the Assessor's Special Reporting Requirements**
3. **The December 19, 2009 Management Letter identified seven (7) areas of Risk Assessment and Accounting Policies and Procedures that they recommend be addressed to improve and strengthen. In addition, we need a plan to address new reporting standards for governmental funds.**
4. **In the Audit analysis, Exhibit RSI-1 Schedule of Revenues reflects decreases to Total Property Taxes, Intergovernmental and Local Revenues. From a positive in 2008 of \$240,054 to a negative **(\$616,857)** 2009. In 2007 we had positive revenues of \$1.162 million dollars.**
5. **In the Audit analysis, Exhibit A-1 the Comparative Balance Sheet – General Fund 2009 and 2008 reflects significant decreases to Assets, Liabilities' and Fund Equity.**

Some Specific Concerns:

1. **The 2007/2008 Annual Report on page 40 incorrectly stated that we had designated \$600,000 from the general fund to support the 2008/2009 budget. This number should have been \$1,400,000. This meant that the BOF thought it had \$800,000 more in the general fund than it actually had. Based upon this assumption, the BOF decided to allocate \$1,250,000 from the General Fund to support its 2009/2010 annual budget. This would have left us with what we thought was a 9.6% (\$3,458,263) reserve Undesignated (rainy day) fund. The town cannot go below a 5% reserve fund.**
2. **The 2008/2009 Annual Report on page 42 reflects the effect of using the actual fund transfer of \$1,400,000 from the Undesignated (rainy day) fund. Instead of having \$4,708,263 in the undesignated fund we only had \$3,908,263. or a 10.8% (in lieu of 13%) undesignated rainy day fund The net result left us with \$1,854,712 or a 5.8% undesignated fund balance.**

- 3. This error coupled with a 16.6% decrease in GF assets and a 15.5% increase in GF liabilities resulted in a 41.5% decrease in Total Fund Balance at the end of June 30, 2009 puts us in a very precarious position as far as financial reserves.**
- 4. In 2008/2009 our anticipated tax revenues were down 2.3% the intergovernmental revenues were down 1% and our local revenues were down 18%. This amounts to a \$616,857 shortfall.**

The above has to be evaluated against our current year's budget.

- 1. With our undesignated at a 5.8% level we should not anticipate taking any money from it to cover any current budget shortfall and/or to support the 2010/2011 budget.**
- 2. Our 2009/2010 budget projects equivalent revenues from the sources noted above at \$30,264,452. If we use the 2% shortfall from the 2008/2009 budget we would loose \$605,289 in anticipated revenues.**
- 3. Our current budgets are based upon receiving this revenue. In previous years, we could cover any shortfalls from contingency funds backed up by the rainy day fund. Our contingency account is almost depleted and we should not touch our rainy day fund.**