

Memorandum

To: Honorable Mayor and City Council

From: Brad Corcoran, City Manager

Date: November 5, 2012

Re: Synopsis Of Audit Report For Fiscal Year Ending June 30, 2012

An electronic copy of the audit report for the financial period ending June 30, 2012 has been delivered to us from our independent auditing firm of Rouse, Rouse, Penn and Rouse, L.L.P. The audit document as received has been reviewed and formally approved by the Local Government Commission (LGC). Actual "hard copies" of the audit have not been received from the auditors because they are away on vacation until November 16, 2012. Once they return we have been advised that hard copies will be assembled, signed and then delivered to us for dissemination to the Mayor and members of City Council.

A copy of the audit document, management letter, and interest income sheet as prepared has been included in the same email transmission that contains this audit synopsis for your review and consideration. Traditionally, I like to assist the Mayor and City Council with your review by preparing a comprehensive synopsis of the various highlights contained within the audit document.

As each of you are already aware, the audit for the fiscal year ending June 30, 2012 was prepared by Rouse, Rouse, Penn and Rouse, L.L.P., Certified Public Accountants. Page 1 of the Independent Auditor's Report notes that the 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. The third paragraph on page 1 is important because it notes the auditor's had a "clean opinion" of our financial statements. It reads in part as follows: *"In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Eden, North Carolina as of June 30, 2012, and the respective changes in financial position and cash flows..."*

This audit has been presented in accordance with the State Single Audit Act and it includes information required as a result of GASB or what is called Governmental Accounting Standards Board Statement No. 34. Also, it is noteworthy to point out that the Eden ABC Store Financial Statement is also presented in this report (see pages 14-15 and 43) as the ABC Store is a component unit of the City of Eden.

General Fund

The General Fund is the general operating fund of the City. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund.

If you refer to page 69, you will note near the bottom of the page that the Fund Balance in the General Fund increased from \$8,554,160 to \$8,915,309 an increase of \$361,149 or 4.22%. The main reasons for this increase are the increase of accounts receivables (near the top of the page) by \$228,123 or 38.70% from \$589,451 to \$817,754 and the increase of the combined cash and cash equivalents (top of the page) by \$117,691 or 1.55% from \$7,586,395 to \$7,704,086 as noted at the top of the page. In addition, near the bottom of the page, the information indicates that the Fund Balance available for Appropriations or called the “unassigned” fund balance equals \$6,117,380 which is a decrease of \$661,389 or 9.76% when compared to the June 30, 2011 total of \$6,778,769. This is due to the fact that \$708,800 is listed at the bottom of the page as “assigned – subsequent year expenditures”. This is for the \$518,200 in General Fund fund balance appropriated for FY 2012-13, the \$162,700 in Powell Bill fund balance appropriated for FY 2012-13 and the \$27,900 in Occupancy Tax fund balance appropriated for FY 2012-13.

As you may remember, the City Council voted back in 1998-99 to keep an unassigned fund balance, equal to at least three months operating expenses. On page 85 near the middle of the page it indicates that the total expenditures during FY 2011-12 for the General Fund amounted to \$13,623,229. One-twelfth of that amount is \$1,135,269. As such, three months operating expenses would equal \$3,405,807. The amount unassigned at June 30, 2012 (\$6,117,380) is actually \$2,711,573 over that threshold. According to the most recent data available from the State Treasurer’s Office, the 2011 statewide average for municipalities was 39.42% of General Fund expenditures or \$5,370,277 and the statewide average for municipalities without electricity was 40.91% of General Fund expenditures or \$5,573,263. The 2011 statewide average for municipalities without electricity with a population ranging from 10,000 to 49,999 was 49.77% of General Fund expenditures or \$6,780,281. Eden’s unassigned balance of

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\$6,117,380 on hand on June 30, 2012 equals 44.90% of General Fund expenditures (\$13,623,229) for FY 2011-12.

On page 71 you will find the Revenues for the General Fund. At the bottom of the page you will note that the budget revenues were \$12,934,700 and the actual revenues were \$13,326,639 for a favorable variance of \$391,939. Overall, the revenues for the General Fund were down from the prior year (\$13,729,059) by \$402,420 or 2.93%. The main reason for this decrease is due to the fact that the June 30, 2011 figures under current year taxes (page 70) included a one-time payment of \$800,155 from Swift Trucking for delinquent taxes owed to the City of Eden. In the current June 30, 2012 financial statements it indicates on page 70 that the actual current year taxes went from \$5,937,031 for 2011 down to \$5,297,610 for 2012 which is a reduction of \$639,421 or 10.77%. If you factor out the one-time \$800,155 payment from Swift Trucking received in 2011 the 2012 current year taxes would have actually realized an increase of \$160,734.

Near the bottom of page 70 you will see the restricted intergovernmental revenues. It should be noted that this group of revenues increased by \$107,375 or 14.23% from \$754,622 for the period ending June 30, 2011 to \$861,997 due to more restricted grant funds being received during FY 2011-12.

At the bottom of page 71 you will find the miscellaneous revenues within the General Fund. You will note that the "other refunds" line item went from \$100,920 during FY 2010-11 down to just \$139 for FY 2011-12. This significant reduction is due to the fact that the City received a rebate of \$100,920 in FY 2010-11 from the Rockingham County landfill fund balance due to the City of Reidsville joining the landfill partnership.

On page 85 you will find the Total Expenditures for the General Fund. Near the middle of the page you will note that the total budgeted operating expenditures were \$13,596,950 and the total actual expenditures for the General Fund amounted to \$13,623,229. This was an unfavorable variance of (\$26,279) or 0.19%. Overall, the expenditures for the General Fund were up from the prior year (\$12,413,907) by \$1,209,322 or 9.74%. Some of the reasons for this increase were a variety of capital outlay improvement projects in the Planning and Inspections department (page 74), Information Technology department (page 77), Fire department (page 80), Street department (page 81), and Solid Waste department (page 83). In addition, there was a significant increase in the cost of fuel within the Fleet Maintenance department (page 82) as well as new expenditures within the Special Appropriations department (page 85) associated with contributions to the Eden Community Resource Center, the Dan River Basin

Association, the Eden Historical Museum and reimbursement expenses to the Rockingham County Board of Elections.

As each of you is aware, the General Fund is reimbursed by the Water and Sewer Fund for expenses within the General Fund that are related to Water and Sewer activities but charged to the General Fund. Page 104 (near the top of the page) indicates that the Water & Sewer Fund reimbursed the General Fund for these utility service fees in the amount of \$1,047,144 which is an increase of \$72,028 or 7.39% from the \$975,116 that was reimbursed during FY 2010-11.

We are pleased to report that there were only two departments/divisions within the General Fund that exceeded the budgeted amount of funds. The Planning and Inspections department (page 74) had an unfavorable variance of (\$19,418) due to prior year payables that did not come in until after June 30th related to contracted services paid to the Piedmont Triad Council of Governments (PTCOG), landscaping supplies and safety equipment supplies. The Solid Waste department (page 83) experienced an unfavorable variance of (\$56,327) due to prior year payables that did not come in until after June 30th related to maintenance/repairs of vehicles and some capital outlay building improvement expenses related to the replacement of the shed at Public Works that was destroyed due to storm damage.

An examination of the various operating departments/divisions reveals the following:

<u>Department</u>	<u>Budgeted</u>	<u>Actual</u>	<u>Variance</u>	<u>2011 Actual</u>
Governing Body Page 72	\$ 39,550	\$ 38,350	\$ 1,200	\$ 33,662

Reimbursement from W/S Fund is at 50% so this total is actually 50% of total costs attributable to this Department

Administration Page 72	\$ 134,000	\$ 132,649	\$ 1,351	\$ 127,305
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Reimbursement from W/S Fund is at 50% so this total is actually 50% of total costs attributable to this Department

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<u>Department</u>	<u>Budgeted</u>	<u>Actual</u>	<u>Variance</u>	<u>2011 Actual</u>
Finance/HR Page 73	\$ 219,600	\$ 216,482	\$ 3,118	\$ 206,355

Reimbursement from W/S Fund is at 55% so this total is actually 45% of total costs attributable to this Department

Legal Page 73	\$ 59,100	\$ 56,163	\$ 2,937	\$ 54,889
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Reimbursement from W/S Fund is at 50% so this total is actually 50% of total costs attributable to this Department

Planning Page 74	\$ 753,500	\$ 772,918	(\$ 19,418)	\$ 591,029
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Economic Dev. Page 75	\$ 262,200	\$ 261,718	\$ 482	\$ 297,260
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Engineering Page 76	\$ 62,300	\$ 60,933	\$ 1,367	\$ 59,746
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Reimbursement from W/S Fund is at 75% so this total is actually 25% of total costs attributable to this Department

Information Tech. Page 77	\$ 100,600	\$ 99,833	\$ 767	\$ 84,017
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Reimbursement from W/S Fund is at 50% so this total is actually 50% of total costs attributable to this Department

Public Bldg. Ser. Page 77	\$ 63,600	\$ 63,368	\$ 232	\$ 65,605
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Reimbursement from W/S Fund is at 20% so this total is actually 80% of total costs attributable to this Department

<u>Department</u>	<u>Budgeted</u>	<u>Actual</u>	<u>Variance</u>	<u>2011 Actual</u>
Environ. Services Page 78	\$ 61,150	\$ 60,172	\$ 978	\$ 62,481

Reimbursement from W/S Fund is at 65% so this total is actually 35% of total costs attributable to this Department

Police Pages 79 – 80	\$4,091,700	\$4,090,647	\$ 1,053	\$3,935,871
Fire Page 80	\$1,667,900	\$1,667,425	\$ 475	\$1,436,409
Street Page 81	\$1,437,950	\$1,436,572	\$ 1,378	\$1,280,160
Powell Bill Page 81	\$ 476,600	\$ 462,049	\$ 14,551	\$ 465,746
City Garage Page 82	\$ 271,500	\$ 268,531	\$ 2,969	\$ 244,917

Reimbursement from W/S Fund is at 35% so this total is actually 65% of total costs attributable to this Department

Solid Waste Page 83	\$2,018,360	\$2,074,687	(\$ 56,327)	\$1,745,224
Recreation Pages 84	\$ 1,118,500	\$1,117,845	\$ 655	\$1,113,763
Special Approp. Page 85	\$ 223,400	\$ 214,062	\$ 9,338	\$ 155,658
Debt Service Page 85	\$ 535,440	\$ 528,825	\$ 6,615	\$ 453,810

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts or major capital

Projects) that are legally restricted to expenditures for special purposes. The City had three (3) Special Revenue Funds during FY 2011-12: Emergency Communications Fund, Municipal Service District Tax Fund, and the Community Development Block Grant Fund.

The Emergency Communications Fund accounts for the E911 monies that are received and includes expenditures related to the E911 system for emergency communications. It had a June 30, 2012 fund balance of \$66,890 (page 87) which is a decrease of \$3,747 or 5.30% when compared to the June 30, 2011 fund balance of \$70,637.

The Municipal Service District Tax Fund includes the tax that was voted on by the Washington Street and Draper Village Merchants and is designated for various projects within those areas. It had a June 30, 2012 fund balance of \$9,844 (page 87) which is a decrease of \$3,046 or 23.63% when compared to the June 30, 2011 fund balance of \$12,890.

The Community Development Block Grant Fund (page 93) includes the revenues and expenditures related to three different grants. These include: Holland Street, Stone Creek Apartments and Nantucket Mill. With each of these grants, the revenues are received from the funding agency and then expensed within three days. The revenues and expenditures for each project are equivalent, however, there is a variance in the budget versus actual column because these are capital projects that are ongoing over more than one fiscal year. These projects should be completed in FY 12-13.

Additional information can be found on pages 86 thru 93.

Water & Sewer Fund – Enterprise Fund

The Water & Sewer Fund is used to account for the City's water and sewer operation. The Fund Balance in the Water and Sewer Fund for the period ending June 30, 2012 was \$8,939,268. This is a decrease of \$2,394,169 or 21.1% when compared to the June 30, 2011 total of \$11,333,437. This is calculated by taking the fund balance at June 30, 2011, \$11,333,437 and then subtracting the Expenditures Over Revenues and Other Financing Sources on page 106 which is equal to \$2,394,169.

Page 94 includes the Comparative Balance Sheets for the Water & Sewer Fund comparing the period ending June 30, 2012 to the period ending June 30, 2011. Near the bottom of this page it indicates that the net assets in the Water & Sewer

Fund decreased by \$945,997 or 1.99% from \$47,521,927 to \$46,575,930. The information at the top of the page indicates that the combined cash & investments decreased by \$645,762 or 7.81% from \$8,270,466 in the prior year down to \$7,624,704 for FY 2011-12. Near the top of the page you will also note that the total current assets decreased by \$1,956,651 or 16.41% from \$11,924,092 in the prior year compared to \$9,967,441 for FY 2011-12. Near the middle of the page you will note that the capital assets net of accumulated depreciation increased slightly from \$48,046,591 to \$49,008,506.

At the bottom of page 94 you will note that the total assets of the Water and Sewer Fund went down from \$59,970,683 to \$58,975,947. The total assets includes the entire water and sewer infrastructure, including all of the water and sewer lines throughout the city. It should be noted that we have taken another year of depreciation on all of our assets. Once a specific improvement is put into operation the auditors start depreciating it. The middle of page 95 illustrates this fact. You will note that the depreciation expense increased from \$2,375,672 during FY 2011-12 to \$2,617,333 during FY 2011-12.

Also, at the bottom of page 94 you will see where our total liabilities (things that were owed by the Water and Sewer Fund) decreased slightly from \$12,448,756 to \$12,400,017.

The Income Statement for the Water & Sewer Fund is on page 95. Starting at the top of the page the Water & Sewer Fund total operating revenue amounted to \$6,998,736 for FY 2011-12 compared to \$9,713,393 for the prior year. This was a major decrease of \$2,714,657 or 27.95%. The main reason for this decrease is the loss of the \$2,721,600 take-or-pay payment (final one) from HanesBrand International that was received during FY 2010-11.

Near the bottom of page 95 it indicates that the capital contributions increased by \$343,261 or 65.30% from \$525,648 to \$868,909 due to differences in various grants. New grants included in the June 30, 2012 figures that were not recognized in the June 30, 2011 figures include the Northern Smith River (\$459,170), Mega Park (\$359,739) and Tanyard Branch (\$50,000). In the middle of that same page it notes that the total operating expenses decreased by \$128,211 or 1.49% from \$8,612,395 to \$8,484,184. Also in the middle of the page is the line item entitled, other post employment benefits. You will note that it realized a reduction of \$16,482 or 73.33% from \$22,476 to \$5,994. As each of you may remember, we are a Phase II government and FY 2008-09 was the first year we had to include the post employment benefits. Near the bottom of the page it indicates that the non-operating deductions: interest expense decreased from \$464,255 to \$414,631 due to a reduction in the interest expense.

Obviously, as we continue to pay off debt, the corresponding interest expense will continue to decrease.

Near the bottom of page 95 it indicates that the Water & Sewer Fund realized a net income loss of (\$945,997) compared to a net income gain of \$1,213,906 in the prior year. Again, it is important to point out that this reduction in net income reflects the loss of the annual take-or-pay payment from HandesBrand International which equaled \$2,721,600 during FY 2010-11. Future planning will require us to be mindful about this serious loss of revenue and actions that will be needed to make sure the revenues being generated on an annual basis are sufficient enough to pay for all of our annual expenses. As an enterprise fund, it is absolutely imperative that our water and sewer rate structures be established so as to generate the level of revenues that are needed on an annual basis to cover all of our operational, capital and debt related costs.

The bottom of page 104 indicates that total capital outlay expenses increased by \$1,909,182 or 114.32% from \$1,670,066 during FY 2010-11 to \$3,579,248 during FY 2011-12 due to a variety of much needed improvement projects including the Dry Creek Sewer Project, Northern Smith River Sewer Project, East Kuder Street Sewer Project, Mega Park Sewer Line Project, Tanyard Branch Outfalls Project and the Matrimony Creek Project.

The top of page 105 indicates that total debt service expenses decreased by \$571,986 or 29.51% from, \$1,938,036 during FY 2010-11 to \$1,366,050 during FY 2011-12.

I am pleased to report that there is no department/division within the Water & Sewer Fund as budgeted for in the FY 2011-12 budget document that exceeded the budgeted amount of funds. However, the audit document separates the debt service payments in the audit that we include in the Special Appropriations department budget and the actual capital outlay expenditures are separated from the individual departments and listed together in another section. As a result, the audit document shows a negative variance under Sewer Construction and Non-Departmental.

When you look at the Sewer Construction budget as budgeted and include the capital outlay line items, it is actually \$3,811,244 under budget. The "Professional Services" line item that is over budget by (\$46,892) on page 104 includes a prior year payable to WK Dickson Engineering, Inc. for program development related to the EPA Administrative Order on our sewer system. The non-departmental budget is what we consider Special Appropriations. The auditors separate the debt service payments in the audit that we include in the Special Appropriations budget. If you include those budgeted and expensed

amounts, the Special Appropriations budget as budgeted is actually under budget by \$82,229. The “Bad Debt Recoveries” line which is \$9,924 over budget (page 104) is an adjustment that the auditor does during the audit process. We have asked previously if we should budget something for this and the auditors have told us no. We will discuss this with the auditors again and see if this is something we need to look at during the upcoming budget process.

An examination of the various operating departments/divisions reveals the following:

<u>Department</u>	<u>Budgeted</u>	<u>Actual</u>	<u>Variance</u>	<u>2011 Actual</u>
Water Resources Page 99	\$ 375,700	\$ 342,439	\$ 33,261	\$ 323,123
Billing & Coll. Page 100	\$ 420,900	\$ 396,167	\$ 24,733	\$ 370,834
Water Filtration Page 101	\$1,229,600	\$1,204,763	\$ 24,837	\$1,116,722
C & D Page 102	\$1,433,730	\$1,393,759	\$ 39,971	\$1,259,967
Waste Treatment Page 103	\$1,213,100	\$1,211,246	\$ 1,854	\$1,048,482
Water Construction Page 104	\$ 4,900	\$ 4,900	\$ 0	\$ 0
Sewer Construction Page 104	\$ 192,000	\$ 221,892	(\$ 29,892)	\$ 0
Non Departmental Page 104	\$1,077,300	\$1,085,691	(\$ 8,391)	\$2,095,119
Capital Outlay Page 104	\$7,638,900	\$3,579,248	\$4,059,652	\$1,670,066
Debt Service Page 105	\$1,456,670	\$1,366,050	\$ 90,620	\$1,938,036

Self-Insurance Fund – Internal Service Fund

On July 1, 1995, the City began its self-insured insurance coverage program. The City carries a reinsurance policy for payment on all specific claims in excess of \$50,000 once the one-time aggregating specific corridor of \$ 75,000 has been met unless the reinsurance carrier has assigned a pre-determined laser on a specific employee due to an existing condition. The lifetime maximum per covered individual is currently unlimited and the maximum reimbursement for the aggregate coverage is \$1,000,000 annually.

The comparative balance sheet of the Self-Insurance Fund is shown on page 107. This year the retained earnings showed a decrease of \$83,257 or 37.78% from the previous year. You will note that we ended FY 2011-12 with a surplus of \$137,142 compared with a surplus of \$220,399 in FY 2010-11, \$286,236 in FY 2009-10, \$177,230 in FY 2008-09 and \$63,032 in FY 2007-08.

The income statement can be found on page 108. The operating revenues increased this year from \$2,050,604 for the year ending June 30, 2011 to \$2,324,056 for the year ending June 30, 2012. This translates into an increase of \$273,452 or 13.34%.

Page 108 (near the middle of the page) indicates that operating expenses increased from \$2,117,229 for the year ending June 30, 2011 to \$2,407,532 for the year ending June 30, 2012. This translates into an increase of \$290,303 or 13.71%. On this same page you will note that Insurance claims went from \$1,648,061 in FY 2010-11 to \$1,972,777 in FY 2011-12 for an increase of \$324,716 or 19.70% while the total fixed costs decreased by \$34,413 or 7.33% from \$469,168 in FY 2010-11 to \$434,755 in FY 2011-12.

Over the course of the past twelve (12) years it is clear that remaining self-insured has proven to be the best financial decision for the City when compared to the bids that were received in terms of switching to a non self-insured plan and the actual costs being encountered.

Fiduciary Funds

Fiduciary Funds account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The City maintains two fiduciary funds: The Pension Trust Fund and the Agency Fund - Runabout Travel Club Fund.

The Pension Trust Fund accounts for the Law Enforcement Officers Special Separation Allowance. This is a public employee retiree system pension plan that provides retirement benefits to the City's qualified sworn law enforcement officers. The separation allowance is equal to .85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service.

As of December 31, 2011, the most recent actuarial valuation date, the plan was 9.06% funded. The actuarial accrued liability for benefits was \$1,283,982, and the actuarial value of assets was \$116,333, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,167,649 (page 46 and 65). This represents a decrease of \$213,722 or 15.47% when compared to the previous year total of \$1,381,371. The unfunded actuarial accrued liability (UUAL) equaled \$1,403,677 on December 31, 2009.

It is very important to note that most municipalities fund their separation allowance on a pay as you go basis which is what we have been doing. The fund balance on June 30, 2012 equaled \$6,580 (page 111) which is an increase of \$1,478 or 28.97% from the amount on hand as of June 30, 2011 which was equal to \$5,102. As each of you are aware, the City Council previously authorized the use of existing fund balance to offset actual expenses thereby bringing down the available fund balance since the City is committed to funding this ongoing obligation on an annual pay as you go basis.

Other information related to the Pension Trust Fund can be found on pages 110 – 112 and in the notes to the financial statements on pages 44 – 47 and pages 65 – 66.

The Agency Fund – Run-About Travel Club Fund is custodial in nature and does not involve the measurement of operating results. The Run-About Travel Club Fund accounts for money deposited with the City of Eden Parks, Recreation and Facility Maintenance Department for those individuals participating in the programs of its department sponsored club. Page 113 shows the statement of changes in assets and liabilities for this fund. The fund balance on June 30, 2012 equaled \$15,901 which is an increase of \$1,445 or 9.99% from the amount on hand as of June 30, 2011 which was \$14,456. Again, this is merely a fund for its members, contributing monies for scheduled activities and trips.

Capital/Fixed Assets

The Governmental Capital/Fixed Assets can be found on page 41. At the bottom of the page you will note that on June 30, 2012 the fixed assets totaled

\$18,717,261 net of depreciation. On June 30, 2011 they totaled \$18,314,284 for a positive difference of \$402,977 or 2.20%. The Business-like Capital/Fixed Assets can be found on page 42. A review of pages 41 and 42 indicates the City of Eden's investment in capital assets for its governmental and business-type activities as of June 30, 2012 totals \$67,725,767 which is an increase of \$1,364,892 or 2.06% compared to the June 30, 2011 combined figure of \$66,360,875. These assets include buildings, roads, and bridges, land, machinery and equipment, park facilities, and vehicles.

A concern that was expressed in audits prior to my arrival was the lack of an efficient fixed asset program. During the latter part of FY 2001-02 the City Council adopted the policy to depreciate assets over \$ 5,000, tracking assets over \$1,000 and making the departments responsible for keeping up with the supplies under \$1,000. This system is still working efficiently for the City. Furthermore, the City acquired a new fixed assets program during FY 2002-03 that allows us to track all of our assets more appropriately.

The infrastructure assets have now become a required part of the fixed asset records due to GASB 34. Retroactive reporting of all major general infrastructure assets for the City of Eden was initiated as a component of the audit beginning in FY 2006-07 as required by GASB 34.

Additional information on the City's capital/fixed assets can be found on pages 35-36 and 41-42 in the notes to the financial statements.

Long-Term Debt

The details of long term debt can be found on pages 52 - 62. Page 61 gives a detailed schedule which summarizes the City's annual requirements to amortize all long-term debts outstanding. The total principal debt for the City at June 30, 2012, was \$13,089,921 compared to \$13,539,971 on June 30, 2011. This is made up from two numbers, the Governmental Activities debt which is \$1,870,955 and the Water & Sewer debt which is \$11,218,966.

The information concerning the specific installment purchases and capital lease purchases (pages 52 – 59) indicates that three of the fourteen purchases will be paid off prior to June 30, 2013 and three additional purchases will be paid off prior to June 30, 2015.

The bottom of page 60 indicates that the legal debt margin for the City as of June 30, 2012 equaled \$71,537,133 up from \$68,020,952 on June 30, 2011. As each

of you are aware, the N. C. General Statutes limits the amount of general obligation debt that a unit of government can issue to eight (8) percent of the total assessed value of taxable property located within the government's boundaries.

Analysis of Current Tax Levy

Page 115 is an analysis of the current tax levy for the year ending June 30, 2012. Near the bottom of the page you will note that the total property tax valuation is \$894,214,160. This is higher than the total property tax valuation as of June 30, 2011 which was \$850,261,897.

The current year tax collection rate was 97.18% up slightly from last year's rate which was 97.14%, the FY 2009-10 collection rate which was 97.06%, the FY 2008-09 collection rate which was 96.60% and the FY 2007-08 collection rate which was 95.40%. According to the most recent data available from the State Treasurer's Office, the 2011 statewide collection rate for municipalities without electric was 97.43% while the 2011 statewide collection rate for municipalities without electric and with populations ranging from 10,000 to 49,999 was 96.95%.

The property excluding registered motor vehicles collection rate equaled 98.29% which is also up slightly from last year's rate which was 98.09%, the FY 2009-10 collection rate which was 98.05%, the FY 2008-09 collection rate which was 97.68% and the FY 2007-08 collection rate which was 97.23%. According to the most recent data available from the State Treasurer's Office, the 2011 statewide collection rate for municipalities without electric was 98.32% while the 2011 statewide collection rate for municipalities without electric and with populations ranging from 10,000 to 49,999 was 97.80%.

Interest Income

The \$102,793 in interest income earned on investments during FY 2011-12 (loose handout included with audit document) has increased slightly from last year's total of \$91,328. However, the total amount of interest income earned continues to be significantly less than previous years due to the weakened economy. Information for the past five years reveals the following:

Fund	Year Ended 06-30-2012	Year Ended 06-30-2011	Year Ended 06-30-2010	Year Ended 06-30-2009	Year Ended 06-30-2008
General	\$ 48,657	\$ 47,135	\$ 90,351	\$ 161,585	\$ 301,035
Special Revenue	\$ 149	\$ 308	\$ 143	\$ 1,532	\$ 7,125
Water & Sewer	\$ 53,760	\$ 42,866	\$ 88,979	\$ 197,122	\$ 403,898
Self Insurance	\$ 219	\$ 788	\$ 403	\$ 300	\$ 21,146
Police Pension	\$ 8	\$ 231	\$ 74	\$ 395	\$ 11,783
Total	\$102,793	\$ 91,328	\$ 179,950	\$ 360,934	\$ 744,987

While the \$102,793 in total earnings is still the equivalent to more than a penny plus of additional property tax, the loss in interest income we've experienced over the course of the past five years as a result of the weakened economy is still quite significant as highlighted above.

Construction Commitments

A new addition to the "notes to the financial statements" is the section entitled, *Construction Commitments*. This information is outlined on pages 42-A and 42-B of the audit document. A total of eleven (11) projects are highlighted on page 42-A with a combined total cost of \$15,250,222. Of this total \$7,649,525 (see page 42-B) will be received in the form of grants and principal forgiveness loans. This leaves a balance of \$7,600,697 to be funded through low interest loans and revenues from the Water and Sewer Fund. Footnote 6 on page 42-B notes that Duke Energy has pledged up to \$1,000,000 for the identification and review of potential technologies designed to reduce elevated TTHM (trihalomethane) concentrations. Since only \$93,000 in costs has been included for this project on page 42-A only \$93,000 of the \$1,000,000 in possible grant funds has been included in the grants/principal forgiveness loans total of \$7,649,525 noted above. Page 42-A indicates that as of June 30, 2012 \$3,713,411 of the \$15,250,222 in identified costs had actually been spent with the remaining commitment being equal to \$11,536,811.

Management Letter

The first item outlined in the auditor's management letter deals with audit adjustments. A comparison of the number of adjustments this year compared to the last five years indicates the following:

2012	13 Entries
2011	19 Entries

2010	15 Entries
2009	12 Entries
2008	19 Entries

It should be noted that three of the thirteen entries during FY 2011-12 were actually proposed by city personnel. In addition, eight of the entries during 2011, nine of the entries during 2010 and five of the entries during both 2008 and 2009 were actually proposed by city personnel.

In the management letter the auditors state, *“The City’s staff continues its trend of having few adjusting entries necessary to bring the City’s financial statements in conformity with generally accepted auditing standards and Government Auditing Standards. We continue to stress the importance of the accounting personnel attending Local Government Commission and Institute of Government classes to keep abreast of new accounting and auditing issues related to the City’s business”*.

The second area discusses actuarial studies. Section 2. A. discusses the actuarial study of the Police Separation Allowance. The audit management letter states, *“We commend the city administration for monitoring the funding progress of the police separation allowance and should continue to do so”*. We intend to keep monitoring the Police Pension Trust Fund and will continue to have actuarial studies done each year. Section 2. B. deals with the city continuing to monitor the cost of a study made of other Post Employment Benefits to comply with GASB Statement 43, Financial Reporting for Postemployment Benefits Other than Pension Plans and GASB Statement 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions. The potential liability for other post employment benefits was initially implemented into the FY 2008-09 audit report and the audit management letter states that *“the long range cost to the City should continue to be analyzed for consideration in the budgeting process for the City of Eden in the future”*. We will continue to monitor this potential liability and will examine the feasibility of factoring the long range cost into the annual budgeting process.

The third and final area addressed in the management letter deals with the water and sewer rates for contract customers. Now that the audit is completed we are already moving forward with computing the new figures for Dan River Water. As each of you is currently aware, the contract rates for MillerCoors are currently remaining unchanged until we can finalize a contract rate agreement that is executed by both MillerCoors and the City of Eden. I have asked Ms. Tammie McMichael, Director of Finance and Personnel to work hand-in-hand with Mr. David Cain, P.E., formerly of Arcadis and Finkbeiner, Pettis & Strout to compute

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the new contract rates. This is the same process we have followed since my arrival as City Manager in February, 2001.

Concluding Remarks

In this memorandum I have attempted to give you some of the highlights that are contained in the audit as well as the location of essential information.

As I have stated previously, I feel very fortunate to have such a talented and dedicated staff within our Finance and Personnel Department. Ms. Tammie McMichael, Director of Finance and Personnel and Ms. Amy Winn, CPA, Accounting Coordinator do a tremendous job and deserve to be congratulated on their efforts and dedication. They make an excellent team. It should also be noted that the remaining staff members within that department are important components to the overall success of the department and are also deserving of praise and recognition for their dedication and commitment to excellence.

I would also like to take this opportunity to thank Ms. Judy Rouse, CPA, Rouse, Rouse, Penn & Rouse, L.L.P. for her continued assistance throughout the course of the past year. She is always there when we need a question answered and she deserves a great deal of thanks. She has really assisted me a great deal throughout the course of the past twelve (12) years and does a tremendous job.

I would also like to thank all of the remaining personnel associated with Rouse, Rouse, Penn & Rouse, L.L.P. for their hard work in completing this audit. Each of them worked extremely hard and I sincerely appreciate their efforts.

Finally, I recently had the opportunity to speak with Mr. Rouse and Ms. Rouse concerning the audit. They informed me that they felt the audit was a good, clean audit and that tremendous progress has continued to be made by City staff over the course of the last several years.

Please feel free to contact me if you have any questions or need additional information.

Cc: Ms. Tammie McMichael, Director Of Finance & Personnel
Ms. Amy Winn, CPA, Accounting Coordinator
Ms. Judy Rouse, CPA – Rouse, Rouse, Penn & Rouse, L.L.P.
Mr. Rex Rouse, CPA – Rouse, Rouse, Penn & Rouse, L.L.P.
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