



DATE: January 18, 2011

TO: Thomas J. Bonfield, City Manager

THROUGH: Wanda S. Page, Deputy City Manager
David Boyd, Finance Director

FROM: Keith R. Herrmann, Deputy Finance Director

SUBJECT: Submission of Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2010

EXECUTIVE SUMMARY

The City of Durham is required by North Carolina General Statutes (NCGS) 159-34 to have an annual financial audit. The purpose of the audit is to obtain an opinion from a Certified Public Accountant on the City's general-purpose financial statements. This audit is also referred to as a Generally Accepted Accounting Principle (GAAP) audit. The Governmental Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB) promulgate GAAP. In addition to the auditor's opinion, the auditors also prepare a management letter that discusses internal control and operating efficiencies and are part of the audit findings. Items reported in the management letter need to be addressed, and a plan of corrective action taken.

The Comprehensive Annual Financial Report (CAFR) is produced in conjunction with the audit. In addition to the CAFR, the Finance Department, together with the Office of Public Affairs, also prepared a Citizens' Financial Report for the fiscal year ended June 30, 2010. The purpose of the Citizens' Financial Report is to inform residents of financial and other significant city activity in a simplified, easy-to-read manner. The Citizens' Financial Report is an abbreviated version of the CAFR. The Citizens' Financial Report and the CAFR help communicate information about the City's financial condition to residents and businesses who are concerned about the City of Durham's financial management and economic status.

The CAFR for the fiscal year ended June 30, 2010, was formally presented to the Audit Services Oversight Committee (ASOC) at its regularly scheduled meeting on January 24th, 2011. The Finance Department has distributed copies of the CAFR and the Citizens' Financial Report to all Council members, including those who are not on the ASOC. The purpose of this item is to formally transmit copies of the CAFR and the Citizens' Financial Report for the fiscal year ended June 30, 2010.

RECOMMENDATION

The Finance Department recommends that the City Council receive the CAFR and Citizens' Financial Report for the fiscal year ended June 30, 2010.

BACKGROUND

The objective of the external audit of the City's financial statements is to investigate and determine if the financial statements submitted have been prepared in accordance with financial practices appropriate for the City of Durham. The audit process is based on a framework of standards, concepts, procedures and reporting practices. The result of an audit is a written audit report. The report sets forth the auditor's informed opinion regarding the propriety of the City's implied assertion that the financial statements are fairly presented in conformity with Generally Accepted Accounting Principles.

In addition to the audit report there is a management letter which details any findings discovered by the auditors during their course of planning and performing the audit. These findings are reported to management and are discussed as to their effect on internal controls or operating procedures of the City. A plan of action is implemented by management to resolve these matters.

For the fiscal year ending June 30, 2010 the City of Durham received an unqualified opinion from its auditors McGladrey & Pullen, LLP. An unqualified opinion is submitted when the audit has been conducted in accordance with generally accepted auditing standards, if it has been possible to apply all procedures necessary in the circumstances, and if the auditor has no reservations concerning the fairness of the financial statements.

The auditor's management letter lists the following, which in their judgment did not constitute significant deficiencies or material weaknesses:

Contracting of services: The auditors noted two instances where professional services were performed by a third party that was not under a contractual arrangement with the City at the time that the services were performed. The auditors recommend that the City closely monitor those contracts which may result in overages or scope changes to be able to modify and obtain appropriate approval of contract changes prior to the additional services being rendered.

Management concurs with the recommendation and will take corrective action during the coming year.

The year-end financial picture was shared with City Council at the September 9, 2010 Work Session.

Attached please find a copy of the management letter, for your reference. The Finance Department is available to answer any questions related to the CAFR or the Citizens' Financial Report.

SDBE SUMMARY

The City's SDBE Ordinance is not applicable to this item.