

**CITY OF NORTH ADAMS, MASSACHUSETTS**  
**MANAGEMENT LETTER**  
**FOR THE YEAR ENDED JUNE 30, 2015**

**CITY OF NORTH ADAMS, MASSACHUSETTS**

**Management Letter**

**Year Ended June 30, 2015**

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To the Honorable Mayor and City Council  
City of North Adams  
North Adams, Massachusetts

In planning and performing our audit of the basic financial statements of the City of North Adams as of and for the year ended June 30, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the City of North Adams's internal accounting control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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 significant deficiency is a deficiency, or 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.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. We have already discussed these comments and suggestions with City personnel. We will be pleased to discuss them in further detail and to assist you in implementing the recommendations.

The City's written response to our comments and suggestions has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This communication is intended solely for the information and use of the management, the Mayor and City Council, others within the entity and the Commonwealth of Massachusetts Department of Revenue and is not intended to be and should not be used by anyone other than these specified parties.

*Scanlon and Associates, LLC*

Scanlon & Associates, LLC  
South Deerfield, Massachusetts

February 8, 2016

## CURRENT YEAR COMMENTS AND RECOMMENDATIONS – Other Matters

### 1. Levy Limit vs. Levy Ceiling

Comment:

Levy limit and levy ceiling are two types of levy restrictions imposed by MGL's. The levy ceiling calculation is 2 1/2 percent of the total full and fair cash value of all taxable real and personal property in the community. The levy limit is that real and personal property taxes may only grow each year by 2 ½ percent of the prior year's levy limit plus new growth and any overrides. Ordinarily the levy limit is always below the levy ceiling. During our audit we noted that the gap between the levy ceiling and the levy limit is decreasing. A summary is as follows:

<u>Fiscal Year</u>	<u>Levy Limit</u>	<u>Levy Ceiling</u>	<u>Difference</u>
2016	\$ 15,745,723	\$ 17,730,832	\$ 1,985,109
2015	15,019,976	17,801,701	2,781,725
2014	14,434,111	17,858,513	3,424,402
2013	13,698,055	17,756,149	4,058,094

We recommend that the City monitor the above situation as this could have a potential financial impact on future budgets.

City's Response:

The City concurs with the auditors findings and notes that the gap between ceiling and limit is a future concern. That said, Administration is hopeful that with the many wonderful projects going on in the City, the ceiling will begin to move upward more in correlation to limit which will serve to keep the gap healthy. The Administration acknowledges that growth is necessary to promote a healthy spread

### 2. New OMB Circular

Comment:

In December 2013 the Office of Management and Budget (OMB) released new guidance on administrative requirements, cost principles and audit requirements for federal awards, which has been so called the "Super Circular" or "Omni Circular". This new guidance supersedes and streamlines requirements contained in OMB Circulars A-21, A-50, A-87, A-89, A-102, A-110, A-122 and A-133 by consolidating the requirements of those eight documents into one. The new guidance affects entities receiving and administering federal awards as well as auditors responsible for auditing federal award programs. The goal of this reform is to provide guidance that ease the administrative burden of federal awards, strengthen oversight over federal funds to reduce risks of waste, fraud and abuse and eliminate duplicate and conflicting guidance between circulars. The new guidance will be in effect for all federal awards or funding to non-federal entities on or after December 26, 2014 and will apply to non-federal entity audits for fiscal years beginning on or after that date (fiscal year 2016).

We recommend City personnel that administer and account for federal awards familiarize themselves with this new guidance.

City's Response:

The City concurs with the auditors suggestions around familiarization with OMB guidance and will assure that necessary staff comply with these requirements.

### 3. Skating Rink Operations

Comment:

The skating rink incurred an operating loss of approximately \$98,577 in fiscal year 2015. Furthermore, the skating rink has incurred an operating loss for the three out of the last four fiscal years.

The following is a summary of the general ledger activity for the past four fiscal years:

	Fiscal Year 2012	Fiscal Year 2013	Fiscal Year 2014	Fiscal Year 2015
<b>Beginning Balance</b>	\$ 160,542.54	\$ 124,876.13	\$ 134,880.66	\$ 108,395.45
<b>Revenues:</b>				
Ice Rental	225,591.00	172,446.50	173,226.50	140,291.60
Public Skating	45,605.97	34,938.00	30,665.00	16,132.74
Skate Rentals	744.00	25,420.00	20,856.00	16,124.00
Rink Programs	4,736.00	7,699.00	12,013.50	13,157.00
Contributions	-	30,000.00	30,000.00	-
Other	4,329.19	8,526.91	8,460.23	6,867.88
Interest Income	1,041.02	481.18	384.63	167.36
	<u>282,047.18</u>	<u>279,511.59</u>	<u>275,605.86</u>	<u>192,740.58</u>
<b>Expenditures</b>				
Wages and Salaries	56,925.67	82,588.05	84,580.73	84,213.53
Utilities	107,014.18	79,628.70	100,240.46	99,132.91
Operating	74,131.96	37,042.68	39,246.58	45,442.01
Other	40,804.72	32,847.63	41,173.30	26,366.39
Debt - Principal	28,369.66	27,500.00	27,500.00	27,500.00
Debt - Interest	10,467.40	9,900.00	9,350.00	8,662.50
	<u>317,713.59</u>	<u>269,507.06</u>	<u>302,091.07</u>	<u>291,317.34</u>
<b>Operating Surplus/(Deficit)</b>	(35,666.41)	10,004.53	(26,485.21)	(98,576.76)
<b>Ending Balance</b>	<u>\$ 124,876.13</u>	<u>\$ 134,880.66</u>	<u>\$ 108,395.45</u>	<u>\$ 9,818.69</u>

We recommend that City management monitor and review the skating rink operations to improve the financial condition of the skating rink fund.

City's Response:

The City concurs with the findings of the auditor and will continue to monitor rink operations and accounts diligently. Administration has worked very hard over the past year to stabilize rink finances, reign in staffing to be more reflective of actual use and work harder on collections, these efforts along with some small capital improvements have helped to create a more sustainable rink environment.

## PRIOR YEAR COMMENTS AND RECOMMENDATIONS – Other Matters

### 1. Financial Condition

Prior Year Comment:

The City was able to obtain a positive Free Cash Certification by the Commonwealth of Massachusetts Department of Revenue for fiscal year 2014 in the amount of \$140,822. The last two fiscal years (2012 and 2013) the City was unable to obtain a positive free cash certification.

Free cash is a community's unrestricted available fund that may be used as a funding source for budgetary appropriations. Free cash is generated when the actual operating results compare favorably with the budget. Specifically, free cash is generated when actual revenue collections exceed budget estimates and actual expenditures along with encumbrances are less than the budget appropriations, or when both scenarios occur.

The lack of free cash or other available reserves is often indicative of a community's financial instability in difficult economic times. The following is a summary of the contributing factors for the City's free cash calculation for the last three years:

	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>
Return of unexpended/unencumbered departmental appropriations	\$ 40,700	\$ (42,711)	\$ 21,925
Variance with budget vs actual - state receipts	(177,700)	43,364	(66,756)
Variance with budget vs actual - Local receipts	53,200	14,987	37,082
Variance with budget vs actual - State Assessments	215,900	(25,702)	288,673
Deficit accounts	(348,000)	(183,006)	(240,250)

The results summarized above would not be considered financially healthy by municipal financial standards. Under sound financial policies, a municipality should strive to generate free cash in the amount equal to 3 to 5 percent of its annual budget. The City's budget is approximately \$40,000,000 (i.e. \$1,200,000 would be 3%). One of the main contributing factors to the City's 2014 positive free cash certification is the positive variance with state assessments of \$288,673. This positive turn back from state assessments line item is something that cannot be depended on from occurring each year. We caution the City on the use of free cash as a funding source for future budget line items.

The City has several reserves whose approximate balances for last three fiscal years are summarized as follows:

	<u>June 30, 2012</u>	<u>June 30, 2013</u>	<u>June 30, 2014</u>
Stabilization Fund	\$ 236,000	\$ 80	\$ 244
Receipts Reserved:			
Parking meter reserve	132,000	79,000	37,000
Transfer station reserve	236,000	16,300	46,300
Sale of town property	33,000	33,000	-

Furthermore, the City has been awarded, as part of the 2015 State budget, a grant from the Commonwealth in the amount of \$750,000. The purpose of the grant was to fund City projects and capital needs including purchase of equipment and facility upgrades. There are several conditions and requirements associated with the acceptance of this grant. We recommend that the City review and implement procedures to ensure all requirements associated with the grant are met.

We have communicated our view of the above matter (financial condition) to the City's management during this year's audit as well as in prior year audits. The City Administration is very cognizant of the importance of strong reserves and the role they play in the overall fiscal health of the entity.

Status – Fiscal Year 2015 Audit:

The City had free cash certified by the Department of Revenue in the amount of \$787,752. The key factors that attributed to the free cash amount for fiscal year 2015 were unexpended/unencumbered appropriations of \$282,900, local receipts not meeting amount budgeted of \$109,464, Hurricane Irene reimbursement of \$310,356 and bond premiums of \$187,685. The amount from unspent appropriations is mainly from state assessments of \$123,263 and debt interest of \$123,703. The key factors that attributed to the current free cash amount would be considered one-time transactions. Furthermore, we would continue to recommend the City review its estimates for local receipts. During our fieldwork we communicated these items to City management. The City Administration is very cognizant of the importance of strong reserves and the role they play in the overall fiscal health of the entity.

## **2. GASB 68 – Accounting and Financial Reporting for Pensions**

Prior Year Comment:

The GASB has issued new pronouncements that will significantly affect financial accounting and reporting requirements for Pensions. One of the pronouncements that will affect the City is summarized as follows:

- GASB Statement No. 68 “*Accounting and financial reporting for pensions*” is required to be implemented in fiscal year 2015. This statement will significantly change the reporting and accounting of the pension liability and expense. The primary objective of the statement is to improve accounting and financial reporting by state and local governments for pensions. Changes to methods and assumptions used to determine actuarial information for GAAP reporting purposes will be required. Current actuarial methods and assumptions may continue to be used to determine funding amounts. Governments will be required to recognize in their financial statements a net pension liability (asset) determined annually as of the end of the fiscal year. GASB statement no. 68 is a financial reporting standard and does not require funding of any net pension obligation.

Given the significant impact of this GASB statement on the City's financial accounting and reporting we recommend that the City familiarize and educate themselves with the statement.

Status- Fiscal Year 2015 Audit:

The City has familiarized themselves with GASB 68 and has implemented its reporting requirements on its 2015 financial statements.

### **3. Review Tax Title and Tax Foreclosure Accounts**

Prior Year Comment:

As of June 30, 2013 the principal balances in the tax title and tax foreclosure accounts are approximately \$2,136,480 and \$250,680, respectively. In today's economic climate we have seen tax title and tax foreclosure accounts receivable increasing due to taxpayers' inability to pay their bills. Having a large or increasing amount of tax title receivables can have significant impact on a municipality to operate efficiently. We have been recommending that Cities and Towns implement procedures to monitor and review the tax title and tax foreclosure accounts receivable on a periodic basis. The City did adopt a plan to enter into payment plan agreements with City residents.

As of June 30, 2014 the principal balances in the tax title and tax foreclosure accounts are approximately \$2,313,663 and \$199,668 respectively. The City has implemented procedures to review and monitor the tax title and foreclosure accounts. We recommend that the City consider and review the guidelines of assigning tax title accounts at auction.

Status- Fiscal Year 2015 Audit:

As of June 30, 2015 the principal balances in the tax title and tax foreclosure accounts are approximately \$2,421,766 and \$197,855 respectively.

Treasurer, Assessor and Administrative Officer are in the process of reviewing several entities for the purpose of procuring our tax title accounts.