



MEMO

To: Stephen A. Lutz, Village Manager
Finance Committee Members

From: Nan Metz, Finance Director

Date: April 6, 2001

Re: Supplemental Appropriation Ordinance –
GAAP Conversion and Audit Costs

In January 2000 the Village contracted with the Local Government Services Division of the State Auditor's Office to prepare the Village of Powell's General Purpose Financial Statements for the year ended December 31, 2000 (i.e. the conversion to GAAP statements). The cost of this contract was quoted at \$7,300.00. The amount of \$4,500.00 was included in the 2000 budget for State Auditor expenses; however, only purchase orders for the services provided during 2000 (totaling \$780.00) were issued and paid in 2000, and no funds were carried forward into 2001. The amount currently included in the 2001 budget for GAAP Conversion expenses is \$5,000.00, and the balance remaining on the contract is \$6,520.00 not including the cost to print and other related expenses, so an additional appropriation of \$2,000.00 is being requested.

The second step of this process is the audit of the Village's financial records. In the past, the Village has prepared financial statements on a cash basis and therefore, has been audited every two years for the entire two-year period. The Village is utilizing the Local Government Services (LGS) Division of the State Auditor's Office to audit the Village's financial records. The cost of audit services in 1999 for the 1997-98 audit was \$6,278.33. Individuals from the LGS Division began the audit of 1999 records late in December 2000; however, no estimate of the audit cost was provided at that time. Since that time, two of the management personnel have left the Auditor's

office and other supervisory personnel have been assigned to our audit. The preliminary estimate that has been provided to me by the new audit personnel is \$14,000.00; however, we have not yet received an engagement letter. There are two main reasons that the audit costs are so much higher than in past years. First, the Village will be receiving two separate audit reports, one for 1999 on a cash basis and one for 2000 on a GAAP basis. Second, the audit requirements for GAAP statements is more involved than for cash statements, so that the annual cost for a GAAP audit would be higher than a cash audit. The amount currently included in the 2001 budget for State Audit expenses is \$8,000.00, so an additional appropriation of \$6,000.00 is being requested.

An additional expense that will likely be incurred in 2000 is for an appraisal firm to inventory and assign costs to the fixed assets of the Village. I have contacted two appraisal firms about providing this assistance, but have not yet received a quote for these services. The Village used one of the firms in 1996 to inventory and appraise the fixed assets at that time. The other firm is already providing a property appraisal for all members of The Ohio Plan (our group plan for general liability insurance) at no cost to the plan members, but will "upgrade" the appraisal services to include GASB 34 requirements at a discounted cost. These requirements are not mandated for the Village at this point in time, but will need to be implemented in the very near future. Both firms have indicated it would be more cost effective for the Village to implement GASB 34 standards at the time the appraisal of other fixed assets are done. A supplemental ordinance will be presented to the Finance Committee for review after proposals are received from these firms and the timing of the appraisal is identified.

A supplemental appropriation ordinance to provide the additional funding for the balance of the GAAP conversion contract and the anticipated audit services required for 2001 would be prepared for the next Council packet if the Finance Committee has no objection.