

# CITY COUNCIL MINUTES SPECIAL MEETING

MAY 2, 2011

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Mayor LaCascia called the meeting to order at 7:00 p.m.

## **ROLL CALL**

Mayor Joe LaCascia, Vice Mayor Trudy Block, Councilor Nancy Adorno, Councilor Mike Blethen, Councilor Don Kimsey-absent, Attorney Tom Cloud-absent. City Clerk Patricia Jackson was also present.

## **Discussion and Acceptance of Fiscal Year 2010 Audit**

Mayor LaCascia introduced Mike Brynjulfson, who is with Brynjulfson CPA, P.A. (City Auditor). Mike advised he was going to go through the Summary of the Financial Statements & Auditor's Report for the year ended September 30, 2010, and asked Council if they had any questions during this process, to please let him know; he also prepared a trending analysis as well. A copy of the Summary and the Financial Statements and Auditors' Report is on file in the City Clerk's office. Mike Brynjulfson reported as follows:

- **Management's Discussion and Analysis** -- The Auditor advised this is not audited, and has very good information.
- **Independent Auditors' Report** -- The Auditor gave a clean opinion. Under Government Auditing Standards there are two different ways to report the General Fund -- accrual or cash basis.
- **Government-wide Statements** -- He then referred to page 6 of the hand-out and advised Governmental Activities is the General Fund, and the Business-Type Activities is known as the Enterprise Fund. The Auditor then discussed capital Assets -- a capital asset is when the life is greater than one year; they are usually big ticket items. On page 6 of the hand-out, the net assets of the City is \$3,362,315 and is done on a full accrual basis; there was a total decrease in Assets for the Business-Type Activities in the amount of 3.6 million dollars in 2010, which is explained in their cover letter.

Mayor LaCascia asked if there was any relationship between total net assets and the budget amount; he was advised it is no relationship with the budget.

Government-wide Statements on page seven is done on a full accrual basis; these statements are more academic and contain a lot of non-cash items. Mayor LaCascia commented this report covers the period ended September 30, 2010. The Auditor advised it will all be brought together at the end.

- **Fund Level Financial Statements** – Governmental Funds is the General Fund and the Proprietary Funds is the Water and Sewer Utilities. The Auditor then referred to page 10 of the Summary, and went over the General Fund – there is no cash (unrestricted) on hand to set aside; any cash the City had was grouped into restricted. This leads to a financial emergency condition -402,912. Mike advised he has done four audits in 20 months; the City should have about \$250,000 on hand. The Auditor then referred to page 6 of the Financial Statement; the City had positive activity of revenues versus expenditures – the city did aggressive cost cutting measures.

Enterprise Fund Highlights – Unrestricted net assets totaled a negative \$257,929; however, the deficit was decreased by \$144,959 in 2010. Charges for services increased, operating expenses decreased by \$116,038. The Auditor referred to page 8 of the Financial Statements: There is no cash in the Sewer Fund; total assets are \$216,000; current liabilities are \$837,582; there is not a lot of wiggle room; net assets are a negative \$257,929, which creates a financial condition; however, next year it will be combined as the Enterprise Fund. The deficit decreased by \$145,000, which is a positive indicator. Councilor Blethen asked if there was any reason for this; the Auditor referred to page of the Audit whereby the revenues increased by 23% (rate increase) – the operating income was \$290,277 more than the expenses. Councilor Blethen asked if it was going to be negative this year; the Auditor advised it should be positive – he will be doing a mid-term review as of March 31, 2011.

The Auditor then referred to bullet #6 on page 11 of the hand-out as a special note (he read the bullet point), and explained the write-off of the \$3,399,487 of capitalized engineering cost due to the regional wastewater treatment facility no longer being a viable project. This is recognized as a “special item – impairment of capital assets.” This has the biggest effect on the Enterprise Fund; however, the debt still remains. Mayor LaCascia asked if this has any impact as private versus public; the Auditor explained it is how you classify equity in Government. The writ-off reduces the capital assets by 3.3 million dollars; the State is not affected by the write-off. Vice Mayor Block pointed out the \$350,000 + on the Mt. Olive spray fields; the Auditor noted the Enterprise Fund is on an accrual basis only, and referred to page 10 of the Financial Statements and discussed the statement of cash flows – takes accruals turns into cash and pulling out the depreciation expense. He also referred to the Notes of the Financial Statements, Note 6 (page 19 of the Financial Statement), which shows the depreciation expense and how it was charged. The budgetary comparison schedule for the General Fund is on page 26 of the Financial Statements

- **Compliance and Internal Control** – The Auditor referred to pages 27 and 28 in the Financial Statements; they look for things that could have material weaknesses. The results of their tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards (findings 10-05) Internal Control over Financial Reporting – any

deficiencies will be noted; eight deficiencies were identified in internal control that are considered to be a material weakness and is reported in the management letter as findings 10-01, 10-02 and 10-03

- **Management Letter**

1. Finding 10-01: Utility Billing Sub-ledger Should be reconciled to the General Ledger – this is from prior year; the detail is not agreeing with accounts receivable; it is noted the reconciling system is not working quite right. Councilor Blethen asked if the Auditor could explain the reconciliation; the Auditor explained the process. He advised Council it takes time to get this corrected; Mayor LaCascia asked how much time should Council expect – this has been taking place since 2006. The Auditor explained the steps that are taken during the audit, what agency it gets reported to, and the answers that are given by the City; he also explained the audits have been late and it takes time to catch it up. Councilor Blethen asked if it was a software problem, and Pam Lawson advised it was. After brief discussion, Councilor Blethen asked Pam what needs to be done; Pam advised it is set up correctly and was not that much off.
2. Finding 10-02: Restricted Cash Monitoring Needs Improvement – this is carried forward from previous years; there is not enough cash to cover what is required. This is being tracked; discussion took place regarding restricted funds and management’s response – some processes have been put into place for FY 10, and now restricted funds are processed monthly and set aside.
3. Finding 10-03: Payroll – there is one from prior year. Discussion took place regarding the conditions that were found this year; Vice Mayor Block advised that was not a priority previously, but is it now being taken care of. Councilor Blethen asked about changes taking place for FY 2011; Mike advised he couldn’t answer that until he does the audit. Mayor LaCascia asked if the Auditor has any cities that are “clean”; Mike advised yes, he does. Vice Mayor Block asked if there was an award for this; Mike advised there was an award through the Florida Government Finance Officers Association. Pam Lawson advised the Personnel Manual is outdated and needs to be fixed.
4. Finding 10-04: Florida Department of Environmental Protection—Polk City Wastewater Treatment System, Phase I – this is from a prior year audit and was found from the Single Audit whereby interest had to be sent back to DEP in the amount of \$5,570. The Auditor advised this has now been paid.
5. Finding 10-05: Long Term Debt Issue Compliance – for the past several years instances have been noted of non-compliance with long term debt issue covenants. One condition that continues to exist is the Series 2005 Capital Improvement Revenue Note, which is a SunTrust carry forward. It was noted this debt would be retired with the new bond issuance, and would therefore no longer be an issue.
6. Finding 10-06: Polk County Impact Fee Receipts and Remittances. It was noted this would stay as is until it is paid.

The Auditor then referred to page 35 of the Financial Statements, and advised per State Statute the City has met one of the finance emergency conditions; however, Polk Cit is not on the list of Finance Emergency on the State's website. Vice Mayor Block advised when she contacted the State regarding this, she was told because the City is paying their bills, we are not in a financial emergency.

- **Audit Time Line and Findings Trend** – The Auditor went over the audit completions since 2007; 4 audits were performed in approximately 22 months. Discussion took place regarding the FY 2011 Audit; Mayor advised if staffing is an issue, Council would work with Pam. Mike advised sometimes it is him; he wasn't ready. Councilor Adorno commented some audits are late, and withstanding the response, work on that; she also mentioned finding out where we are. Mike advised Pam will let Council know where the City is in the responses that were given; he also advised when on a normal schedule he will do an interim, and will try to get any findings to Council more quickly. Discussion also took place regarding the audit findings; in 2008 there were 17, 2009 there were 12 and in 2010 there were only 6; the Auditor thinks next year should look a lot better.

Mayor LaCascia thanked the Auditors, Pam and staff. Mike (Auditor) advised he would meet with Mr. Brock. Mr. Brock advised he has worked with cities that had 30 to 50 findings; some can be difficult.

Councilor Adorno made a motion to accept the Audit for Fiscal Year 2010; the motion was seconded by Councilor Blethen.

Roll Call: Councilor Blethen-aye, Vice Mayor Block-aye, Councilor Adorno-aye, Mayor LaCascia-aye.

4-eyes

0-nays

The motion carried.

The meeting adjourned upon voice vote at 8:25 p.m.

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Patricia R. Jackson, City Clerk

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Joe LaCascia, Mayor

