

City of Lake Elmo Financial Presentation

3 June 2008

Thank you in advance
for your attention and patience!

The Purpose of the Information Being Presented Tonight

*This presentation is about looking forward –
not looking backward*

- To fully understand the city's current financial accounts and status of each account at 2007 year end
- To take action to bring the city's financial records into compliance with accepted government accounting practices and to comply with the 2007 audit standards/document, to proactively address 2008 budget shortfalls and to continue with financial management and to prepare a comprehensive budget for 2009.

Order of the Presentation - 1

- Some Non-Accounting Fundamental Principles of Public Finance
- Roles and responsibilities for financial management
- Background leading to this report
- A summary of some results of this work
- Next steps
- Summary of decisions being requested tonight

Order of the Presentation - 2

- Key findings of the work
- Review of funds, changes in the funds and purpose of the funds for 2007 audit
 - *Questions from the council*
 - *Questions from public*
- Proposed amendments to the 2008 Budget
 - *Questions from the council*
 - *Questions from the public*
- Review of next steps presented (if desired)
- Action items

Some Fundamental Non - Accounting Principles of Municipal Public Finance

- Public finances are public.
- All cities - regardless of size, location, age, tax base, demographic growth, stability or decline - require good financial records and financial planning to manage their resources, to plan for the future and to be accountable to citizens and taxpayers.
- Clear, comprehensive budget documents are critically important for the city council, the city staff and citizens.
- Financial information informs, but does not make decisions

The Roles and Responsibilities of Financial Management – City Council

- The city council is ultimately responsible for overseeing the financial management of the city.
 - The city council hires a city administrator to manage the organization and oversee its operations including financial management and budgeting.
 - The city council hires an auditor to report to the city council on the accuracy and completeness of the city's financial records.

The Roles and Responsibilities of Financial Management -City Administrator

- The city administrator oversees the city's financial operations:
 - leads on helping the city council and the staff create a comprehensive budget.
 - establishes checks and balances within the organization to maintain accountability for expenditures as well as to be accountable to the city council's oversight and established approval process.

The Roles and Responsibilities of Financial Management -City Administrator

Assures there is government finance accounting expertise to

- develop a comprehensive budget, to establish, track and account for funds, to make and evaluate investments, to prepare financial reports, prepare CIPs with funding sources, anticipate shifts in financial future and to generally manage the city's financial resources in a short term and long term basis
- to efficiently, accurately and consistently manage the day to day financial operations of the city like enterprise fund billing, coding accounts, invoicing and payroll as well as routine reporting requirements.

Roles and Responsibilities of Financial Management - the Auditor

- Why doesn't the auditor catch these financial details?
- The auditor is hired to review the city's financial record keeping and report on the condition of the city's financial records. The auditor does not go through every transaction and find every error; the auditor is not allowed to re-do the city's accounts in any detail when the auditor discovers these accounts are not in order. If internal controls are significantly lacking the auditor may miss major accounting errors. The auditor's job is to alert the city to the condition of the accounts.
- The 2006 management letter to the city, the 2006 financial report and the presentation on the audit all identified the maintenance of the accounting system due to lack of internal control as a concern of the auditor. ***This is not a concern about malfeasance or illegality in city finances.***

Background Leading To This Report

- Based upon the findings in the management letter for the 2006 audit, the city's auditor, Steve McDonald, of Abdo, Eick and Meyer, recommended to the city administrator and finance director that the city hire a government finance expert, with municipal finance management and municipal audit experience, Joe Rigdon of KDV, to prepare the city for the 2007 audit and thoroughly review the city's accounting mechanisms. The city council took the responsibility to address the auditor's concerns by approving a contract for this work with KDV on January 23, 2008.
- The auditor stated that this preparation would require substantial review of 2007 transactions and records and perhaps transactions from prior years.

Some Results Of This Work

- Re-organized accounts for accuracy and clarity and conformance to public accounting standards
- Re-assigned expenditures to the appropriate accounts.
(e.g.re-allocating the dedicated park fund revenue to the appropriate funds, separating the blended debt service and capital equipment accounts)
- Eliminated negative balances in accounts where negative fund balances existed (e.g. infrastructure)

Some Results Of This Work

- Created a Village budget in the finance system to identify the Village project expenses accrued and obligated in 2005, 2006, 2007 and 2008 in one fund and identified a formal financial mechanism for financing the Village through general fund reserves with a payback schedule.
- Received a good review of the 2007 audit visit by the city auditor with a potential cost savings of \$2,500 to \$3,000 (8 - 10%) in the 2007 audit costs.
- Identified and addressed 2008 general fund revenue shortfalls created during preparation of the 2008 budget.
- Developed the ability to track project obligations and costs and to provide quarterly summary reports of revenues and expenditures to the city council.
- Be able to provide the city council with more accurate financial information for city council decision-making

Next Steps After Tonight's Presentation -1

- Review the 2008 amended budget for:
 - to be sure that current financial transactions are assigned to the appropriate funds
 - Including estimated engineering costs into the 2008 total budget (not just general fund) so these can be tracked and managed
 - Determine if further reductions in the General Fund are needed due to the estimated drop in building permit/plan check fee revenue
 - Run revenue projections on the city's bonds over the life of each bond
 - Evaluate status of investments and investment policies
 - Determine status/future use of remaining 2004 A bond revenue (city hall facilities, etc.)

Next Steps After Tonight's Presentation - 2

- Establish accounting systems for charging and maintaining development fees on a project specific basis rather than in a lump fund to assure compliance with best practices for accounting, state law, and to assure the city that all eligible development costs are recaptured
- To prepare a comprehensive 2009 budget document including all funds and narrative explanations to communicate the budget that meets the fundamental principles of the Government Finance Officers Association (GFOA). (The current budget is a general fund budget with a five year CIP.) (See prototype to be used in agenda)
- To begin the preparation of a long term capital improvement plan with funding sources and future tax impacts, if any.

Decisions Being Requested Tonight

1. Authorize the fund transfers, effective December 31, 2007 to eliminate the infrastructure reserves debt
2. Authorize an inter-fund loan, effective December 31, 2007 for the Village project to be repaid with interest by 2012 (assuming start in 2010)
3. Authorize General Fund reserves and designations of fund balance, effective December 31, 2007
4. Authorize 2008 General Fund budget amendments.
5. Extend contract with KDV from June 30, 2008 through December 31, 2008 to proceed with next steps required for financial management and budgeting.

(Funds programmed from savings in reduced finance personnel \$61,000 from February, possible reduction in Ehlers work on CIP (\$15,000), reduced audit costs due to accuracy in accounting (\$2,500 to \$3,000) and proactive, expert financial planning and budgeting will pay off.

How City Finances Are Organized.

- City finances are organized into ‘funds’
- The type of activity and how it is funded defines the type of fund the activity is assigned too.
- Fund balance – the balance of funds that are not spent in a specific fund; this does not mean that some of the funds in the fund balance are not already obligated to expenses

How City Finances Are Organized

- General Fund – general operations of the city such as public safety, council support, planning, revenue from fees and tax levies
- Special Revenue Funds – projects with specific funding sources that are only used for this purpose (e.g. CDBG funds)
- Debt Service Funds – designated for each bond issue or debt issued as the fund to pay off the bond; revenue can include funds from assessments
- Capital Funds – specific capital projects have a fund such as the Village, Tablyn park etc.) Capital funds are used for purchasing equipment that is over \$5,000 in value and over five years anticipate longevity and not funded through another designated fund (e.g. sewer,park)

How City Finances Are Organized

- Enterprise Fund - funds activities that are operated as a business and costs are covered by users (e.g. water, sewer)
- Agency funds- funds being held for other purposes (e.g. developer escrows, 800 mghz, in 2009 - Safe Routes to School Grant)

Written Report Detailing 2007 Funds and 2008 Budget Amendments

By Joe Rigdon, CPA
Government Finance Expert
Kern, DeWenter and Viere, Ltd.
(KDV)

Order of Presentation - 2

- Key findings of the work
- Review of funds, changes in the funds and purpose of the funds for 2007 audit
 - *Questions from the council*
 - Questions from the public
- Proposed amendments to the 2008 Budget
 - *Questions from the council*
 - *Questions from the public*
- Review of next steps (if desired)
- Action items

Action Item # 1

1. Authorize the following fund transfers, effective December 31, 2007:
 - General Fund transfer of \$156,000 to the Infrastructure Reserve capital projects fund for future sealcoating (within 2007 General Fund budget)
 - Close the MSA Construction capital projects fund with a \$516,120.82 transfer to the Infrastructure Reserve capital projects fund
 - Close the Section 33 Utilities capital projects fund with a \$105,953.20 transfer to the Infrastructure Reserve capital projects fund

Action Item # 2

2. Authorize the following inter-fund loan, effective December 31, 2007:
 - General Fund loan of \$1,000,000 to the Village capital projects fund to temporarily finance the past and future Village project expenditures; interest to accrue at 4%; preliminarily scheduled payments of \$500,000 at December 31, 2010, \$400,000 at December 31, 2011, and \$259,852.90 at December 31, 2012

Action Item # 3

3. Authorize the following General Fund reserves and designations of fund balance, effective December 31, 2007:
 - Reserved for Prepaid Items: \$3,823
 - Reserved for Advances to Other Funds: \$1,000,000 (equivalent to an internal loan to the newly created Village capital projects fund)
 - Designated for Cash Flow: \$1,251,127 (equivalent to the remainder of General fund balance)

Action Item # 4

4. Move to amend the 2008 General Fund budget according to narrative on pages 20 and 21 and numerically detailed on pages 22 to 27 of the June 3, 2008 Finance Report presented by Joe Rigdon of KDV.

Action Item # 5

5. Extend contract for government finance services to work on next steps.

Move to extend the contract with KDV for financial services from June 30, 2008 through December 31, 2008 to provide government financial management, oversight and budgeting services to comply with best financial practices for accounting and budgeting for an estimated amount of \$50,000 from the general fund and enterprise funds, as appropriate.

Thank You