

City of Coral Gables City Commission Meeting
Agenda Item H-1
March 25, 2015
City Commission Chambers
405 Biltmore Way, Coral Gables, FL

City Commission

Mayor Jim Cason

Vice Mayor William H. Kerdyk, Jr.

Commissioner Pat Keon

Commissioner Vince Lago

Commissioner Frank Quesada

City Staff

City Manager, Cathy Swanson-Rivenbark

City Attorney, Craig E. Leen

City Clerk, Walter J. Foeman

Deputy City Clerk, Billy Urquia

Finance Director, Diana Gomez

Public Speaker(s)

Agenda Item H-1 [10:10:16 a.m.]

A Resolution accepting the Comprehensive Annual Financial Report, Compliance Reports and Management Letter, for the fiscal year ended September 30, 2014 by McGladrey, LLP, Certified Public Accounts.

Vice Mayor Kerdyk: OK. City Manager's Items. H-1 is a resolution accepting the Comprehensive Annual Financial Report, Compliance Reports and Management Letter, for the fiscal year ended September 30, 2014 by McGladrey, LLP, Certified Public Accounts. Madam City Manager, this is your item.

City Manager Swanson-Rivenbark: I'm going to ask Diana Gomez, the Finance Director to present this item.

Ms. Gomez: Good morning, Diana Gomez, Finance Director. Today we'll be going over the City's Comprehensive Annual Financial Report for the fiscal year ended September 30, 2014.

With me today is Sally Ola Ola, Assistant Finance Director, who would also be available for questions, should we need her. Issuance of the financial statements are required by Florida Statutes and are prepared in accordance with the auditing standards generally accepted in the United States, as well as the Governmental Auditing Standards and audited by the independent certified public accountant McGladrey LLP. This year's CAFR received an unmodified opinion, which is the highest level of assurance that can be given by the auditors that the financial statements are free from material misstatements. So in other words it's a clean opinion. Last year's CAFR (Comprehensive Annual Financial Report), the 2013 CAFR received the GFOA's Certificate of Achievement for Excellence in Financial Reporting, this is the 30th consecutive year of us receiving that report, that honor and we are going to submit the current financial statements and we expect to receive the same honor. OK. Going into the financial statements, and you have a package in front of you that has the actual bound financial statement book. Page 5 of the financial statements includes the management discussion and analysis. This section provides a narrative of how the City has performed this past year. It provides factual information and compares current year financial information with prior year. The basic financial statements start with the government-wide statements. These statements provide the reader with the broad overview of financial activities and report information similar to that of a private sector business. Government-wide financial statements includes the statement of net position and the statement of activities. The statement of net position, the government-wide balance sheet is on page 18 of the report, and this report provides information from both governmental and business-type activities, includes all assets and liabilities, including those that are long term. As of September 30, 2014, the net position increased by \$26.6 million to \$281 million. The statement of activities is the government-wide P&L, is on page 19 of the report. This report provides revenues and expenditure information. Revenues are broken down into program and general revenue. Program revenues, includes charges for services of \$66.3 million and granted contributions of just under \$10 million. General revenues include all taxes of \$86.9 million and that's property taxes, franchise taxes, utility taxes, and other taxes, as well as inter-governmental revenues of \$4.7 million and transfers and other revenues of \$8.1 million. Expenditures on this report are recorded by function. You have general government, which represents the City administrative departments of \$23.0 million; public safety expenditures of \$71.8 million; fiscal environment - \$17.1 million; transportation of \$4.6 million; cultural and recreation of just under \$10 million; and other of \$2.4 million. The next set of statements then make up the basic financial statements of the Fund Level financial statements. These focus on the current year's inflows and outflows of spendable resources. Just one year's worth of revenues and expenditures, they don't account for long term assets or liabilities. So on page 22 of the CAFR you have the Balance Sheet. The Balance Sheet shows all the individual major funds and the combined total of non-major funds. My focus today is really on the first column, which is the General Fund. The General Fund is the main operating fund of the City. As you can see assets for the year total \$75 million, of that cash is \$18.2 million, investments are \$29.2 million, and receivables are \$19.3 million. Liabilities for the year

total \$7.8 million, of which \$2.6 million is accounts payable, \$1.6 is accrued payroll, and \$2.9 in refundable deposits. Deferred inflow total of \$18.4 million, of which \$12.3 million represents the future portion of the UM Development Agreement fee; \$2.2 million of revenues received in advance for 10-01-2015 for the 2014 for the BTR licenses, and \$2.8 million of delinquent waste fees. On that same page you have Fund Balances, again focusing on the General Fund column. Fund Balances are split into different categories – we have \$36,000 in non-spendable fund balance, which is balance of the pre-paid assets.

Mayor Cason: Million?

Ms. Gomez: No - \$36,000 in pre-paid, in the non-spendable Fund Balance, a different type of Fund Balance. Restricted Fund Balances are those that can be spent only for specified purposes as stipulated by external providers or enabling legislation, and that Fund Balance is \$4.3 million. Assign Fund Balance are those that are set aside with the intention that they'll be used for specific purposes as identified on the face of the financial statements and the balance there is \$7 million. The Unassigned Fund Balance consist of all excess funds of the General Fund that have not been obligated or designated for any use, and these are the amounts that are considered the City's reserves. The City's goal has been to get reserves up to 25 percent of budgeted operating expenditures and I'm happy to report that we did meet that goal with September 30th with a \$37.4 million.

Mayor Cason: I want to congratulate you and staff for reaching this goal. This is the highest unassigned Fund Balance we've ever had in the history of the Gables. We went from a number of years ago, from \$4.5 million in four years to \$37.4 (million) that's a remarkable achievement. So congratulations to staff and we also have a few other contributors to that like the UM Agreement, a number of onetime, bit a lot of it was really tight on expenditures and we've had a booming economy and we had a lot of extra resources, so congratulations.

Ms. Gomez: Thank you very much.

Commissioner Lago: If I could also add to that. Just to give me an idea and give some of the residents what an accomplishment that is what the Mayor touched on, over four years ago from \$4 million to \$25, I'm sorry, from \$4 million to almost \$37.5 million that is very incredible to reach the goal of having 25 percent of funds available for that "rainy day" if it ever does occur. What do most cities have?- or what do they strive for in reference to having a nice piggy bank like that?

Ms. Gomez: So different cities have different policies. Certain cities that I've investigated or researched or worked for had somewhere between 15 to 20 percent of their operating

expenditures, some do try to get to 25 percent, so it really does vary, but I would probably say that around 15 percent is probably, 15-20 percent is probably average maybe.

Mayor Cason: You know I think the good thing about reserves its like having money aside – well actually it is a “rainy day” fund, it’s a hurricane fund among other things, that gives us three months operating expenses...

Ms. Gomez: That’s correct.

Mayor Cason:...so that usually takes FEMA about that much time so you don’t have to go borrow money if you have to spend a lot after a hurricane, and its available for any other contingency.

Commissioner Lago: And not only that, I think what this Commission’s goal, I think Commissioner Keon mentioned it before, I think at a previous meeting is to hopefully get our AAA (triple A) rating back, and I think this is going to play a key role in showing our financial strength in that we can stand on our own two feet no matter what comes before us.

Ms. Gomez: Absolutely. I would agree with that.

Mayor Cason: And hitting 25 percent makes it so much nicer going forward because there are all kinds of options that open up assuming the property values continue to increase, everything from lowering the millage rate more, prepaying existing debt, doing things in the future where we might borrow money, but could use cash. You generally use debt when you don’t have cash reserves, but now we’ve got hit our goal for the first time and I think its wonderful. Thank you.

Ms. Gomez: Thank you. The next report on page 24 is the Statement of Revenues, Expenditures and Changes in Fund Balance. Again, focus on the General Fund column. Revenues total \$131.9 million; expenditures total \$117.4 million; other financing uses total \$1 million; and total Fund Balances increased by \$13.5 million. The increase in total Fund Balance is due primarily to the recognition of one-time revenues...Mayor mentioned, receipt of revenues not included in the budget, such as the UM Development fee; maintaining stringent controls of expenditures and employee turnover and vacancies leaving total Fund Balance in the General Fund at \$48.8 million. The Statement of Revenues, Expenditures and Changes in Fund Balance also shows activities for the City’s two other major funds, and those are the Capital Project General Improvement Fund with the total balance of \$23.6 million, of which \$7.2 million is unassigned at this time. And Capital Projects – The Neighborhood Renaissance Program Fund, whose Fund Balance is \$17.3 million, all of which has been assigned to specific projects in the NRP. The City also has other funds reported in the CAFR. Non-major funds are those that do not meet certain

GASB criteria to be reported separately as major. Those are the Debt Service Funds, Roadway Fund, Transportation Fund, General Obligation Fund, and Impact Fee Fund, and those statements are recorded on pages 99 through 100 of the CAFR. The City's financial also include proprietary funds or business-type funds. These are the Sanitary Sewer Funds, Parking System Funds, and Storm Water Funds, and those statements are on pages 28 through 30 CAFR. Other funds also include Internal Service Funds – Motor Pool, Public Facilities and Insurance Funds on pages 104 through 106 of the CAFR; and Fiduciary Funds where we act as custodians of the fund, which are the Retirement Fund, Police Officer's Pension Fund, Firefighter's Pension Fund, Employee Benefits Fund, and Law Enforcement Fund, located on pages 108 through 110 of the CAFR. The next section of the CAFR is the statistical section, which begins on page 111 of the book. This section represents ten years, presents ten years of detailed information on the City's overall financial health, measures and includes such things as financial trends, revenue capacity, debt capacity, demographic and economic information and other operating information. As part of the audit we also have a single audit performed by the auditors. This is a compliance audit, the City's major federal and state grant programs. As of September 30, 2014, the City had total federal grant expenditures of \$1.7 million and state grant expenditures of \$133,000. We did receive an unmodified opinion on the compliance of major programs and no findings were reported. The Management Letter is also issued by the auditors and it provides management with observations during the audit of internal controls that could possibly be improved. No observations or comments were reported with this audit and all prior year observations and comments had been addressed and cleared. So I'm really proud to say this is truly a clean audit we have.

Commissioner Lago: And you should be very proud of that.

Ms. Gomez: Thank you.

Commissioner Lago: Any comments that were in the previous year, I can't remember if there were any comments last year.

Ms. Gomez: In previous years there may have been some – some years past that we were still trying to clean up. So those are all clean and no new comments were...

Mayor Cason: We are in great financial shape.

Ms. Gomez: Yes.

Mayor Cason: Tremendous financial shape.

Commissioner Lago: That's a testament to your staff and to the hard work you guys have done. I commend you all.

Ms. Gomez: Looking ahead, couple more slides, looking ahead to 2015, year-to-date information for fiscal 2015 will be provided the next Commission meeting with the quarterly financial updated of revenue and expenditures. To date everything seems to be in line and we are on track with the budget process which has begun. In next year's CAFR you are going to see GASB 68 be implemented, this is the GASB that puts in the pension liabilities on the face of the financial statements. And just to give you an idea of what this would look like, on page 68 of the CAFR you see the net pension liability under GASB 67, which is what the pension plan reported is \$207 million, so GASB 68 is going to require us to put that \$207 million on the statement of net position on page 18, so it will increase total liabilities to \$327 million and it will change our net position to \$74 million, so that's just an idea. The \$207 will change obviously with next year's audit, but its just to give you an idea. And so I wanted to introduce Donovan Maginley, Partner with McGladrey LLP who will go over the SAS...that's in your packet and some of the required communications that he needs to do.

Mr. Maginley: Good morning Mr. Mayor, Commissioners, Madam Manager, Donovan Maginley, I'm here with my colleague Bill Harris who is the Manager of the audit. First and foremost we want to thank staff for a very cordial and smooth cooperation in our audit process. As Diana mentioned we were engaged to perform the audit, which we did in accordance with General Accepted Auditing Standards and Government Audit Standards. She did indicate that we did issue an unmodified opinion. Basically what that means is that the financial statements that you have in front of you we have opined on that to say that they are reasonably stated and are presented in a, I guess reasonable fashion. She said this is the highest level of assurance that we can provide in any financial statement. Throughout the audit, obviously – in your packet is a communication that we have provided. One of the key aspects for us to provide this opinion is to ensure that the audit is independent, which means that its executed without any bias or any influence with management. So we had no disagreements with management, any issues that we noted were easily resolved with them, we had full access to all the records and information. As far as the audit, we evaluated if there were any, what we call, differences, any audit adjustments, there were none. I think for a document this big complex accounting, to maintain your accounting records throughout the year without having adjustments there is much accolades that should be presented to staff. Also included in your package is what we call a Representation Letter that what management represented to us throughout the audit and it's a key aspect in terms of documentation that we rely on and that's included in here. We've also issued, as she indicated, the Management Letter, which allows us to or requires us provide certain assurance in terms of the City's position. One key aspect of that is the City's financial condition. One of the things that we do in the audit process is to look at financial condition. I think one of the Commissioners

asked about it, in terms of comparisons with other cities. We do that and make sure that – and assess the City’s financial viability to see if there are any financial crisis or financial condition that would be reported on. I’m happy to say that there are none that we noted that we think we meet that threshold. And we’ve also issued our audit and compliance. We have no findings on compliance and some information we’ve also had no current year comments of any significant deficiencies or material weaknesses that we consider, which means that we think that internal control is functioning as designed and is adequate to meet and safeguard the assets of the City. With that I’ll turn it over for any questions that you may have.

Mayor Cason: So we get “gold star”.

[Laughter]

Ms. Gomez: A nice big one - \$37.4 million.

Vice Mayor Kerdyk: Are there any questions?

Commissioner Keon: I have a question. I was looking at the item related to pension liability. In 2015 then you are saying that that is also calculated as part of our debt?

Ms. Gomez: No – part of our liabilities.

Commissioner Keon: Its liability.

Ms. Gomez: Right.

Commissioner Keon: OK.

Ms. Gomez: Exactly. So its going to be on the government-wide financial statements, which is on page 18. The fund level financial statements, the General Fund reserve-type fund that we are always looking at, it does not affect that one, because that is the fund level which just looks at current assets and resources. Now the government-wide is the statement, page 18, statement of net position is where its going to be recorded to show that, yes, we do have this long term liability of \$207 million and again, that number is this year’s number, its subject to change with next year’s audit of the pension plan system and the evaluation and all that.

Commissioner Keon: Do you ever in reading, on page 68, you talk about actuarial assumptions, one of the calculations that you use is also this investment rate of return that we always seem to talk about. When you audit, do you ever, I know that that’s what the actuary, that’s the numbers

that they put forward and the numbers they use, in auditing do you ever challenge those numbers?- or you just accept that – you just accept the numbers that are provided by the actuary for the pension plan?

Mr. Maginley: The actuary for the pension plan – the pension plan gets a separate audit, so those auditors I presume would challenge or asses to see to ensure that what the assumptions that are being used are reasonable. Typically when we do the audit for a pension plan, we do challenge the actuary for the pension plan...

Commissioner Keon: OK.

Mr. Maginley: We challenge but we assess to see if the assumptions that are being used are reasonable, are their written standard, are the actuaries considered competent in their field?- and that's really what we do.

Commissioner Keon: OK.

Mr. Maginley: The assessments of investments, yes – we would assess to see that the investments are properly valued, but we don't look to see....

Commissioner Keon: But you don't really do the audit on the pension plan

Mr. Maginley: No, we don't.

Commissioner Keon: So really what you do is you are accepting the information and the records that are provided to you by the audit. Who does the audit on the pension plan?

Ms. Gomez: GSK are the auditors for the pension plan.

Commissioner Keon: When do we get that report?

Ms. Gomez: That report was issued February 12th Pension Board meeting, it was accepted by the Pension Board at the February 12th meeting.

Commissioner Keon: Do we get a copy of that?

Ms. Gomez: I'm not sure. I could find out.

Mayor Cason: Its in the Retirement Board minutes.

Ms. Gomez: Right – but I would assume that the Retirement Board would send a copy, if not I can make sure that they do.

Vice Mayor Kerdyk: Why don't you make sure that we have a copy.

Commissioner Keon: Get a copy of that?

Ms. Gomez: Sure.

Commissioner Keon: Thank you.

Vice Mayor Kerdyk: Thank you very much for your report. Its always good when your CPA says you are in good shape and thank you very much Diana and your staff for doing such a fine job - \$38 million, \$37.5 million in our reserves that's very good. Thank you.

Commissioner Quesada: If I recall correctly, last year our unrestricted were \$28? - \$29.2?

Ms. Gomez: \$28.7 (million).

Commissioner Lago: \$28 – I think point seven.

Ms. Gomez: \$28.7 (million).

Commissioner Quesada: So we are that much closer to returning to the triple A (AAA) rating?

Ms. Gomez: Yes. Well there are other factors that go into...

Commissioner Quesada: We were discussing it at the last meeting. I believe it was ____ Grover that was discussing it with us.

Ms. Gomez: Exactly. So we are going to go to the rating agencies early this summer or late spring because of the streetscape bond, so we are going to push for it.

Commissioner Quesada: I think we have a good shot, I mean we are in a much better position now than – when did we lose it?- 2000?

Mayor Cason: Let's go for it.

Commissioner Keon: I always say it's nice to reach those benchmarks and its good to have those benchmarks. I just don't ever want to see us do it at the expense of appropriate expenditures. I think that we have – we've deferred maintenance on an awful lot of our City buildings in public projects for a long time. Its understandable when there is a real financial crisis, but I really think we truly need to budget for maintenance and have a better plan for our public going forward, so. I would not like to reach some other hallmark at the expense of maintenance.

Mayor Cason: But you don't have to because triple A (AAA) could lower the bargain cost for deferred maintenance.

Commissioner Keon: But we really do need to budget – I think our budget over the couple of years, I know that I have been here is a little light on maintenance.

Ms. Gomez: That's one of the goals for this year's budget. We are looking to replacement programs, typical replacement programs of all the City's facilities and include those in the budget moving forward as we did recently this past year with the....and the roof replacements and the vehicles, so we are starting to do those type of programs. Those are already in the budget this year, Keith Kleinman, the Budget Director is working with all the departments to make sure that we do get those replacement programs put into the budget and funded as best we can so that moving forward we don't have those issues of one-time large expenditures because something just has to give. So we are working towards that and definitely you'll see a lot of that in this year's budget.

Commissioner Keon: Good. I mean this building in itself really should be a pristine building and its not.

Commissioner Lago: This is one and you have the Fire Stations which are major issues.

Commissioner Keon: The Fire Station, the public safety station...

Commissioner Lago: So they are there and again, like what the Mayor said and I agree with what Commissioner Keon said also. If we have to borrow money, obviously you want to borrow money with a triple A (AAA) rating, the savings are significant. I'm trying to get to that benchmark, meet that benchmark, but I also agree with what Commissioner Keon is saying, I think we need to transition now to the issue that we deal with for maintenance, which is a pretty significant issue right now.

Commissioner Keon: Thank you.

City Manager Swanson-Rivenbark: In your first Budget Workshop you will see that we are budgeting for those kinds of maintenance in all of our facilities.

Vice Mayor Kerdyk: Thank you very much.

Commissioner Keon: Thank you, you've done a great job.

Ms. Gomez: There is a resolution that needs to be passed.

Vice Mayor Kerdyk: There is a resolution?- OK. OK.

Mayor Cason: I'll make the motion.

Vice Mayor Kerdyk: A motion by Mayor Cason.

Commissioner Lago: I'll second the motion.

Vice Mayor Kerdyk: Second by Commissioner Lago. Mr. City Clerk can you call the roll please.

Commissioner Keon: Yes

Commissioner Lago: Yes

Commissioner Quesada: Yes

Mayor Cason: Yes

Vice Mayor Kerdyk: Yes

(Vote: 5-0)

[End: 10:33:56 a.m.]