



**BUSINESS OF THE CITY COUNCIL
AGENDA STATEMENT**

Item No. 6e
For Meeting of 05.05.2016

ITEM TITLE: FY2015 Audit Presentation and Overview

CONTACT PERSON: Jean Furler, Finance Director

SUMMARY EXPLANATION: The fiscal year 2014-2015 audit was performed by Shull & Co. The following is an overview of the audit:

- The city utilizes cash basis accounting. Governmental Activities include public safety, public works, health & social services, culture & recreation, community & economic development, debt service and capital projects. Business type activities or enterprise funds include water, sewer and storm water utility
- The General Fund balance increased \$577,441 to \$1,584,886 from last fiscal year. Bond Rating companies give considerable weight to a city's general fund balance when determining credit rating.
- The city increased fund balances in every program area with the exception of debt service. Transfers are scheduled in FY16 and FY17 to address the debt service deficit.
- The city's general obligation debt of \$17,358,000 continues to be well below the 5% constitutional debt limit of approximately \$30.2 million.
- Page 67-69 discusses findings for internal control deficiencies and statutory reporting requirements. The city responded to each of these findings and the auditor accepted the responses.
- Page 69 shows deficit balances and how we have addressed those with the exception of the Norwalk Fiber Optic Project. The deficit balance of \$375,227 needs to be eliminated and my goal is to get this done by June 2018 with transfers the next three fiscal years.
- Page 12 Debt Administration section is incorrect. The numbers were not updated from FY14 and should state:
" At June 30, 2015, the City had \$18,662,272 in bonds and other long-term debt, compared to \$15,816,922 last year, as show below."

On that same page Colonial Meadows was listed in FY14 but not FY15 and Water Service Agreement added in FY15. In the course of finalizing the 2014 audit there was discussion of the various development agreement commitments. The Colonial Meadows agreement was subsequently found to require annual appropriation and therefore was no longer considered to be outstanding debt (like most all development agreements). However, further review of the agreement with the Des Moines Waterworks revealed that agreement should be considered a debt obligation. Those items were corrected in the 2015 presentation.

In a set of cash basis statements these items do not affect the cash activity of a given year and are therefore treated as disclosure items so there are no restatements or other reporting issues to deal with only corrections going forward.

Arlen Schrum will be present to answer any other questions you may have.

<p>___ Resolution ___ Ordinance ___ Contract ___ Other (Specify) <u>Simple Motion</u></p> <p>Funding Source: _____</p> <p>APPROVED FOR SUBMITTAL _____</p>
--

STAFF RECOMMENDATION: Approve the FY15 Audit as revised.

CITY OF NORWALK

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Norwalk, Iowa provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2015. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2015 FINANCIAL HIGHLIGHTS

Receipts of the City's governmental activities increased 31%, or approximately \$3,631,000 from fiscal 2014 to fiscal 2015. Property tax and bond proceeds increased approximately \$240,000 and \$5,131,422, respectively. Charges for service, capital grants, contributions and restricted interest, and other general receipts decreased approximately \$116,000, \$964,000 and \$622,000, respectively.

Disbursements of the City's governmental activities decreased 1%, or approximately \$109,000, in fiscal 2015 from fiscal 2014. Debt service and capital projects increased approximately \$755,000 and \$474,000, respectively. Public works, public safety and community and economic development disbursements decreased approximately \$278,000, \$307,000 and \$668,000, respectively.

The City's total cash basis net position increased 203%, or approximately \$5,951,000, from June 30, 2014 to June 30, 2015. Of this amount, the assets of the governmental activities increased approximately \$5,410,000 and the assets of the business type activities increased by approximately \$204,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Cash Basis Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

CITY OF NORWALK

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year and the City's proportionate share of the net pension liability and related contributions.

Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with accounting principles generally accepted in the United States of America. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Position reports information which helps answer this question.

The Statement of Activities and Net Position presents the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.

Business Type Activities include the waterworks, the sanitary sewer system, and the storm water drainage system. These activities are financed primarily by user charges.

CITY OF NORWALK

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Fund Financial Statements

The City has two kinds of funds:

1. Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund and 4) the Capital Projects Funds. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

2. Proprietary funds account for the City's Enterprise Funds and for the Internal Service Fund. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water, sewer, and storm water funds. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased dramatically from a year ago primarily due to bond proceeds not yet spent, increasing from \$2,646,369 to \$8,070,360. The analysis that follows focuses on the changes in cash balances for governmental activities.

CITY OF NORWALK

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Changes in Cash Basis Net Position of Governmental Activities		
	Year ended June 30,	
	2015	2014
Receipts and transfers		
Program receipts		
Charges for service	\$ 1,335,294	1,451,423
Operating grants, contributions and restricted interest	1,294,294	1,313,522
Capital grants, contributions and restricted interest	87,975	1,051,834
General receipts		
Property tax	6,986,792	6,747,218
Utility tax replacement excise tax	301,237	293,253
Grants and contributions not restricted to specific purposes	22,782	50,761
Unrestricted interest on investments	4,198	2,568
Bond and loan proceeds	5,131,422	-
Other general receipts	78,954	701,284
Total receipts and transfers	<u>15,242,948</u>	<u>11,611,863</u>
Disbursements		
Public safety	2,601,392	2,879,292
Public works	1,427,091	1,734,437
Health and social services	7,000	9,464
Culture and recreation	1,062,658	1,063,487
Community and economic development	1,064,191	1,732,115
General government	596,861	678,482
Debt service	2,776,005	2,021,490
Capital projects	838,975	364,743
Total disbursements	<u>10,374,173</u>	<u>10,483,510</u>
Change in cash basis net position before transfers	4,868,775	1,128,353
Transfers, net	<u>540,781</u>	<u>46,800</u>
Change in cash basis net position	5,409,556	1,175,153
Cash basis net position beginning of year	<u>2,660,803</u>	<u>1,485,650</u>
Cash basis net position end of year	<u>\$ 8,070,359</u>	<u>2,660,803</u>

The City's total receipts for governmental activities increased by 31%, or \$3,631,085. The total cost of all programs and services decreased by \$109,338, or 1%, with no new programs added this year. The increase in receipts was primarily the result of increases in bond proceeds of \$5,131,422.

CITY OF NORWALK

MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)

The cost of all governmental activities this year was \$10,374,173 compared to \$10,483,510 last year. However, as shown in the Statement of Activities and Net Position on pages 15-18, the amount taxpayers ultimately financed for these activities was only \$7,656,609 because some of the cost was paid by those directly benefited from the programs (\$1,335,294) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$1,382,269). The City paid for the remaining “public benefit” portion of governmental activities with approximately \$6,987,000 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general.

Changes in Cash Basis Net Position of Business Type Activities			
	Year ended June 30,		
	2015		2014
Receipts and transfers			
Program receipts			
Charges for service			
Water	\$ 1,388,767		1,276,466
Sewer	1,784,550		1,604,259
Other non major	354,392		345,569
Operating grants, contributions and restricted interest	161,527		132,411
General receipts			
Unrestricted interest on investment	4,562		5,335
Bond proceeds	<u>425,000</u>		<u>-</u>
Total receipts	<u>4,118,798</u>		<u>3,364,040</u>
Disbursements			
Water	1,179,914		1,382,563
Sewer	1,961,068		1,462,847
Other non major	<u>233,472</u>		<u>163,937</u>
Total disbursements and transfers	<u>3,374,454</u>		<u>3,009,347</u>
Change in cash basis net position before transfers	744,344		354,693
Transfers, net	<u>(540,781)</u>		<u>(46,800)</u>
Change in cash basis net position	203,563		307,893
Cash basis net position beginning of year	<u>3,290,133</u>		<u>2,982,240</u>
Cash basis net position end of year	<u>\$ 3,493,696</u>		<u>3,290,133</u>

Total business type activities receipts for the fiscal year were \$4,118,798 compared to \$3,364,040 last year. Total disbursements for the fiscal year increased by 12% or a total of

\$365,107.

CITY OF NORWALK

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As City of Norwalk, Iowa completed the year, its governmental funds reported a combined fund balance of \$8,070,360, an increase of more than \$5,410,000 from last year's total of \$2,660,803. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

The General Fund cash balance increased \$577,441 from the prior year to \$1,584,886.

The Road Use Tax Fund cash balance increased by \$147,092 during the fiscal year to \$613,699.

The Employee Benefits Levy Fund cash balance increased \$160,925 to \$826,165.

The Urban Renewal Tax Increment Fund cash balance was \$2,415,530, an increase of \$823,422 from the previous year.

The Debt Service Fund cash balance was negative \$221,781, a decrease of \$116,906 from the previous year.

The combined Capital Projects Funds increased \$3,378,253 from the previous year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Water Fund cash balance increased by \$313,213 to \$1,195,925.

The Sewer Fund cash balance increased by \$222,022 to \$1,193,109.

CITY OF NORWALK

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 21, 2015 and resulted in a net increase of \$4,708,255 in revenues. The increase was due primarily to a planned sale of land. Budgeted expenditures increased \$247,575 due to capital purchases.

Even with the budget amendments, the City exceeded the amounts budgeted in the debt service function for the year ended June 30, 2015.

DEBT ADMINISTRATION

At June 30, 2015, the City had \$18,662,272 in bonds and other long-term debt, compared to \$15,816,922 last year, as show below.

Outstanding Debt at Year-End			
		June 30,	
		2015	2014
General obligation bonds	\$	17,185,000	14,640,000
General obligation capital loan notes		172,500	-
Revenue bonds		756,500	441,000
Sanitary district mortgage assumed		106,540	122,060
Water service agreement		412,357	565,336
Equipment loans		29,375	48,526
Total	\$	<u>18,662,272</u>	<u>15,816,922</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$17,358,000 is significantly below its constitutional debt limit of approximately \$30 million.

More detailed information about the City's long-term debt is presented in Note 3 to the financial statements.

CITY OF NORWALK

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

City of Norwalk, Iowa's elected and appointed officials and citizens considered many factors when setting the fiscal year 2016 budget, tax rates, and fees that will be charged for various City activities. One of those factors is the economy. The City's total assessed valuations have increased slightly. However, funding from the State has decreased due to budget constraints.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Marketa George Oliver, City Manager, 705 North Avenue, Norwalk, Iowa.