

Town of Lauderdale-by-the-Sea

OFFICE OF THE TOWN MANAGER

Memorandum

Date: February 18, 2011

To: Mayor Roseann Minnet
Commissioner Stuart Dodd
Commissioner Birute Clottey
Commissioner Scot Sasser
Commissioner Chris Vincent

From: Connie Hoffmann, Town Manager 

Subject: February Town Manager's Report

Capital Asset Depreciation Reserves

Last summer I reported to you that the Town's financial reports indicated that the Town had almost \$3 million in accounts in the General Fund and the Capital Projects Fund under the designation of "capital assets" and that I would investigate the purpose of those accounts and to what extent they were restricted.

We have since determined that there were various bank accounts titled Capital Asset Depreciation accounts for various funds. A discussion with the Town's former auditors revealed that the Town started allocating funds to these CAD accounts in FY 2004 when the accounting standards known as GASB 34 took effect for local governments. GASB 34 required that local governments start recording depreciation for capital assets, including infrastructure, and of those assets on the books entity-wide, not just for enterprise funds. When the Town implemented GASB 34, the administration at the time started to set aside cash in depreciation reserves, even though that was not required by GASB 34.

Attached you will find a report from the Interim Finance Director (**Exhibit 1**) regarding an analysis of those accounts, which indicates that the numbers in the accounts cannot be tied back to either the depreciation figures in the CAFR each year or to what was budgeted for depreciation. The analysis took a good deal of effort and time and we stopped going any further when we realized we could not tie everything together.

The bottom line is that we have a good deal of cash available that can be used to replace failing or old capital assets or that can be diverted to other capital purposes. We are proposing on a consent item on this agenda that approximately \$61,000 be

taken from the General Fund CAD reserve to replace the Town's street sweeper. There is approximately \$182,000 in the reserve that we can tie back to vehicle and equipment depreciation, so that is a logical source of funds for the purchase.

At the next Roundtable, I would like to schedule a discussion on the potential use of these funds.

Use of Consultants & Professional Services Contractors

Earlier this week I provided the Commission with a memo advising you of the consultants and professional services contractors I have authorized under my procurement authority this fiscal year, and which described the nature of their services.

Quarterly Cash Investment Report

This report was distributed to the Commission late last month and shows that we invested \$2 million in twelve month Certificates of deposit with Bank United at 80 basis points, which almost quadrupled the interest being paid on those funds in the Sun Trust account. We will be investing additional funds this quarter in higher interest vehicles.

Meeting with Developer of Deerfield Beach Parking Garage

Assistant Town Manager Bud Bentley and I met last week with Bill Bodenhamer, President of USA Parking and his Vice president of Operations to discuss the feasibility of building a parking garage in Lauderdale-by-the-Sea. Mr. Bodenhamer was frank and helpful. He indicated that it would not be financially feasible for him to construct a garage in Lauderdale-by-the-Sea even if we provided the land to him, for a variety of reasons, including his opinion that our parking rates are too low, there is no capital financing available for garage construction at reasonable interest rates if at all, and his opinion that it will be at least five years before the Town's parking demand is high enough to warrant construction of garage (assuming that significant redevelopment occurs).

He advised that it would cost at least \$20,000 per parking space to build a garage (excluding land costs) and that the parcel on which the garage was built had to be a minimum of 120' by 180' in dimensions to achieve that per space cost. He indicated that the cost of a garage on a smaller parcel could be upwards of \$30,000 to design and construct. He was adamant that a garage was not financially feasible without significant retail space on the first floor.

We discussed with him the possibility of the Town getting into the car valet business to maximize our existing lots. He recommended strongly against that, indicating that valet operations that are run legitimately (i.e. all insurances, workers comp, etc.) are costly and only very high volume operations are worth the costs and risks involved.

He strongly suggested the Town consider a payment-in-lieu of parking plan to build up the funds to eventually fund a garage and that we purchase properties in this down

market adjacent to existing parking lots for future expansion of our parking operations. He felt the Town must incorporate retail space into any future garage and also suggesting that incorporating Town facilities into the structure would be desirable. And he recommended that we raise our meter rates in the downtown area.

Upcoming Speakers for our Urban Design Series

Elizabeth Plater-Zyberk will speak at Jarvis Hall on March 1st at 6:30 pm on “How to Preserve & Enhance Lauderdale-by-the-Sea’s Sense of Place”. Gianni Feoli, a local architect, will speak at 6 pm on March 15th on the topic of “The Prevalence of Miami Modern Architecture in Lauderdale-by-the-Sea – What it Is and What’s to Like About It”.

Citizen Input on the Master Plan

I would like to schedule multiple opportunities for the residents and business owners to review the key Master Plan concepts and give us their input on them. I suggest we hold two of the sessions on Saturday mornings in March at Jarvis Hall (March 12th and March 26th). An evening session on either Wednesday, March 23rd or 24th would also be scheduled.

We talked about, but the Commission had reservations about holding some input meetings at condominiums or Civic Association meetings. My suggestion would be that we do that in April, if the turnout for the sessions at Jarvis Hall is not as strong as we would hope.

Assignments List

I did not have time to update my assignments/project list, but will do that next week and distribute it to the Commission by email.



Town of

LAUDERDALE-BY-THE-SEA

4501 Ocean Drive, Lauderdale-by-the-Sea, Florida 33308-3610

Telephone: (954) 776-0576 / Fax (954)776-1857

Date: January 31, 2011

To: Connie Hoffmann, Town Manager

From: Doug Haag, Interim Finance Director

Subject: Audit of Capital Asset Depreciation (C/A/D) accounts

You had asked that we determine how the money that is in the various Capital Asset Depreciation (CAD) accounts was allocated to various asset categories by the prior administration so that we could create an asset replacement schedule for the future. In researching this, we found that there were depreciation schedules in the files for some of the CAD accounts for different years, but we were unable to find them for every account for every year. However, the depreciation schedules had never been totaled to give an accumulated amount and, for the most part, they were not tied to specific assets.

Because it was clearly going to be a lot of work to analyze these accounts and we were down one staff member and working on year-end closing and preparation of the audit papers, you authorized us to engage the services of an outside accountant to undertake the analysis.

Attached is the accounting consultant's report and findings regarding the balances in the following Capital Asset Depreciation (C/A/D) accounts as of September 30, 2009 (as a comparison, I've also included the balances as of September 30, 2010):

	<u>Sept 20, 2009</u>	<u>Sept 30, 2010</u>
• General Fund C/A/D Reserve	\$726,789	\$ 867,386
• Infrastructure C/A/D Reserve	923,953 ¹	1,039,036
• Vehicle/Equipment Reserve	182,792	183,285
• Fire Assessment Reserve	63,273	81,099
• Capital Fund C/A/D Reserve	1,161,336 ²	1,163,530
• Stormwater C/A/D Reserve	_____	<u>1,436,924³</u>
Total	\$3,058,143	\$ 4,771,260

¹ Per the Town's previous auditors, MarcumRachlin, this balance includes \$726,789 that was transferred from the Stormwater Fund to the General Fund. These funds have to be spent on stormwater/drainage project so we will amend this years Capital Project Fund budget to use this on approved projects.

² Per the Town's previous auditors, MarcumRachlin, this balance includes \$1,000,000 received from El Mar/Pier Pointe in December, 2008 as part of a settlement agreement.

³ All but \$2,000 of this balance was transferred from the Stormwater Fund to the General Fund in February, 2010. The transfer appears to be based on a percentage (approx. 50%) of the accumulated depreciation on the Stormwater Fund books at the time.



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The practice of the previous administration was to budget an amount in each fund to be transferred to a depreciation reserve each year. As the consultant points out, such depreciation reserves are not required by governmental accounting guidelines. The consultant determined that there was no correlation between the annual depreciation that was recorded in the Town's books and the cash transfers that were made to the depreciation accounts. Nor was there any correlation between the amount of depreciation that was budgeted and the cash transfers actually made. We don't know why it was done this way.

We asked our auditors – Grau & Associates –whether there are any restrictions as to how these funds could be spent. (In reviewing old budget messages, we found no indication of how these funds would be spent.) The auditors' response is that "fund balances that have been designated represent management's intended use of resources and should reflect actual plans approved by the government's management". In other words, it's up to the Town to determine how these funds are to be used. During FY 2011 the auditors recommend that the Commission provide policy direction on how to use these funds. One obvious approach would be to feed money from the depreciation reserves into the CIP as the Town replaces vehicles, street lights, repave roadways, repair and replace sidewalks, replace vehicles, etc.

January 14, 2011

Mr. Douglas M. Haag
Interim Finance Director
Town of Lauderdale-By-The-Sea
4501 Ocean Drive
Lauderdale-By-The-Sea, FL 33308

Project Scope

The scope of work for this assignment was as follows:

Review the Town's budgets, audit reports, depreciation schedules, etc to determine if the balances in the Capital Asset Depreciation (C/A/D) accounts can be tied back to specific assets. If so, prepare a replacement funding schedule for those capital assets.

Findings

The previous Town Manager issued a letter to SunTrust Bank dated December 9, 2004 authorizing the bank to establish the following accounts:

- Fire Assessment Reserve
- General Fund C/A/D Reserve
- Capital Fund C/A/D Reserve
- General Fund Infrastructure C/A/D Reserve

We were unable to find the authorization establishing the accounts for the Vehicle Equipment Reserve and the Stormwater C/A/D Reserve.

As of September 30, 2009 the Town had the following C/A/D bank accounts in the General Fund with a combined balance of \$1,833,534.11. These are broken down as follows:

• General Fund C/A/D Reserve	\$726,788.81
• Infrastructure C/A/D Reserve	\$923,953.30
• Vehicle/Equipment Reserve	<u>\$182,792.00</u>
Total	\$1,833,534.11

For purposes of this study, we did not analyze the Fire Assessment Reserve, Capital Fund C/A/D Reserve or the Stormwater C/A/D Reserve. The direction was to wait and see what we were able to determine from our analysis of the above 3 accounts.

Based on the Town's supporting documentation for the \$1,833,534.11, we were able to break these down into the general asset classifications shown in Attachment A.

However, we were not able to reconcile the above C/A/D account balances to the annual audit reports. The audit reports for FY 2004 thru FY 2009 show depreciation expense of \$2,749,600 for these three accounts:

• General Fund C/A/D Reserve	\$1,716,420.00
• Infrastructure C/A/D Reserve	\$ 693,780.00
• Vehicle/Equipment Reserve	<u>\$ 339,399.00</u>
Total	\$2,749,599.00

Based on actual cash balances of \$1,833,534.11, there is a difference of \$1,019,044.28 from the amounts in the audit reports.

Governmental accounting standards require only that the Town record depreciation expense for its capital assets at a government wide level, not at the individual fund level. This further reinforces that while it is certainly a good policy to set aside funds for capital asset replacement, it is not a requirement that cash actually be set aside for this purpose.

After extensive analysis of the town's supporting records and schedules that are still available, I was unable to tie back the actual balances in these three accounts to the individual depreciation schedules. While I am willing to continue to attempt to do so at your request, the significant difference that we have at this time makes it unlikely that I will be able to reconcile the differences. Even if I were able to, it still does not change the amount that is actually in these accounts - \$1,833,534.11.

Sincerely,

Ydia Forester
Consultant

Town of Lauderdale by the Sea

General Fund Transfers per year by Asset Classification

Attachment A

<u>Year</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>Total</u>
Building				27,400.42	27,400.42		43,138.41	68,349.05	166,288.30
Motor Vehicles				349,028.45	42,734.00	100,000.00	(202,907.27)	81,850.79	370,705.97
Donations				455.73					455.73
Fur,Fix Mach,Impr				42,630.65	43,775.39		59,541.61		145,947.65
Unspecified			169,412.46						169,412.46
Infrastructure									
Trees	5,927.33	6,053.14	9,205.91	9,282.46	9,768.58	10,104.58	8,553.44	8,994.83	67,890.27
Sidewalks	12,295.00	12,295.80	13,883.42	13,883.42	13,883.42	13,883.42	13,883.42	13,883.42	107,891.32
Roads	73,979.14	73,979.14	73,979.14	73,979.14	73,979.14	73,979.14	73,979.14	73,979.14	591,833.12
Street Lights					62,663.90	15,936.00	15,936.00	15,594.00	110,129.90
	\$ 92,201.47	\$ 92,328.08	\$ 266,480.93	\$ 516,660.27	\$ 274,204.85	\$ 213,903.14	\$ 12,124.75	\$ 262,651.23	\$ 1,730,554.72
								Interest	102,979.39
									<u>1,833,534.11</u>

Town of Lauderdale by the Sea
Reconciliation Depreciation Expense/CAFR/Schedule and Transfers
2003-2009

Attachment B

<u>G.L Acct #</u>	<u>CAFR</u> <u>per Fund</u>	<u>Transfers</u>	<u>Adjustments</u>	<u>Total</u> <u>Trans & Adj</u>	<u>Difference</u>	<u>Interest</u>	<u>Total Trans</u> <u>Interest</u>
General C/A/D Reserve 001.101.007	1,716,420.00	696,060.11		696,060.11	1,020,359.89	30,728.70	726,788.81
General Infrastructure 001.101.008	693,780.00	877,744.61		877,744.61	(183,964.61)	46,209.40	923,954.01
Vehicle/Equip Replace 001.101.130	339,399.00	406,297.41	(249,547.41)	156,750.00	182,649.00	26,042.00	182,792.00
Totals per G.L.	2,749,599.00	1,980,102.13	(249,547.41)	1,730,554.72	1,019,044.28	102,980.10	1,833,534.82

Less

Transfer & Adj (1,730,554.72)

Transfer short 1,019,044.28

<u>G.L</u>	<u>Total Transfers</u>	<u>Total Interest</u>	<u>Total</u> <u>Transfer & Int</u>	<u>Per G.L</u> <u>9/30/2009</u>	
001.101.007	696,060.11	30,728.70	726,788.81	726,788.81	
001.101.008	877,744.61	46,209.40	923,954.01	923,953.30	0.71
001.101.130	156,750.00	26,042.00	182,792.00	182,792.00	
	1,730,554.72	102,980.10	1,833,534.82	1,833,534.11	0.71