

Budget Committee Minutes
Town of Queen Creek
22358 S. Ellsworth Road
Queen Creek, AZ 85142

March 27, 2013

1. Call to Order

The meeting was called to order at 6:07 p.m. by Council Member Oliphant, Chair.

Committee members present: Council Member Oliphant, Council Member Barnes, Council Member Benning arrived at 6:19 p.m.

Others present: John Kross, Town Manager; Patrick Flynn, Assistant Town Manager/CFO; Samantha McPike, Budget Administrator, Carter Smitherman, auditing firm CliftonLarsonAllen Miranda Welton with CliftonLarsonAllen

2. Items for Discussion and Possible Action

A. Consideration and possible approval of the November 21, 2012 minutes

Council Member Barnes moved to approve the minutes of November 21, 2012. Council Member Oliphant seconded the motion. Motion carried 2-0-1 on a voice vote with Council Member Benning absent.

B. Review of the Town Financial Statements for the 6 months ending December 31, 2012

Assistant Town Manager/CFO Flynn reviewed the Town's 6 month financials. After 4 plus years of the great recession, it is good to show a stellar performance year financially. There were 339 building permits processed for this six month period. There were 55 building permits processed in same six month period last year. The building permit activity which includes development fees and construction sales tax threads its way through the entire financial program. Building revenues stands at almost \$1.6 million which is up almost \$1.2 million from a year ago. Developer reimbursements amount to almost \$2.7 million for the period compared to zero revenues from a year ago. Sales tax is up approximately \$6.5 million which is up 15% from a year ago. We are looking at a net surplus for the fiscal year.

The issue before us is construction sales tax. Of the \$14 million projected sales tax revenue, we should receive \$3 million in construction sales tax. If the construction sales tax gets pulled from the Town, it will have a significant impact. You get back to growth not paying for growth. In 2014 the development fees will be cut in half.

The General Fund is the main revenue fund. The other funds (Water Enterprise Fund, HURF Fund, Town Center Fund, Parks and Recreation Trust Fund and Street Light Improvement Districts) are either required by state statute or we have separated the dollars.

The committee had no questions.

C. Consideration and possible approval to authorize the use of \$55,000 in FY2013 General Fund Contingency account to fund unexpected expenditures at Horseshoe Park and Equestrian Centre (HPEC)

Assistant Town Manager/CFO Flynn said the committee has a request for \$55,000 from the General Fund contingency account to fund unexpected expenditures at HPEC. The current balance in the contingency account is \$440,000. The HPEC fund is tightly budgeted; if there is a hiccup they need to scramble.

Economic Development Director Cott said HPEC has had over the last few months several smaller expenses. A lot of expenses were due to issues from rainfall. They also needed to install a new door for the concession stand based on the recommendation of the Maricopa County Health Department as well as expenses for a new battery and charger for the golf cart. The expenses fall into 2 categories, materials and maintenance.

Council Member Barnes asked for detail on the \$2,000 listed under other expenses. Ms Cott said this includes costs for rental of heavy equipment. They needed a lift truck to take down the sponsorship signs during the inclement weather. They were hit by several storms this winter. The winds came up and tore the signs. The sponsorship signs had to be taken down and we needed to find another alternative to make good for our sponsors. We went to a catwalk with Plexiglas signs. We had a double face sponsorship sign and we had to come up with something that was satisfactory to the sponsors.

Council Member Barnes said there is money left over from professional development. He would like to see that money used for training. General Manager Lynch said he usually attends a seminar at the League of Agricultural along with a couple of his staff members. Just prior to the training, he had family problems and did not feel he could take time off to attend the training. The League reimbursed his registration which is why there is money in this line item.

Council Member Oliphant said you are doing a great job. The budget is lean for the park. She does not see a problem with the authorization of the use of contingency funds.

Council Member Barnes moved to approve the use of \$55,000 in FY 2013 General Fund Contingency account to fund unexpected expenditures at Horseshoe Park and Equestrian Centre (HPEC). Council Member Benning seconded the motion. Motion carried on a 3-0 voice vote.

Town Manager Kross said this item will be scheduled to come before the Town Council next week at their regular meeting. The scheduling of this item was contingent upon approval from the Budget Committee.

D. Review of the Town's preliminary financial forecast for the 5 years beginning July 1, 2013 (FY 13/14)

Assistant Town Manager/CFO Flynn reviewed the annual update to the 5 year financial forecast. We are forecasting 450 permits for next year. For the 4 years after, we are looking at 525 housing permits. The 5 year forecast of revenues includes town sales tax forecasted at \$13.1 million for FY14. We tend to be conservative. When revenues don't come in you have to do mid-year adjustments.

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Development fee schedule will decline beginning August 1, 2014. You can see the impact of this reduction in development fees which pays for our debt service from Horseshoe Park & Equestrian Centre (HPEC), the library, to the roads that we have completed.

Council Member Benning was concerned about what it does not reflect which is the change to the Town from the construction sales tax from this legislation. He would like to show the devastating affect in parenthesis.

Council Member Barnes said the sales tax received from the Internet sales will help. Town Manager Kross briefly discussed the internet sales tax. Council Member Barnes was happy to see the League of Cities pushing this. Town Manager Kross said the businesses on the Internet have been getting a tax break.

Mr. Flynn said the motor vehicle tax comes via the state, but is from vehicle license fees. This is not part of the state shared revenue. The other shared revenue is HURF which comes back based on population. Town Manager Kross said our population growth is approximately 7%, and is currently 28,000. Budget Administrator McPike said the HURF and state shared revenue amounts are based on the 10 year census population numbers.

Mr. Flynn reviewed the proposed FY 13/14 financial summary. The net surplus for FY 13/14 is approximately \$2.8 million. A year ago we had a deficit. The \$3 million in construction sales tax is in this memo. This can be changed with a stroke of a pen in the legislation.

The general fund has a surplus of approximately \$4.2 million. Emergency services has shortfall because of property taxes going down. There is an 18 month lag before we see the impact from increased property taxes. We have not included the impact from creating a fire district in this forecast.

The solid waste fund is showing a net loss. We will bring a solid waste program in June which will wipe this loss out. As an enterprise fund, revenues should cover costs.

The general manager at Horseshoe Park and Equestrian Centre keeps looking for more events to bring in revenue, but it will never break even. The park opened in 2009. HPEC has a debt service of approximately \$900,000 a year.

The Town center fund generates \$472,000 and has a net surplus of \$332,000. The drainage and transportation fund is debt service from roads already done. The debt service will need to be paid from the general fund if construction sales tax goes away.

We will put money in reserves from the parks, trails & open space fund. The expense is debt service which is all fixed costs. The library expenditure is \$1,010,000 each year. The debt service is due each year until 2028. We also have building maintenance that is not included here.

The transportation development fund is to pay for bridges and culverts. The railroad crossing is included in this fund.

The fire development fund pays for some of the fire trucks we purchased. This fund is in a net surplus situation.

The public safety development fund pays for a portion of the sheriff contract which includes capital items. The sheriff contract will go up 7% next year.

The net revenue in FY 13/14 is \$2.7 million. This net surplus goes down to \$1.6 million in FY 14/15 and down to a negative situation in FY 17/18. We do not have a forecast of the fire district which will help. Another item not included in the forecast is the acquisition of H2O water. If we pursue a water development fee, that would bring in potential revenue.

E. Discussion and possible action on FY 11/12 Auditor Report and Recommendations

Town Manager Kross said this item is for information purposes only. Audits in general determine the accuracy and control procedures for our financial operations. State statute requires an audit every 2 years however we do an audit every year. We hire an audit firm and change audit firms every 3-4 years for "fresh eyes." The audit report said we are in a sound financial condition. They have produced recommendations for us. We will review the recommendations with the committee. One recommendation covers staffing and the other recommendation covers the system. We concur with the recommendations. We look at audits to improve the system. Carter Smitherman with the audit firm of CliftonLarsonAllen will discuss their recommendations.

Mr. Smitherman gave background of the audit. They came into the audit in August and did field work. Everyone from the Town was extremely helpful in gathering information. They have given the Town an "unqualified" opinion which is the cleanest. Attachment B is a written letter required to be given to governments. Exhibit A is the communication for internal control findings. We have material weaknesses for internal control. We do not give an opinion on internal controls. A material weakness is something in the internal control that is not working properly where an error could occur and not be detected. The findings are listed 1-9. Town management has drafted a response which was not included in the original report.

- **Item 2012-1 Financial Reportings.** Mr. Smitherman said most towns do a trial balance and the auditing firm will put the draft financial statements together. They are allowed to do that but we need to analyze why the Town cannot do the financial statements. This finding relates to that process. Most municipalities of this size do ask their firm to do this report.

Assistant Town Manager/CFO Flynn said the CAFR is an offshoot of the financial regulations which is part of government accounting standards. The CAFR needs to convert the financial program into business type statements that show profit and loss. It takes a great deal of sophistication to do the CAFR. He applauds the auditors for doing the CAFR. We have always had this finding. He would like to rid ourselves of this finding. We took a reduction in staff and when you don't have money coming in, you have to do things accordingly. We would like to do an audit guide. He would like to obtain outside accounting services. Our controller left the Town and we would like to use these funds for outside services to assist staff. He is introducing a mid-point meeting with the auditor to correct items without getting a finding. He would also like to have an exit interview with the auditors to introduce the Town Manager and Assistant Town Manager into the process.

The auditors came in August and with our small staff we were not prepared for this audit. One of the recommendations is to start the audit in September in order to get ready for the audit. With all of our procedures we are making improvements. Key point is to bring on contract accounting services to get rid of this finding.

Council Member Benning said you mention the vacancy of the controller. As we go through budget, we are going to need to find the balance of contract vs. hiring staff. Will a contract person remove this finding or will we still see this deficiency? Mr. Flynn said when looking at a controller, we would like to get a firm with many skill sets. This is a major opportunity to bring in a contractual company with multiple skill sets however this would not be permanent. Eventually we will need a controller for the Town.

Council Member Barnes said on moving the audit back to September, will that give the auditors enough time to do what they need. Mrs. Smitherman said it should. They need to turn the audit in the month of December. A city this size you should wrap it up in 30 days.

Council Member Oliphant understands it takes a lot of work and thanked staff. It is very important to have the audit. Mr. Smitherman said the key is for the Town to be ready for the audit.

- **Item 2012-2 Project Monitoring.** The Town received money from Maricopa County from an overpayment on a joint construction project. The Town was making payments with the IGA but there was not in place how much of the construction was done.

Assistant Town Manager/CFO Flynn said we concur with this finding. This is part of an audit. We made payments to the county with IGA. We received favorable pricing from the project. It is how things are classified in your reports. We will make sure it is recorded as a current asset or a fixed asset. Town Manager Kross said this project was Ellsworth Road.

- **Item 2012-3 Capital Assets.** This relates to capital contributions from developers. They build the infrastructure and turn over roads, sewer lines, etc. to the Town. Sewer and water are services. When contributions were turned over the Town, they were put on the books as an asset. A portion should be government and a portion should be enterprise. Mr. Flynn said we did put in place a Chief Accountant who will review the schedules and supporting documentation to avoid this in the future.
- **Item 2012-4 Accounts Payable.** Invoices in the wrong year from electricity. This is a year-end cut off issue. It starts with SLIDS, the cost of power is increasing and this will be an issue for street lighting. Mr. Flynn said we concur. We have a practice in place. We have to keep books open. We are going to ask vendors to get invoices to us. We will intensify our efforts.
- **Item 2012-5 Investments.** Mr. Smitherman said the investment balances are not reconciled on a monthly basis. A money market was not in general ledger. At fiscal year end you have to show fair market. If interest from bonds, that interest needs to be included. Mr. Flynn said we concur. We have changed our practices and are doing this on a monthly basis.

- **Item 2012-6 Cash Receipting.** This finding has to do with segregation of duties. You do not want one individual responsible for receiving and reconciling cash receipts. We looked at building permit cash receipts and parks & recreation cash receipts. There was one person responsible for the cash receipts. There was a reorganization with the reduction of staff and even though people are team players we can't let them collect and reconcile cash receipts because of internal controls.

Mr. Flynn said we have since changed our process to get the required separation of duties.

- **Item 2012-7 Cash Receipting.** The check payments received in the mail are opened and forwarded to finance. They are not logged and the checks are not restricted and endorsed. Recommending if checks come in, they need to be restricted for deposit only to the Town's account. Mr. Flynn said we concur with this recommendation and we did immediate follow-up. The procedure is in place.
- **2012-8 Horseshoe Park and Equestrian Center.** When the auditors went out to HPEC, they observed with the short amount of staff, for convenience purpose and for customer service purposes, people wanted to give payment to staff performing the service. They need to go back to a secure place which is the administrative office. Staff should not be accepting cash; they should be directing people to the office. This is a safety issue for staff if they are carrying cash.

Mr. Flynn said we have been working over 18 months to develop HPEC. We concur people need to bring cash payments to the show office. We are working on people using mobile credit card devices like at sporting events. With smaller events we sell the bedding and collect the money. When working with larger event producers, they sell the bedding and the Town gets one check at the end of the event. Again, a well founded recommendation.

Council Member Benning recognizes we could make the promoter responsible. His concern is that our staff would need to be a watch dog. Who is responsible for EMT or Fire being paid? He thinks everything we can do electronically is good, and we should get away from cash payments.

Economic Development Director Cott said we do have internal controls. We lock the stalls when not in use and count bedding each day. We hope the hand held credit card device or one check at the end of the event will help this situation.

Council Member Oliphant said when we talk about bedding and feed, could we have them purchase from us 50 bales and the event producers are responsible for collecting the money. Ms. Cott said a lot of shows reserve certain number of stalls and bedding. With the larger shows, the promoters have volunteers to keep track of the bedding purchased.

- **2012-9 Horseshoe Park and Equestrian Center.** This has to do with the contracts that are entered into for various events. Some of these contracts have services such as advertising or building a fence in lieu of cash. There are several contracts where the Town is not getting

cash. The only way the finance department is going to know about these instances is if you tell the finance department. There just needs to be a communication process. Mr. Flynn has concerns with this and has asked staff to provide information to the finance department to get it properly on the books. The auditors are looking at services that are \$40-50,000 in lieu of cash. Mr. Flynn said we have a process now.

Council Member Oliphant said with the hundreds of transactions that go on, our staff is doing a great job with going forward to correct these issues.

Assistant Town Manager/CFO Flynn thanked the auditors. The key is the unqualified opinion.


3. Announcements

The next Budget Committee meeting is scheduled for May 6.

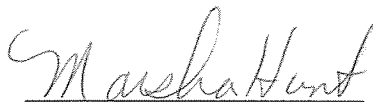
4. Adjournment

Council Member Barnes moved to adjourn; Council Member Benning seconded the motion. Motion carried unanimously. Council Member/Chair Oliphant adjourned the meeting at 8:14 p.m.

TOWN OF QUEEN CREEK



Council Member Oliphant, Chair

ATTEST:



Marsha Hunt, Sr. Administrative Assistant

I, Marsha Hunt, do hereby certify that, to the best of my knowledge and belief, the foregoing minutes are a true and correct copy of the minutes of the March 27, 2013 meeting of the Queen Creek Town Budget Committee. I further certify that the meeting was duly called and that a quorum was present.


Marsha Hunt, Sr. Administrative Assistant

Passed and approved on May 6, 2013.