

CITY OF DUNNELLON, FLORIDA

**EXECUTIVE SUMMARY
OF INTERIM FINANCIAL REPORT**

**For the Seven Months Ended
April 30, 2013**

July 22, 2013



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July 22, 2013

The Honorable Mayor
 and Members of the City Council
 City of Dunnellon, Florida

Dear City Council:

OVERVIEW

The City Council directed us to prepare interim reviewed financial statements for the City's Governmental and Proprietary Funds as of and for the seven months ended April 30, 2013. The primary purpose of this engagement was to provide management and the City Council with relevant, accurate information on the City's overall finances prior to the preparation of the ensuing budget and more importantly to evaluate whether the City's Communications Fund (Greenlight enterprise) is causing an unsustainable deterioration of the City's overall finances.

We have prepared this Executive Summary in conjunction with our review of the City of Dunnellon, Florida's (the City) interim financial statements for the seven months ended April 30, 2013. This "Executive Summary" of the complete financial report (the financial report) is intended to provide the City Council and management with pertinent information on key financial results of the City for the seven months ended April 30, 2013. However, it is necessary to read the complete financial report to gain a full understanding of the City's finances as of and for the seven months ended April 30, 2013.

GENERAL FUND

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government except those required to be accounted for in another fund.

As shown on page 6 of the financial report for the seven month period ended April 30, 2013, the General Fund had \$2,010,294 in revenues and \$1,566,928 in expenditures for excess revenues of \$443,366. As shown on the projection to the end of the fiscal year on pages 31 - 34 of the financial report this excess is projected to decrease to \$145,702 by year end, leaving an estimated ending fund balance of \$2,856,052. Components of the fund balance at April 30, 2013 are as follows:

Restricted	
Roads and streets	\$1,567,006
Public safety	52,040
Infrastructure	56,247
Cemetery	43,452
	<u>1,718,745</u>
Assigned - capital improvements	1,257,209
Unassigned	177,762
	<u>\$3,153,716</u>

It is likely the projected decrease in fund balance to fiscal year end will primarily affect the unassigned category. The restricted fund balances have various use restrictions, primarily from sources outside of the City Council.

As a component of an overall fiscal recovery plan, it is important to increase the unassigned fund balance of the General Fund through a combination of revenue increases and expenditure reductions. The unassigned fund balance reserve may be utilized for any legal City expenditure.

COMMUNITY REDEVELOPMENT AGENCY

The financial activities of the City's Community Redevelopment Agency (CRA) are reported in the Tax Increment Financing District Fund, a separate special revenue fund. As shown on pages 5 and 6 of the financial report, for the seven months ended April 30, 2013, the following transactions and balances occurred in this fund:

Revenues	\$ 118,310
Expenditures	(178,018)
Excess expenditures	<u>(59,708)</u>
Beginning fund balance	184,312
Ending fund balance	<u>\$ 124,604</u>

The fund balance of this fund is restricted for eligible expenditures in the CRA area and cannot be utilized to fund other City services.

ENTERPRISE FUNDS

Enterprise funds are utilized to report financial transactions and balances of services where it is the intent of the governing body that the services be primarily paid for by user charges. The City currently maintains enterprise funds for its water, sewer, and communications (Greenlight) services. The following shows financial results for these funds for the seven months ended April 30, 2013

WATER FUND

As shown on page 9 of our report, the Water Fund showed a net loss of \$(140,015) for the seven months which included depreciation of \$128,214. This amounted to a cash increase of \$10,273 from operations. However, loans of \$1,298,421 were made to the Communications Fund from the Water Fund to cover negative cash balances in the Communications Fund. These loans were primarily a function of the City paying employees and vendors as required from its pooled cash account and the Communications Fund cash balance being negative. As of April 30, 2013, the Water Fund had loaned the Communications Fund a total of \$2,305,605 resulting in the Water Fund having no unrestricted cash reserves and also having utilized \$1,509,402 of its restricted bond proceeds for these loans. Due to the projected increased operating losses of the Communications Fund and the nature of the City's pooled cash accounts, these loans will increase during the remaining months of the current fiscal year.

SEWER FUND

As also shown on page 9 of the financial report, the Sewer Fund showed a net operating loss of \$(359,627) for the seven months ended April 30, 2013 which included depreciation and amortization of \$471,751. As shown on page 10, net cash generated from operations was \$41,198.

However, during this interim period the Sewer Fund loaned the Communications Fund \$1,908,515 to cover negative cash balances in the Communications Fund for a total of loaned funds of \$2,379,760 to the Communications Fund at April 30, 2013. Like the Water Fund, these advances fully utilized the unrestricted cash reserves of the Sewer Fund and also utilized \$1,021,416 in restricted bond proceeds held by the Sewer Fund. Due to the projected continuing operating losses in the Communications Fund and the operating nature of the City's pooled cash accounts, these loans will necessarily increase during the remainder of the fiscal year.

COMMUNICATIONS FUND

As shown on page 9 of our report, the Communications Fund had a net loss of \$(1,342,828) for the seven months ended April 30, 2013, of which only \$64,927 was depreciation. Excess cash utilized in operations and debt-related payments and reserves totaled \$3,230,908, all of which was paid for by advances from the Water and Sewer Funds as previously discussed. As shown on page 38 of our report, the net loss and resultant cash needs are projected to increase by approximately \$900,000 by fiscal year end, or \$180,000 per month.

As detailed on page 7 of our report, an overview of the assets and liabilities of this fund at April 30, 2013 is as follows:

Cash, unrestricted	\$ -
Cash, debt restricted	507,937
Inventory and receivables	503,717
Capital assets, net	7,811,407
Other assets	98,820
Total assets	<u>\$ 8,921,881</u>
Liabilities	
Accounts payable and accrued liabilities	\$ 321,362
Due to Water Fund	2,305,605
Due to Sewer Fund	2,379,760
Revenue bonds	5,101,125
Line of credit	1,650,000
Capital leases	1,093,989
	<u>12,851,841</u>
Net equity - deficit	<u>\$ (3,929,960)</u>

Due to the fact that operating deficits for this fund are projected to continue, there are no existing reserves or forthcoming loan proceeds to sustain this fund.

CONCLUSION

Statutory Financial Emergency

Section 218.503(1) *Florida Statutes* specifies conditions where a local government may be considered to be in a statutory "financial emergency." One of the listed conditions is the "failure within the same fiscal year in which due to pay short-term loans. . . when due, as a result of a lack of funds."

Section 218.503(2) *Florida Statutes* requires a local government to notify the Governor and Legislative Auditing Committee when such conditions have occurred or will occur if action is not taken to assist the local government.

The City presently has a line of credit loan with Regions Bank associated with the Communications Fund in the amount of \$1,650,000 with a due date of November 1, 2013. Due to the fact there are no unrestricted funds available to pay this loan, the City should consider itself in an impending financial emergency and take appropriate action. Such action should include developing a corrective financial plan for the City and notifying the above State agencies in a timely manner.

Please let me know if you need any additional information at this time.

Sincerely,

A handwritten signature in cursive script that reads "Richard C. Powell".

Richard C. Powell, CPA