

July 28, 2017

Topic: Critical Budget Oversight

Commissioners,

A critical oversight occurred during the construction of the 2016/2017 budget. The fund balance was incorrectly stated and by the time the error was discovered the budget was overspent by \$1.1 million (*Attached #1, Auditor explanation*).

I have placed a freeze on all but essential spending through this year and into the next, but that will not be enough to balance the 2017/2018 budget which as of mid-July was projected to fall \$156,000 short even with the 5% tax increase approved.

See the attached email from Rachel for a description of the actions pending my final approval and prior to presentation to you for your approval. Some of the cuts are harsh. Two full time employees may be laid off. All part-time employees. Cash and Knapp will take significant hits. Noah has volunteered his pay increase. Highly compensated staff will not receive any pay increases (*Attached #2, Knapp email*).

Some immediate actions that may lessen the impacts are also discussed in Rachel's email including the immediate sale of the Utility Drive property. Ideally, before September 30th. Also, the immediate release of \$100,000 from reserves to be used for current year purchases, if required (think tropical storm/hurricane). I would expect these funds to be returned to reserves in 2016/17.

As we move forward, the recommendations under consideration, if approved and completed by September 30th, should make many of the cuts described in attachment #2 unnecessary, particularly the layoffs (*Attached #3, Budget*).

If you wish, we can set a special meeting to discuss this, or you can respond to this email with your approval to release \$100,000 in reserves and sell the Utility Drive property. At the next meeting, you can retrospectively act on the approvals requested.

Of course, you may call me anytime (283-7721) or meet with me privately for further discussion.

Joseph Cash

AGENDA
EMERGENCY BUDGET MEETING

August 7, 2017

1. Meeting opens at 10:00 am.

2. Discussion regarding the error(s) that caused \$1.1 million in over budget expenditures in the 2016/17 budget. Attached are Audited Statements of Revenues, Expenditures and Changes in Fund Balances for the FY ending 2014, 2015 and 2016 provided by the Auditor.

3. Two balanced budgets will be submitted, one based on the sale of the Utility Drive property and the other based on the harsh cuts proposed earlier. Either budget can be amended during the meeting. I am confident that with our reserves, the funding available, and the cuts proposed, the district can accomplish our primary mission in 2017/18.

4. Actions for consideration.

a. Approve the sale of the Utility Drive property. If approved, this will likely need to be supplemented by reserves.

OTHER

b. Release sufficient reserves to carry the district into December if another revenue source (sale of Utility Drive) is not approved or does not materialize (City could decide in a change of direction, meaning it would take longer to find a buyer.).

c. Budgets are subject to manipulations as needs change over the fiscal year. Good planning and adequate funding of line items ought to minimize amendments. However, unanticipated expenditures do occur and these certainly can upset budget plans and may even create a financial situation that requires a focus on both revenue and spending. Hurricanes have done this, here, over the years, but using the creativity of staff, we have always come through and we will again.

I suggest adding to the monthly financial report a supplement that provides you with "real" dollars, actual cash movement. At least, add to the monthly financial report an accounting of monthly bank balances to include opening and closing

balances and, if you wish additional information, a reporting of revenue, deposits, transfers and expenditures.

East Flagler Mosquito Control District

Statement of Revenues, Expenditures and Changes in Fund Balance Governmental Fund - General Fund Year Ended September 30, 2015

| | |
|---|---------------------|
| Revenues: | |
| Property Taxes | \$ 1,463,346 |
| Interest Income | 7,826 |
| Gain on Disposition of Assets | 402 |
| Other | 9,009 |
| Total Revenues | <u>1,480,583</u> |
| Expenditures: | |
| Personal Services | 582,897 |
| Personal Service Benefits | 198,130 |
| Operating Expenses | 91,718 |
| Insurance | 97,529 |
| Travel/Utilities/Services | 53,895 |
| Maintenance and Repairs | 40,318 |
| Materials and Supplies | 56,317 |
| Gasoline, Oil and Lubricants | 24,240 |
| Chemicals | 255,357 |
| Capital Outlay | 260,238 |
| Total Expenditures | <u>1,660,639</u> |
| Excess of Revenues Over Expenditures - Net Change in Fund Balance | (180,056) |
| Fund Balance Beginning of Year | <u>3,071,414</u> |
| Fund Balance End of Year | <u>\$ 2,891,358</u> |

See accompanying notes to financial statements.

#2

Subject: FW: budget w/sale of utility dr
From: "Rachel" <rachelefmcd@bellsouth.net>
Date: 7/26/2017 3:10 PM
To: <joecash@bellsouth.net>

Based on the most recent bill (a more normal bill) from the airport for the water/sewer at the new location, I was able to drastically reduce the cost estimate for the new year for this item. We will have another \$7,800 to work with.

From: Rachel [mailto:rachelefmcd@bellsouth.net]
Sent: Wednesday, July 26, 2017 2:17 PM
To: Joe Cash <joecash@bellsouth.net>
Subject: budget w/sale of utility dr

This attachment has \$300,000 included as revenue for the sale of Utility Dr. It reflects revenues over expenditures of \$335,022.68. If you would like to have at least \$100,000 in contingency, we have \$260,022.68 to work with as far as putting items back in the budget.

All the combined changes that have been made to the budget:

1. J Fisch, Hall, Sabatini, Vega, Nyugen & Chris Cope – out
2. Cash, Card, Positano, Knapp – no increase
3. Bill – at \$60k – no additional % increase
4. All other employees not in 1, 2, or 3 above – reduced to 3% COLA increase
5. Cash – no health insurance
6. Knapp – no dependent health insurance
7. Tank pollution policy at utility dr – out (insurance company confirmed not needed if tanks are closed down & we aren't using)
8. Legal – no \$6,000 increase
9. Travel – cut by 50%
10. Storage Unit – out
11. Old Airport Lease – out
12. Pilot Training – out
13. FMCA meetings – out
14. Interest Earnings cut 50%
15. Misc Revenue cut by \$2,000
16. Health insurance estimate increased \$250/person

Thank you,

Rachel

*Rachel B. Knapp
East Flagler Mosquito Control District
210 Airport Executive Drive*

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**Lombardo
Spradley Klein**
Certified Public Accountants

Memo RE: East Flagler Mosquito Control District
Budget 2016-2017

It has recently come to the staffs' attention that there was an error in the preparation of the budget for the year ending September 30, 2016. Joe Cash, the district's executive director, has requested that I provide a brief explanation of the situation.

When the 2016-2017 budget was drafted the actual fund balance for the year ended September 30, 2015 was used as the amount of fund balance to be carried forward into the 2016-2017 budget year. The amount that should have been used was the projected fund balance as of September 30, 2016. The budget process occurs in June and July several months before the end of the fiscal year so this amount has to be projected usually based on the budgeted amounts for the fiscal year prior to the one being budgeted, in this situation September 30, 2016, as adjusted for any unusual activity known at the time of the budget process.

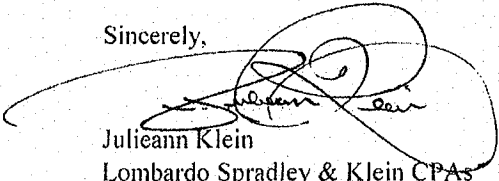
Prior to the construction of the new facility the District's budget and actual amounts have been fairly even so the prior year's fund balance was always close to the carryforward fund balance. When the District began construction of the new facility and began to use the funds available from prior years there was a dramatic drop in the carryforward fund balance which was not properly reflected in the 2016-2017 budget.

Since the District has not utilized funds from prior years in a very long time the staff preparing and reviewing the budget did not realize the error until after the audit was completed.

The staff is currently working on the budget for the year ending September 30, 2018 and is making the necessary modifications.

If you have any additional questions please feel free to contact me.

Sincerely,



Julieann Klein
Lombardo Spradley & Klein CPAs

July 25, 2017