

FOCUS ON **WHAT COUNTS**

TOWN OF COVENTRY INITIAL PROJECT UPDATE

May 14, 2018—Presented to the Town Council



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Agenda

- ❖ Status of the Project
- ❖ Update Regarding Auditor General
 - ❖ Cash Flow Concerns and Immediate Needs
- ❖ Overall Enterprise Accounting History
- ❖ Overview of Construction Costs to Assessments
- ❖ Overview of User Rates to Operating Expenses
- ❖ Next Steps

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PROJECT STATUS



Timeline and Status

❖ Timeline

- ❖ Council Presentation January 8, 2018
- ❖ Engagement Letter Signed January 31, 2018
- ❖ Initial Conversations and Request—week of 2/5
- ❖ Initial Meeting 2/21
- ❖ Information Received Mid March
- ❖ Scope change
- ❖ Departure of Town Manager
- ❖ Departure of Finance Director

❖ Information Reviewed

❖ Information Not Received

❖ Analysis Conducted

❖ Meetings Held

❖ Remaining Items

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Developments During Review and Scope Change



Auditor General Meeting

- ❖ Beginning of April—Informed of Auditor General’s Request
- ❖ April 19, 2018
 - ❖ Meeting with the Auditor General
 - ❖ Citrin Cooperman’s conversation with Ed and Nick
- ❖ April 27, 2018
 - ❖ Coordinated meeting with Auditor General re: collections and assessments
- ❖ Result—short term cash flow analysis of the system

Short-Term Enterprise Fund Potential Cash Flows—Scenario 1

MINIMUM ASSESSMENTS						
		FY 2019		FY2020		FY2021
Sewer Assessments		900,000		900,000		900,000
Sewer Use Fees		1,400,000		1,500,000		1,600,000
Operating Expenses		1,750,000		1,800,000		1,850,000
Debt Service Requirements		2,000,000		2,000,000		2,000,000
CASH SHORTFALL		(1,450,000)		(1,400,000)		(1,350,000)

*Preliminary Draft Subject to Revision

Short-Term Enterprise Fund Potential Cash Flows—Scenario 2

POTENTIAL CASH FLOW AVERAGE ASSESSMENTS COLLECTED OVER PAST 10 YEARS						
		FY 2019		FY2020		FY2021
Sewer Assessments		1,600,000		1,600,000		1,600,000
Sewer Use Fees		1,400,000		1,500,000		1,600,000
Operating Expenses		1,750,000		1,800,000		1,850,000
Debt Service Requirements		2,000,000		2,000,000		2,000,000
CASH SHORTFALL		(750,000)		(700,000)		(650,000)

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Short-Term Enterprise Fund Cash Flows—Debt Options

DEBT ADJUSTMENT OPTIONS					
		FY 2019		FY2020	FY2021
WW Debt in Operating Expenses		682,000		680,000	678,000
Refinance of \$8,225,000 Bond*		460,000		460,000	460,000
Potential Debt Movements		1,142,000		1,140,000	1,138,000
General Fund Payments		682,000		680,000	678,000
Operations Cash Flow		332,000		380,000	428,000

*Replacement Conduit Bond \$6,505,000~payments year 4-11 Additional \$680K

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OVERALL ENTERPRISE FUND ACCOUNTING HISTORY



Method of Accounting

- ❖ Inception to 2003—Sewer Tax Fund and Capital Projects Fund
- ❖ 2004 to Present—Enterprise Fund
- ❖ Prior to 2003—intermingling between general fund and sewer tax fund/capital projects fund
 - ❖ Records destroyed in sewer backup
 - ❖ Checkbook and old recordkeeping system
- ❖ Adjustment to Enterprise fund in 2005

Open Items Related to Accounting Methods

- ❖ Grant funding receipts to GF or Enterprise Fund
- ❖ No allocation of other costs incurred to Enterprise Fund operations
- ❖ Assessments by year discrepancy to assessment revenue overall
- ❖ Journal entries to book revenues from GF to Enterprise fund all at end of year—Internal control weaknesses
- ❖ Prior period adjustments to fund statements 5 different times
 - ❖ 2012 abatement on user fees for appx. \$800K
 - ❖ 2013 improperly expensed costs of appx. \$150K

Other Issues/Items of Note

- ❖ Incomplete information to make proper sewer rate determinations for user fees and cost recovery
- ❖ Prior to contract #8, no allocation of total construction costs to assessments, contract #8 still has reduction for pump credit
- ❖ Difficult due to accounting methods to ascertain total assessment to total construction costs

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Construction Costs to Assessments



Overall Project Assessments vs. Construction Costs 2004-Present

Total Construction Costs*				(32,100,000)
Total Assessments Issued				22,200,000
Less Abatements				(2,000,000)
Grant and Other Funding				<u>9,600,000</u>
Overall Shortfall				\$ (2,300,000)

*Preliminary Draft Subject to Revision

*Information Derived From Audited Financial Statements

Project Funding

Total Debt Taken Out on Project	25,300,000	*included TAN
Less Repayments on Debt	(5,800,000)	
Total Remaining Debt*	19,500,000	
Assessments on Project	20,200,000	
Remaining Assessment Receivables*	9,100,000	
Shortfall on Debt to Receivables	(10,400,000)	

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*Information Derived From Audited Financial Statements

Concerns With Evaluation Based on Accounting

- ❖ Tracking funds movement through general fund
- ❖ Booking of total assessment receivables
- ❖ Interfund transfers
- ❖ Amgen and Other Grant Funding
- ❖ Verification of total construction costs

Other Accounting Considerations

- ❖ West Warwick Debt Obligation
- ❖ Credit Risk on user fees and payments to West Warwick
- ❖ RIIB Debt--\$2.4M Undrawn and Available

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User Fee Considerations



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User Fee Considerations

- Fees are not adequate to cover costs of the system
- No allocation of indirect costs has been made
- Number of users on the system
- Abatements
 - Amgen Settlement Agreement .34/100g
 - Restatement of previous financials
- Rate studies conducted by Woodcock
- Participation in Regional Treatment Plant Budget

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Other Considerations and Next Steps



Other Considerations

- Commerce Park—central billing possible \$800K not collectable? Cambio issues. Money has been sent to West Warwick
- Concessions related to economic development
- Sustainability of the program
- Additional verification of financial records
- Sewer Rate Analysis—Where is this?
- Cedar Ridge West Greenwich line—Coventry to charge WG?

West Warwick Considerations

- IMA provisions
- Usage of Plant Capacity
- Enactment of audit provisions on IMA and regional treatment plant budget
 - Reserves built in to Coventry charges—are these used for Coventry projects?
- Upon taking over WW billing, Coventry had to pay WW for any charges (appx. \$250K) that previous rate payers did not pay to WW. Was this collected?
- WW bills on abandoned property—how does Coventry collect on this?

Next Steps

- Continue review of minutes for issues listed above for considerations
- Propose options related to IMA provisions and assessment/use charge considerations
- Continue to work with auditor general on these items
- Verification of financial information
- Delivery of report

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Q&A



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