

Town of Fort Myers Beach



Memo

To: Terry Stewart, Town Manager
Through: Cathie Lewis, Public Works Director
From: Evelyn Wicks, Director of Finance
Date: March 5, 2010
Re: Water Utility

A handwritten signature in black ink, appearing to read 'Evelyn Wicks', is written over the 'From' and 'Date' lines of the memo header.

Attached please find the Financial Statements for the water utility for the fiscal year ending 9/30/08. The corporation's year begins October 1st and ends September 30th. The audit for the year ending 9/30/09 is underway and I anticipate that it will be presented to the Board of Directors in late April or May.

As you are aware, the rate increase went into effect in early 2010. The 9/30/09 financial statements will show that the utility remains out of compliance with the covenants of the note with SunTrust. Adoption and implementation of the revised rate study is designed to eliminate the covenant violation in future years.

Please let me know if I can provide any additional information.

**TOWN OF FORT MYERS BEACH
PUBLIC WORKS SERVICES, INC.
(A Component Unit of the Town of Fort Myers Beach, Florida)**

COMPONENT UNIT FINANCIAL REPORT

**AS OF AND FOR THE YEARS ENDED
SEPTEMBER 30, 2008 AND 2007**



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INDEPENDENT AUDITORS' REPORT

Board of Directors
Town of Fort Myers Beach Public Works Services, Inc.
Fort Myers Beach, Florida

We have audited the basic financial statements of the Town of Fort Myers Beach Public Works Services, Inc. (the "Company"), a component unit of the Town of Fort Myers Beach, Florida, as of and for the years ended September 30, 2008 and 2007, as listed in the table of contents. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit as of and for the year ended September 30, 2007 in accordance with auditing standards generally accepted in the United States of America. We conducted our audit as of and for the year ended September 30, 2008 in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of September 30, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 19, 2009, on our consideration of the Company's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

The Management's Discussion and Analysis (MD&A) section of the Town of Fort Myers Beach's Public Works Services, Inc. (the "Company") Basic Financial Statements presents a narrative overview and analysis of the financial activities of the Company for the fiscal year ended September 30, 2008. We encourage readers to consider the information presented here in conjunction with additional information provided.

Since the Management's Discussion and Analysis is designed to focus on the current year's activities, resulting changes, and current known facts, please read it in conjunction with the Company's financial statements.

FINANCIAL HIGHLIGHTS

- At September 30, 2008, the assets of the Company exceeded its liabilities by \$1,880,850 (net assets). As of September 30, 2008, \$2,220,235 of unrestricted net assets may be used to meet the Company's ongoing obligations.
- The Company's total net assets increased by \$35,470.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Company's basic financial statements. These statements consist of a series of financial statements.

Financial Statements

The Statement of Net Assets (page 8) provides information about the activities of the Company as a whole. The Statement of Net Assets' purpose is to be used as an indicator of the improvement of the financial position of the Town. Net assets are the difference between the Company's assets and liabilities.

The Statement of Activities presents information showing how the Company's net assets changed during the 2008 fiscal year. The statement reflects the expenses of the function, which is offset by operating revenues. Operating revenues are defined as revenues from the sale of water, connecting new customers to the system and miscellaneous other revenue.

Company Financial Statements

The Company uses enterprise fund accounting to report its activities. Enterprise funds are used to account for operations (1) that are financed and operated in a manner similar to private business enterprises where the intent of the governmental body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (2) where it is decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

A fund is a grouping of related accounts that is used to maintain financial control over resources that have been segregated for specific activities or objectives. The Company, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

Summary of Changes in Net Assets

The following table compares revenues and expenses for the years ended September 30,

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Revenues			
Operating revenues			
Utility revenue	\$ 2,344,561	\$ 2,253,146	\$ 2,235,730
Non-operating revenue			
Interest income	83,875	157,246	125,735
Total revenues	<u>2,428,436</u>	<u>2,410,392</u>	<u>2,361,465</u>
Expenses			
Operating expenses			
All operating expense	2,262,903	2,116,243	1,955,645
Non-operating expense			
Interest expense	132,989	96,472	95,505
Other expense	-	-	463
Total expenses	<u>2,395,892</u>	<u>2,212,715</u>	<u>2,051,613</u>
Income before capital contributions	32,544	197,677	309,852
Capital contributions	<u>2,926</u>	<u>30,137</u>	<u>149,649</u>
Increase in net assets	35,470	227,814	459,501
Net assets - beginning of year	<u>1,845,380</u>	<u>1,617,566</u>	<u>1,158,065</u>
Net assets - end of year	<u>\$ 1,880,850</u>	<u>\$ 1,845,380</u>	<u>\$ 1,617,566</u>

- Total revenue increased by \$18,044 or 0.007% from 2007 to 2008 due primarily to an increase in water billing fees effective February 1, 2008; Total revenue increased by \$48,927 or 2.0% from 2006 to 2007 due primarily to an increase in interest income of \$31,511 or 20%.
- Operating expenses increased by \$146,660 or 6.90% from 2007 to 2008 due primarily to an increase in the cost of water purchased from Lee County; Operating expenses increased by \$160,599 or 8.2% from 2006 to 2007.
- Interest expense increase by \$36,517 from 2007 to 2008 due primarily to the increase in the interest rate paid on long term debt from 2007 to 2008 from 2.75% to 4.47% due to the refinancing of long term debt in August of 2008; Interest expense increased by \$967 from 2006 to 2007.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

ECONOMIC FACTORS AND NEXT FISCAL YEAR'S BUDGET

The Town of Fort Myers Beach Public Works Services, Inc. water company is facing serious financial difficulties in the very near future. As we move forward it will be important to examine all opportunities available to address the costs associated with capital replacement and normal operations. We can expect to face increases to the user rates we charge to our customers in order to become a healthy company from an operations standpoint, and these increases will be significant.

As we move into the next few years we will have to take responsibility for major system renovations. The February 2008 Evaluation of Existing Water Distribution System prepared by Boyle Engineering Corporation identified nearly \$6,600,000 of needed improvements to the system. Although these improvements can and will be spread out over a number of years, the Company will need to borrow a significant amount of money spread out over a 20 year period.

In August of 2010, assuming SunTrust does not demand earlier payment, the Company will face repayment of approximately \$2,520,000 in current debt. We are currently out of compliance with the terms of that loan due to a number of economic situations in both revenue and expenses. In order to gain compliance it will be necessary to increase revenues in the coming months.

The rate study currently underway should be delivered to us by mid June. Although not yet complete I believe that we will see a recommendation to increase rates to both cover operations and repairs, but to also build capital reserves. We will also look into an increase in the base rate (flat charge) as a way of increasing operating revenues in the short term and eventually build a revenue stream to pay off long term debt.

Requests for Information

This financial report is designed to provide a general overview of the Town of Fort Myers Beach Public Works Services, Inc. finances. Questions concerning any information provided in this report or requests for additional financial information should be addressed to:

Town of Fort Myers Beach Public Works Services, Inc.
Director of Finance
2523 Estero Boulevard
Fort Myers Beach, Florida 33931

**TOWN OF FORT MYERS BEACH PUBLIC WORKS SERVICES, INC.
STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED SEPTEMBER 30, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
OPERATING REVENUE		
Water utility revenue	<u>\$ 2,344,561</u>	<u>\$ 2,253,146</u>
OPERATING EXPENSES		
Bulk water	1,157,633	1,024,338
Depreciation expense	222,737	206,521
Management fees	381,776	366,199
Repairs and maintenance	290,244	369,026
Insurance	66,270	52,447
Administrative expense	45,323	-
Power	30,790	29,770
Professional services	35,200	48,223
Miscellaneous expenses	14,114	4,438
Office expenses	18,816	15,281
Total operating expenses	<u>2,262,903</u>	<u>2,116,243</u>
Operating income	<u>81,658</u>	<u>136,903</u>
NON-OPERATING REVENUE (EXPENSE)		
Interest income	83,875	157,246
Interest expense	(132,989)	(96,472)
Total non-operating expenses	<u>(49,114)</u>	<u>60,774</u>
Income before capital contributions	32,544	197,677
Capital contributions - connection fees	<u>2,926</u>	<u>30,137</u>
Change in net assets	35,470	227,814
TOTAL NET ASSETS, beginning of year	<u>1,845,380</u>	<u>1,617,566</u>
TOTAL NET ASSETS, end of year	<u><u>\$ 1,880,850</u></u>	<u><u>\$ 1,845,380</u></u>

See accompanying Notes to Financial Statements.

TOWN OF FORT MYERS BEACH PUBLIC WORKS SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008 AND 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Town of Fort Myers Beach (the "Town") is a municipality in the State of Florida. It is governed by an elected Town Council, which is governed by State statutes and regulations. The Town Council established the Town of Fort Myers Beach Public Works Services, Inc. (the "Company") to provide potable water to the incorporated area of the Town. The Company was incorporated on April 16, 2001, as a not-for-profit organization under the provisions of Internal Revenue Code Section 501(c)(2). The Company is legally separate from the Town, but the Council acts as its governing Board of Directors. Therefore, the Company is considered a component unit of the Town. The Company is reported as a blended component unit within the Town's primary government financial statements.

Basis of Presentation

The Company is considered a governmental entity and accounts for its activities using the "governmental model" in accordance with Governmental Accounting Standards Board (GASB) Statement Number 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*.

Fund accounting

The Company uses enterprise fund accounting to report its activities. Enterprise funds are used to account for operations (1) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (2) where it is decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Measurement focus

The Company is accounted for on an "economic resources" measurement focus. Accordingly, all assets and liabilities are included on the statement of net assets, and the reported net assets (total reported assets less total reported liabilities) provides an indication of the economic net worth of the Company. The operating statement reports increases (revenues) and decreases (expenses) in total economic net worth.

Basis of accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The Company is accounted for by using the accrual basis of accounting. Under this method, revenues are recognized when they are earned; expenses are recognized when they are incurred. Pursuant to GASB Statement Number 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," the Company has elected not to apply accounting standards issued after November 30, 1989, by the Financial Accounting Standards Board.

TOWN OF FORT MYERS BEACH PUBLIC WORKS SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008 AND 2007

NOTE 2 CASH

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Company's deposits may not be returned to it. In accordance with its policy, all Company depositories are banks designated by the Florida Chief Financial Officer as qualified public depositories. Chapter 280 of the Florida Statutes "Florida Security for Public Deposits Act" provides procedures for public depositories to ensure public monies in banks and saving and loans are collateralized with the Florida Chief Financial Officer as agent for the public entities. Chapter 280 defines deposits as demand deposit accounts, time deposit accounts, and nonnegotiable certificates of deposit.

Financial institutions qualifying as public depositories shall deposit with the Florida Chief Financial Officer eligible collateral at the pledging level required pursuant to Chapter 280. The Florida Security for Public Deposits Act has a procedure for the payment of losses in the event of a default or insolvency. When public deposits are made in accordance with Chapter 280, no public depositor shall be liable for any loss thereof, and therefore, the Company is not exposed to custodial credit risk for its deposits.

NOTE 3 ACCOUNTS RECEIVABLE

At September 30, 2008 and 2007, accounts receivable consisted of the following:

	Gross accounts receivable	Less allowance for doubtful accounts	Net accounts receivable
2008:			
Water	\$ 192,758	\$ 10,502	\$ 182,256
Sewer	247,729	13,498	234,231
Total	<u>\$ 440,487</u>	<u>\$ 24,000</u>	<u>\$ 416,487</u>
2007:			
Water	\$ 171,685	\$ 8,506	\$ 163,179
Sewer	196,250	15,494	180,756
Total	<u>\$ 367,935</u>	<u>\$ 24,000</u>	<u>\$ 343,935</u>

TOWN OF FORT MYERS BEACH PUBLIC WORKS SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008 AND 2007

NOTE 6 LONG-TERM OBLIGATIONS

Note payable at September 30, 2008 and 2007, consisted of the following:

	<u>2008</u>	<u>2007</u>
<p>Note payable to a financial institution, bearing interest at 4.47 percent, collateralized by a lien on and a pledge of the net revenues of the Town of Fort Myers Beach Public Works Services, Inc. Additionally, the Town of Fort Myers Beach, Florida has, by way of resolution, pledged of its non-Ad-Valorem revenues for payment of principal and interest on this debt in the event Public Works revenue cannot make those payments. The Note was renewed in August 2007 and due to loan covenant defaults is currently due on demand.</p>	<u>\$ 2,700,000</u>	<u>\$ 2,880,000</u>

Changes in Long - Term Obligations

The changes in long-term obligations for the years ended September 30, 2008 and 2007, were as follows:

	October 1, 2007	Additions	Retirements	September 30, 2008	Amounts Due Within One Year
Note payable	<u>\$ 2,880,000</u>	<u>\$ -</u>	<u>\$ (180,000)</u>	<u>\$ 2,700,000</u>	<u>\$ 2,700,000</u>
	October 1, 2006	Additions	Retirements	September 30, 2007	Amounts Due Within One Year
Note payable	<u>\$ 3,060,000</u>	<u>\$ -</u>	<u>\$ (180,000)</u>	<u>\$ 2,880,000</u>	<u>\$ 180,000</u>

Loan Agreement

The loan agreement contains various covenants, including such items as debt service coverage, reporting requirements, and maintenance of facilities. For the year ended September 30, 2008 the Company was in violation of the debt service coverage covenant, and the covenant requiring the Company's audited financial statements be submitted to the lender no later than 180 days subsequent to year end. Pursuant to the "Rights of Default" detailed in the Company's debt agreement with the lender, the lender reserves the right to call principal and interest outstanding on the note as being immediately due and payable. As of the date of issuance of these financial statements, the lender had not exercised its' rights of default under the debt agreement. However, the lender has not issued a waiver of those rights in connection with these covenant violations. As a result of these covenant violations, the associated note has been presented a current liability on the Statement of Net Assets as of September 30, 2008.



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors
Town of Fort Myers Beach Public Works Services, Inc.
Fort Myers Beach, Florida

We have audited the basic financial statements of the Town of Fort Myers Beach Public Works Services, Inc. (the "Company"), a component unit of the Town of Fort Myers Beach, Florida, as of and for the year ended September 30, 2008, and have issued our report thereon dated May 19, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Company's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Company's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Company's financial statements that is more than inconsequential will not be prevented or detected by the Company's internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

2008-3

Criteria

The information and communication components of internal control include timely reporting and accurate financial information.

Condition

Complete and accurate monthly financial information is not being prepared and presented to the Board of Directors in a timely manner.

Effect

Lack of timely review of complete financial information by the Board may impair the Board's ability to provide accurate and timely oversight to the accounting and reporting function of the Company.

Recommendation

We recommend the Board meet more regularly and that complete and accurate financial information be prepared and distributed at each Board meeting.

2008-4

Criteria

Management should constantly be aware of the need to have adequate segregation of duties regarding the processing of transactions for the Company. In addition, management should be aware that the concentration of duties and responsibilities in one or a very few individuals is not desirable from an internal control perspective.

Condition

The Company does not have adequate segregation of the accounting functions or adequate management oversight surrounding billings and cash collections, which is necessary to ensure adequate internal controls.

Cause

The office manager of Woodard & Curran is responsible for all aspects of Company billing and collections. There is no supervisory review performed by other members of management of Woodard & Curran or the Town of Fort Myers Beach.

Effect

The design of the internal controls over financial reporting could affect the ability of the Company to record, process, summarize and report financial data consistently with the assertions of management in the financial statements. In addition, this lack of segregation of duties may result in the Company's inability to prevent/detect material misappropriation of Company assets.

Recommendation

We recommend Company management be aware of the lack of segregation of duties and lack of management oversight within the accounting functions and assess the need to establish additional controls over the billings and collections process. If additional segregation is not feasible, we recommend Company management implement oversight procedures to ensure the internal control policies and procedures are being followed by Company staff.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.



Town of Fort Myers Beach

To: W. Scott Janke, Town Manager
Martin Redovan, LarsonAllen, LLP

From: Evelyn Wicks, Director of Finance

Date: June 1, 2009

Re: Management letter for year ending 9/30/08–Public Works Services, Inc.

Current Year Comments

2008-1 Internal Controls

Management is responsible for establishing and maintaining internal controls, including monitoring, and for the fair presentation of the financial statements in accordance with applicable accounting and reporting standards. As part of the audit, the Company requested that LarsonAllen LLP prepare a draft of the financial statements, including the related notes to the financial statements.

Management's Response

The Town has a very limited accounting staff; some items that would normally be developed by the staff are often delegated to outside firms. This situation will remain the same for FY 2009 because the utility does not have sufficient resources to hire additional accounting professionals. The management of the utility understands the issue and realizes that a cost / benefit analysis may be helpful for future years.

2008-02 Internal Controls

Management is responsible for establishing and maintaining internal controls for the proper recording of all the Company's receipts and disbursements, including year-end accruals and all capital asset activity. As part of the audit, the Company requested that LarsonAllen LLP propose audit adjustments to revise the Company's books at year-end. These adjustments involved the recording of accruals, reclassifications of revenues and disbursements to the proper accounts and some capitalization of capital assets.

Management's Response

The Town has a very limited accounting staff; some items that would normally be developed by the staff are often delegated to outside firms. This situation will remain the same for FY 2009 because the utility does not have sufficient resources to hire additional accounting professionals. The management of the utility understands the issue and realizes that a cost / benefit analysis may be helpful for future years.