

CITY OF HALLANDALE BEACH, FLORIDA
MEMORANDUM
CM18 - 194

DATE: June 13, 2018

TO: Honorable Mayor and City Commission

FROM: Roger M. Carlton, City Manager

SUBJECT: Presenting the City of Hallandale Beach Comprehensive Annual Financial Report (CAFR) and Compliance Report for Fiscal Year ended September 30, 2017

Background:

To assure continue financial services and the completion of the Fiscal Year 16/17 CAFR by the Finance Department, the City Commission declared a unique circumstance pursuant to Section 23-8(5) of the City of Hallandale Beach Code of Ordinances and authorized the City Manager to negotiate and obtain accounting and finance services for the City.

Pursuant to Florida Statute 218.39, a local governmental entity shall have an annual financial audit of its accounts and records completed by an independent certified public accountant (CPA) firm no later than June 30th of each year for the previous fiscal year. The City engaged the CPA firm of Mauldin & Jenkins, LLC (M&J) to perform its audit for the Fiscal Year ended September 30, 2017. The independent auditors, have issued an unmodified opinion (“clean opinion”) on the City of Hallandale Beach’s financial statements for the year ended September 30, 2017.

As indicated in the Transmittal Letter (page i-vii), the City has full responsibility for the accuracy of the data and the completeness and fairness of the presentation including disclosures. M&J relies on information provided by the City and the Hallandale Beach Community Redevelopment Agency (HBCRA) in their issuance of a clean opinion. The Management’s Discussion and Analysis (MD&A) section is part of the required supplementary information and is intended to serve as an introduction to the City’s basic financial statements. It is unaudited information provided by the City. The MD&A provides the readers with the City’s financial highlights and a narrative overview and analysis of the

financial activities of the City. To facilitate and assist in cross referencing the information within the MD&A, we have listed the pages where this information is provided in the CAFR.

Management's Discussion and Analysis – Pages 4 - 20

There are tables and graphs included in this section to facilitate cross referencing. Additionally, and to the reader's convenience, it lists the page where this information is found in the CAFR.

Financial Highlights:

- Total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources by \$86.1 million (net position) at September 30, 2017. The City's overall net position of \$86.1 decreased by \$20.9 million; however, this includes a prior period adjustment related to the implementation of GASB 73 to record the excess benefit plan's total pension liability which reduced the beginning net position by \$13.7 million.
- The City's total net position decreased \$7.2 million over the course of this year's operations. Net position of governmental activities decreased \$5.3 million and the net position of business-type activities decreased \$1.8 million.
- The City's governmental funds reported combined fund balances of \$102.3 million, a decrease of \$9.7 million due to capital expenditures paid for with bond proceeds received in prior years.
- At the end of the current fiscal year, the general fund reported a fund balance of \$23.1 million. Of this amount, the unassigned fund balance was \$12.0 million, or 20.1% of total general fund expenditures. This percentage is higher than the 16.6% established by the City Commission as the minimum acceptable level.

Basic Financial Statements – Pages 21 - 34

The basic financial statements are comprised of the following components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. These pages include the actual audited information provided by M&J and are presented in accordance with GASB. The highlights of the section include:

- The Statement of Net Position (Page 21) reflects a positive balance in the

City/HBCRA combined balance sheet of \$86,099,972

- The statement on page 22 shows the activities of the City/HBCRA and the sources (revenues) that are used to fund them.
- The statement on page 25 provides detail on the Governmental operations at the fund level and the statement on page 29 provides the detail on the Proprietary Fund operations.
- The statements on page 33-34 provide detail on the fiduciary funds and are used to account for resources held for the benefit of parties outside the City, including the pension funds. It should be noted on page 34 that the total additions to the pension funds were \$37,679,752 while the expenses were \$14,314,926. The increase is due in large part to the fair value of investments and investment earnings.

Notes to Financial Statements – Pages 35-76

The notes and the detail provided are very helpful to understanding the complex statements in the previous section of the CAFR. Key highlights of the notes include:

- The City's blended component units are explained on page 35. They are the Golden Isles Safe Neighborhood District, Three Islands Safe Neighborhood District, and the Hallandale Beach Community Redevelopment Agency. These entities are included in the City's financial statements.
- Page 37 list the major government funds and the major proprietary funds
- Page 39 provides an explanation of the City's capital assets and its useful lives. For example, vehicles and equipment – 5 years; water plant components – 10 years; etc. This page also includes "Assets Held for Resale" by the HBCRA. Since these properties are acquired with the express intent of resale and/or development, they are reported at the lower of cost/donated value or net realizable value.
- The City's accounting policies related to pension plans are explained in Note Q (page 41) the Self Insurance funds for liability and workers compensation in Note S on Page 41.
- The City's cash position (both restricted and unrestricted) is enumerated in Note 3 on Page 43. As per established City budgetary policy, the City is to maintain minimum reservation level of unassigned fund balance of 16.6% or two months of regular

General Fund operating expenditures. Accordingly, only a small portion of these funds are available for use for unforeseen emergencies or budget amendments if the drawdown over the entire fiscal year is considered.

- Page 44 lists the authorized investments as per the City's investment policy and discusses the concentration of credit risk. In addition to describing the allowable type of securities, it also limits the overall investment in any one issuer to protect those funds.
- Capital asset activity is explained in Note 6 on page 53-54. This information is useful since it shows how the City is investing in the community by funding long term projects to keep infrastructure up to date and to provide needed projects for a growing population with changing demographics.
- Page 55 lists the interfund activities. These are the activities that take place between and among governmental, proprietary, and fiduciary funds, as well as blended component units (e.g. HBCRA), such as transfers and their associated due to's and due from's. This has been an area of concern in the past and there are no findings related to this.
- The City/HBCRA's long term debt obligations are explained in Note 9 on page 57-59. The governmental activities debt of the City/HBCRA as of September 30, 2017 was \$99,876,802. This total includes the Series 007A (\$1,160,000), Series 2016 (\$21,720,000), HBCRA revenue bonds (\$12,945,000), G.O. Bonds (\$56,490,000), and unamortized bond premium (\$7,561,802). The business-type (proprietary funds) debt totaled was \$5,995,003. This includes the Series 2014 (\$4,410,000) and Series 2012 (\$1,585,002). Interest rates ranging from as low as 1.31 percent to as high as 5 percent with maturities ranging from short term to as long as 2041 for the voter approved Parks 10 General Obligation Bonds. The current calculated general obligation debt limit of the City is \$511,534,977 (10% of total assessed valuation of the taxable property). The City's general obligation debt for the fiscal year ended September 30, 2017, was \$105,871,804 (\$99,876,802 plus \$5,995,003).
- On page 59 there is a chart showing the revenues pledged for the current outstanding debt. It highlights the revenue received during the fiscal year, the associated debt service payment for that same debt and the percentage of debt service to revenue.

This last factor is known as “average” and it is important to demonstrate the City’s compliance with lender requirements.

- The City/HBCRA pension plans are explained in Note 10 on page 59-70. The City’s General Employee Retirement plan has a total of 319 members of which 150 are retirees and receiving benefits, 73 are entitled but not yet receiving benefits and 96 are still working. The Police Officers and Firefighters Retirement plan has a total of 341 members of which 183 are receiving benefits, 8 are entitled but not yet receiving benefits and 150 are active. It is important to understand that the ratio of young workers to retired or qualified for benefits workers is very low. That is a major reason why the City’s pension costs are high.

The chart at the bottom of page 65 defines the “Total Net Pension Liability” for all three pension plans as \$84,956,833. The Professional Management Plan is the best funded at 81.4% of full funding. The Police Officers and Fire Fighters Pension Plan is funded at 67.94% of full funding and the General Employees Retirement Plan is funded at 79.35% of full funding. The table on page 68 presents a sensitivity analysis of how the pension liability would change based on a 1% increase or decrease in the discount rate. The discount rate is the assumed rate of investment return on pension plan assets and it reflects that potential changes have a significant impact on the pension liability.

- Other Post-Employment Benefits (OPEB) is under Note 12 on page 72-74 reflects a liability of \$7,790,277 for retiree health benefits. The City/HBCRA does not make contributions to this since the retirees pay the full cost of their health benefits at the same rates as current City employees as required by Florida Statutes.
- Note 16 on page 76 list separately the HBCRA operations. It shows a summary of the sources and amounts of deposits and the purpose of the withdrawals. Revenues to the HBCRA exceed expenses by \$2,105,321. In future years, the goal will be that HBCRA revenue and expenses are more closely in alignment by the end of the fiscal year.

Required Supplementary Information – Pages 77-89

This section provides information relative to budget to actual results for FY 16/17. The key chart for the General Fund is on page 77 which reflects that the final adopted budget for FY 16/17 overstated General Fund revenues by \$2,065,958 and understated expenses by \$3,828,738 for a net positive difference from budget of \$1,762,780.

Combining and Individual Fund Financial Statements and Schedules – Pages 90-105

Non-Major Governmental Funds – Page 90 - 101

There are several small funds included (“non-major”). The Police Outside Services Fund on page 93 shows a negative fund balance at the end of FY 16/17 (\$46,608). However, it is substantially improved compared to the previous fiscal year (\$80,007). The two security districts appear on Page 96 and 97 and both continue to show strong balances at the end of FY 16/17.

Non-Major Proprietary Funds – Page 102-105

This includes the Cemetery and Marina Funds. No significant information to report. It should be noted that the Marina fund was incorporated into the General Fund for FY 17/18.

Fiduciary Funds – Pages 110-112

This section includes the pension trust funds and the payroll and general trust fund which are used for holding monies due to employees, vendors and donors. No significant information to report.

Statistical Section – Pages 113-130

This section presents detailed information as a context for understanding what the data contained in the CAFR says about the City’s overall financial health. Highlights include:

- Ten-year net position of the City/HBCRA on page 113 (schedule 1) show an increase in almost all areas from 2007 till 2011 and then a steady diminution from 2014 through 2017. This is due predominantly to debt issuance, deficit spending and the requirement to include pension liability (GASB 68 implemented in FY 14/15 and GASB 73 in FY 15/16). See tables on page 114-115 for detail trend.

- The ten-year trend in revenues and expenditures on page 117 (schedule 4) illustrate the deficit spending beginning in earnest in 2011. This parallels the decline in net position. The increase in debt service in 2016 as a percentage of non-capital spending is due to the voter's approval of the Parks General Obligation debt and subsequent issuance.
- The table page on 120 (schedule 7) shows the principal tax payers in Hallandale Beach. Gulfstream Park is nearly 5% of the total tax base in 2017 up from 3% in 2008. It further shows that the top 10 tax payers in 2017 provide almost 9% of all property tax revenue.
- The table on page 122 (schedule 9) provides important data on the relative growth of residential versus commercial property values. It illustrates the need for the City/HBCRA to work in increasing the growth in commercial property values to offset the impact of long term financial needs on residential properties.
- The table on page 127 (schedule 14) shows the principal employers in Hallandale Beach. It further shows that the top 9 employers in 2017 provide over 16% of all City employment.
- The table on page 128 (schedule 15) reflects the number of Full Time Equivalent (FTE) positions in the City over a ten-year period. The number has grown from 476.50 in 2008 to 544.50 in 2017. The detail by department is presented in the table.

Compliance Reports

It includes the independent auditor's report on compliance for each major federal program and state programs and on internal control over compliance required. The CPA firm of Mauldin & Jenkins, LLC (M&J) performed its audit for the Fiscal Year ended September 30, 2017. M&J's opinion; the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs and state projects for the year ended September 30, 2017. On internal controls, the independent auditor did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses.

- An overall explanation of this document appears on page 1-3.

- The City expended \$1,125,056 in federal awards in FY 16-17 compared to 1,044,167 in FY 15/16.
- Status of prior year audit findings are listed on page 11-12
- Independent auditor's management letter is on page 13-14
- The City has been able to address all material weaknesses from previous years thus removing the City's categorization of a "high risk" auditee. There's a wait period of two years. This has significant impact on the City for obtain in the competitive process in the future. Kudos to our Grants Development Officer for their diligent in monitoring grant programs for compliance with federal and state regulations.
- There are no Federal awards findings for FY 16-17

Conclusion

Staff recommends the City Commission accepts the CAFR and Compliance Report for the year ended September 30, 2017, as presented for public distribution. This will allow for this CAFR to be distributed to federal and state agencies prior to the June 30, 2018, deadline.