

**MINUTES: CITY COUNCIL WORKSESSION MINUTES
May 4, 2009**

MEMBERS

PRESENT: Mayor Joe Higgs, Councilman Andy Garza, Councilman Glenn Ervin, Councilman Robert Patton, Councilman Mike Walker, Councilman Thomas Muir.

OTHERS

PRESENT: City Manager Mike Brice, City Secretary/Asst. City Manager Rose Chavez

1. Call Meeting to Order.

Mayor Higgs called meeting to order.

2. Presentation of the 2007/2008 Fiscal Year End Audit by AuldridgeGriffin.

Woody Matthews, with AuldridgeGriffin began by thanking staff for all their assistance in getting the audit completed. He appreciated the opportunity to work for the City and was looking forward to a long future with the City. Mr. Matthews indicated that the audit this year was more detailed, and this was due to the GASB standard requirement changes that went in to place this year. The standards tighten up some things that they do as auditors. The things they could do verbally before can't be done that way anymore. This has caused them to take a different approach on how they conduct their audit, and is the reason it has taken more time to get the audit completed. This summer, they are planning to come and prepare staff to work on schedules in preparation of the audit. He has also recommended to Mike and Rose that different funds be set up for debt service. These procedures will help in the accounting functions and with the audit. This will also help them in their preparation to conduct and complete the audit in a reasonable time frame.

Mr. Matthews also advised that as auditors they have to be audited every three years and they have to meet peer review standards. He proceeded to discuss the audit as follows:

- A review of net assets in Governmental Activities. A positive number indicated the City had a pretty good year in the General Fund.**
- Restricted cash and the unrestricted funds were discussed. The City currently has \$233,000 in unrestricted funds. Recommended to have three months of unrestricted funds as an operating reserve. Discussed the multiple revenue strengths by having a water system and electric system that is an advantage compared to other cities.**
- In the Business Type Activity, investments in capital assets went up a little and this is due to payment of debt. There were some infrastructure improvements that were capitalized. Discussed capital projects that were**

completed and those that are still ongoing. The City did go into a deficit in the business fund as far as the unrestricted funds this year.

- The changes in the Net Asset in Governmental Activity on page 9 were discussed. This went up to \$864,093. An increase in net assets went up 20% this year. In the Business Type Activities this went down by 50% from the year before. Recommended that Council review water and sewer rates to get those to a break-even basis.
- Long-Term debt, page 11, included discussion in the Governmental Activities and Business-Type Activities. In the Governmental Fund, long-term debt balance was \$6.9 million and last year it was \$7.6 million. In the Business Fund outstanding debt was \$6.8 million this year and last year it was \$7.4 million. The debt was reduced from last year about \$1.2 million between the two funds.
- The Financial Statements, page 20, discussed that in the General Fund everything is an expense and it includes the debt expense. His recommendation to Mike and Rose was to set up a different fund for debt service, instead of including it with the General Fund expenses. This will allow for a better presentation in the General Fund.
- In the Combined Schedule of Revenues and Expenses in the Proprietary Funds, page 48 and 49 discussed the revenues and expenses in Water, Sewer, and Electric. The Electric Fund provides monies to support Water and Sewer operations.
- The City received an unqualified opinion on their audit report. Internal controls are good, and he has made some recommendations in his letter.

Discussion followed concerning the unrestricted fund reserves. Mr. Matthews indicated that most cities try to have at least 3 months of reserve funds on hand. This is to plan for unforeseen emergencies. This is a suggested goal.

Mr. Matthews proceeded to discuss his letter that included several journal entries attached. This is one of the new auditing standards that they had to do as auditors. The reason for this letter is to let the Council, City Manager, and the City Secretary see the number of journal entries that had to be made and what those entries pertained to. In the past this information was discussed with staff and it was not provided to Council. It did not necessarily mean that they were trying to hide anything; it was not a requirement for auditors to give them this information. These journal entries had to be made at the end of the fiscal year. There are some suggestions in their management letter that will help cut down on the number of journal entries the City has to make at the end of the year. It is not unusual for a City of our size and staff to have a large number of journal entries at year-end. One of the problems as auditors is that they have to be careful they do not cross the line in doing audit work and making management decisions.

Mr. Matthews continued with a discussion concerning the management letter. In the past this would have been verbally communicated with staff; however, the standards now require if the auditor makes a recommendation it has to be put in writing. If they

put something in the letter, it did not necessarily mean something was wrong, but these were recommendations on improving accounting procedures.

Mr. Matthews indicated the material weakness they identified was the number of journal entries they had to make to the books at the end of the year. But they did state, considering the limited size of the city staff, and things that are in place, they did not feel like there was anything wrong. As the City grows, Council needs to think about the size of their staff in the accounting department to ensure nothing gets missed because of the limited size of their staff.

Another matter identified was the large number of inventory that is on hand in the Electric Department. These items do not turnover quickly. Mr. Matthews indicated that when he met with Mike and Rose they informed him that this issue had already been addressed. The City Secretary advised that the City Manager had indicated that the City was going to enter into an agreement with someone to purchase all the equipment at the yard.

The City Manager indicated the agreement is with LCRA. They will own our assets and the equipment. The equipment will still be in our yard, but it will keep us from having to stock a transformer every time one goes out. We will also be able to draw from their (LCRA) stock and from other places as well. This will mean less equipment in our yard, and it will not be a cost to the City by having that entire inventory sitting in the yard.

Mr. Matthews indicated one of the problems with having so much equipment in stock is that sometimes it walks off.

Mr. Matthews discussed the fund and reconciliation balances. The City does not have a method of tracking fixed assets. He recommended that staff get a program called Asset Keeper to assist with fixed assets and depreciation. Another issue he addressed was raising the capitalization policy to \$5,000. This will help with the number of items that need to be in the depreciation schedule. This will allow the accounting department to set up two different account numbers in the chart of accounts. One will be for items under \$5,000.00 and the other account will be for items that are over \$5,000.00. This will also help speed up the audit process in tracking fixed assets and disposals.

Mr. Matthews discussed their test work and the process they used consisting of statistical sampling and flux analysis and the procedures that they will use in the summer time to help prepare for the audit next year.

Mr. Matthews indicated the additional cost for the audit was due to the additional procedures that they had to put in place in the audit. It costs more time than anticipated to get it completed. He discussed that when they come during the summer time they will help staff prepare for the audit. Getting these things done prior to the audit will help in keeping the cost down.

Councilman Walker asked, if next year did he see the audit costing as much.

Mr. Matthews indicated that it will. It is mainly due to the level of documentation and procedures that they have to comply with as auditors.

Discussion concerning the cost of the audit was \$20,000.

3. Overview of Wholesale Electric Contract with AEP.

The City Manager reviewed the AEP Contract and advised Council that this is a confidential contract. Under State Statute, involving a public electric utility, the cost of the power, and the terms and conditions, can be confidential. AEP has asked this information remain confidential. He did advise Council that he had the executed document in his office, and the Council is welcome to review it after the meeting. The City Manager continued with a review of certain sections in the contract. He advised the price is less than what we are paying Brazos. He reiterated the reason for doing this was to lock in a price for a period of time. It started out to be 5 years and ended as 3 years. In locking a price for a period of time, we know what we will be charging the customers. We don't get in this roller coaster ride where the price changes every month. Unfortunately, it changes when it gets very hot or very cold, and it is a double whammy for the customer. In doing this we can lock in a price that will be set for the next three years. He and Rose will have that number at the next meeting to set the price for the next three years. This will give us the opportunity to set a price for the customers for the next three years that will not need to be raised. This will be a good thing for the customers. His hope is that they can then look at the water and sewer rates so those can be in the black, without having to touch electric for the next three years. This has been his goal, to get a fixed rate established, to know what the cost will be, be able budget that cost, and to help our customers.

Councilman Garza asked if we were not able to deal with Brazos.

The City Manager indicated because they are a Co-op, they charge all their customers the same way. They use the same formula for everybody, and they do not negotiate separate contracts.

Councilman Garza asked after three years, what are the chances of it becoming a lot more than what we pay Brazos.

City Manager indicated that Brazos takes what it cost them to purchase power and it changes every month. It is market driven. In this contract with AEP, the City is buying a future by buying a fixed price for power. So if the price is more in three years, we would be already be paying more with Brazos.

Discussion continued concerning the three year contract and the negotiations that took place in getting this accomplished. The City Manager advised this was the final negotiated settlement by AEP without having to have performance assurance. The first time they wanted a \$1.8 million dollar letter of credit, and he told them we could not do

that. Then they wanted to build up a reserve fund for the City of \$ 1.2 million that they would control. This was a non-starter. Finally, the last conversation with them was that the City was done. AEP came back later, after consulting with their CEO in Columbus, and offered the three year contract. The rate is cheaper in the three year than the five year contract that was in the original negotiations. The Contract has provisions for renegotiating the rate after the three years. The City Manager discussed the contract, Section 6.2, concerning the wording on the 1st paragraph. It basically indicates that if either party at anytime, if their credit worthiness becomes unsatisfactory, they can come back and require performance assurances. The City can also require the same performance assurances from AEP if at any time the City feels they will go bankrupt. The City Manager advised, in talking with Courtney, at AEP in Columbus, that she told him this is standard language and it was put in after the ENRON mess. AEP has never required anybody to come back and put up performance assurances. As long as we make the payments, there is not a problem.

Councilman Ervin asked if the City Attorney has reviewed the contract, and if he said anything about the wording.

The City Manager advised the City Attorney was not worried about it. The contract has to be approved tonight in order to be able to switch by May 30th to keep from getting in the summer period with Brazos. We also have to give a two week notice to ERCOT that we are switching power providers.

Councilman Walker asked that in the worse scenario, if they pull the plug and ask for performance assurances, what will we do.

The City Manager indicated we would probably end up negotiating the agreement where we pay a surcharge every month until we build up that account. This is not something he wants to do; to have a restricted fund that we have no control.

4. Overview of Items on Regular Agenda.
5. Adjournment.

Mayor adjourned the work session.