FOCUS ON WHAT COUNTS

TOWN OF COVENTRY INITIAL PROJECT UPDATE

May 14, 2018—Presented to the Town Council
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
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**
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

<table>
<thead>
<tr>
<th></th>
<th>FY 2019</th>
<th>FY 2020</th>
<th>FY 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sewer Assessments</strong></td>
<td>900,000</td>
<td>900,000</td>
<td>900,000</td>
</tr>
<tr>
<td><strong>Sewer Use Fees</strong></td>
<td>1,400,000</td>
<td>1,500,000</td>
<td>1,600,000</td>
</tr>
<tr>
<td><strong>Operating Expenses</strong></td>
<td>1,750,000</td>
<td>1,800,000</td>
<td>1,850,000</td>
</tr>
<tr>
<td><strong>Debt Service Requirements</strong></td>
<td>2,000,000</td>
<td>2,000,000</td>
<td>2,000,000</td>
</tr>
<tr>
<td><strong>CASH SHORTFALL</strong></td>
<td>(1,450,000)</td>
<td>(1,400,000)</td>
<td>(1,350,000)</td>
</tr>
</tbody>
</table>

*Preliminary Draft Subject to Revision*
Short-Term Enterprise Fund Potential Cash Flows—Scenario 2

<table>
<thead>
<tr>
<th></th>
<th>FY 2019</th>
<th>FY 2020</th>
<th>FY 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sewer Assessments</td>
<td>1,600,000</td>
<td>1,600,000</td>
<td>1,600,000</td>
</tr>
<tr>
<td>Sewer Use Fees</td>
<td>1,400,000</td>
<td>1,500,000</td>
<td>1,600,000</td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>1,750,000</td>
<td>1,800,000</td>
<td>1,850,000</td>
</tr>
<tr>
<td>Debt Service Requirements</td>
<td>2,000,000</td>
<td>2,000,000</td>
<td>2,000,000</td>
</tr>
<tr>
<td><strong>CASH SHORTFALL</strong></td>
<td><strong>(750,000)</strong></td>
<td><strong>(700,000)</strong></td>
<td><strong>(650,000)</strong></td>
</tr>
</tbody>
</table>

*Preliminary Draft Subject to Revision*
# Short-Term Enterprise Fund Cash Flows—Debt Options

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

*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
Construction Costs to Assessments
### Overall Project Assessments vs. Construction Costs 2004-Present

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Construction Costs*</td>
<td>(32,100,000)</td>
</tr>
<tr>
<td>Total Assessments Issued</td>
<td>22,200,000</td>
</tr>
<tr>
<td>Less Abatements</td>
<td>(2,000,000)</td>
</tr>
<tr>
<td>Grant and Other Funding</td>
<td>9,600,000</td>
</tr>
<tr>
<td>Overall Shortfall</td>
<td>$ (2,300,000)</td>
</tr>
</tbody>
</table>

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*Information Derived From Audited Financial Statements*
# Project Funding

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
<th>Note</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Debt Taken Out on Project</td>
<td>25,300,000</td>
<td>*included TAN</td>
</tr>
<tr>
<td>Less Repayments on Debt</td>
<td>(5,800,000)</td>
<td></td>
</tr>
<tr>
<td><strong>Total Remaining Debt</strong></td>
<td>19,500,000</td>
<td></td>
</tr>
<tr>
<td>Assessments on Project</td>
<td>20,200,000</td>
<td></td>
</tr>
<tr>
<td>Remaining Assessment Receivables*</td>
<td>9,100,000</td>
<td></td>
</tr>
<tr>
<td><strong>Shortfall on Debt to Receivables</strong></td>
<td>(10,400,000)</td>
<td></td>
</tr>
</tbody>
</table>

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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
Section 5

User Fee Considerations
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
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 (approx. $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
FOCUS ON WHAT COUNTS

CITRINCOOPERMAN.COM