

HAWSP Fund Balance Analysis

Altman Rogers & Co. was contracted to look at and analyze the HAWSP fund and to focus on the negative fund balance. It is our understanding that the HAWSP fund was created to account for sales tax in the amount of $\frac{3}{4}$'s of a percent "for the purpose of funding debt retirement of the sewer treatment plant improvements, and to the extent of revenues from such tax exceed such debt retirement obligations for the purposes of funding water and sewer systems."

Prior to 2002 the water and sewer enterprise funds were accounted for as individual funds, between 2002 and 2009 the funds were combined into one enterprise fund. In 2010 a decision was made and the water and sewer utility fund was converted from an enterprise fund to a special revenue fund. Upon this conversion the HAWSP fund was created with a beginning fund balance of (\$4,055,680). We reviewed previous audit information to determine if this beginning fund balance was reasonable. With the assistance from the City finance department we were able to obtain audit reports dating back to late 1980's. We concentrated our focus on the enterprise fund cash flow statements, due to the fact that we were trying to recreate the activity of the fund based on the modified accrual basis of accounting. We determined that the sales tax started being collected in late 1991 with the first full year of collections in 1992.

From 1992 to 2009 the water and sewer utility funds were accounted for as enterprise funds and as such based on the full accrual method of accounting. We recreated the activity for those years from the cash flow statements as if they would have been accounted for on the modified accrual basis of accounting (see attached spreadsheet). Based on this analysis the beginning fund balance at 1/1/10 should have been (\$954,958). We looked at the accounting records from the City's accounting system from 2005 (when the accounting software was converted) through 2009 when the fund was converted from an enterprise fund to a special revenue fund. Upon looking at those reports as well as previous audit reports it appears that there was an error made in the beginning fund balance allocation between operations and HAWSP. This appears to have been caused by the combination of the water and sewer utility into one fund as well as the recording of yearly activity when the fund was an enterprise fund. Based on our analysis we recommend that a transfer between operations and HAWSP is made in the amount of \$3,101,082.

During review of the fund activity from 2010 to current we came across one unusual transaction. In 2014 there was a debt deobligation of \$1,580,014. There was a decision made to stop pursuing collections of amounts due from state or federal agencies (see email). Amounts related to these transactions had been recorded as an increase in fund balance in previous years. The debt deobligation was recorded in the same fund that the related revenue was accounted for previously. A decision should be made if this write off of accounts receivable should be accounted for in the HAWSP fund or should the non collection be covered by the reserve fund. If the council decides that the short fall be covered by the reserve fund a transfer should be made from the reserve fund to the HAWSP fund.