

OKALOOSA COUNTY CLERK OF CIRCUIT COURT



DEPARTMENT OF INSPECTOR GENERAL



REPORT ON APPLYING AGREED-UPON PROCEDURES CITY OF LAUREL HILL

REPORT NO. BCC 21-01

REPORT ISSUED FEBRUARY 10, 2021

ISSUED BY: BRAD E. EMBRY, INSPECTOR GENERAL



DEPARTMENT OF INSPECTOR GENERAL
OKALOOSA COUNTY, FLORIDA
JD PEACOCK II, CLERK OF CIRCUIT COURT AND COMPTROLLER



Independent Accountant's Report on Applying Agreed-upon Procedures

Okaloosa County Board of County Commissioners

We have performed the procedures enumerated below on the financial statements of the City of Laurel Hill for fiscal year 2020 and the City's general ledger details as of December 31, 2020. The City of Laurel is responsible for these financial statements and general ledger details.

The Okaloosa County Board of County Commissioners has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of determining the financial position of the City of Laurel Hill in consideration of their upcoming referendum on dissolution. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

The procedures and the associated findings are as follows:

1. We determined the nature, composition, and current value of all assets of the City of Laurel Hill.

- The total cash balance for the City of Laurel Hill as of December 31st, 2020, inclusive of both the general fund and the water fund, was \$943,304.23. We obtained bank statements for all cash accounts as of that date and verified the balances. A list and description of accounts is included in **ATTACHMENT A**.
- The total receivables balance as of the FY 2020 audited financial statements (9/30/2020) was \$176,664. Receivables are accrued only at fiscal year-end in connection with adjustments provided by the auditor. Except for Ferrovial Contract revenue, the balance is not changed until the next year's audit adjustments, so the carrying balance at any given time will not be representative of the actual balance of receivables outstanding.
 - General Fund receivables totaled \$25,721 and consisted of revenue accruals (Ad valorem taxes, franchise fees, contract payments, etc.).
 - Water Fund receivables totaled \$150,943. This amount includes customer payments due and an accrual of \$130,844.23 for outstanding grant funds.

- As of January 22, 2021, the grant funds have been received and water fund receivables relate solely to customer payments for services.
- The total balance of capital/infrastructure assets, net of accumulated depreciation, as of FY 2020 audited financial statements (9/30/2020) was \$2,991,552.44. We obtained the depreciation schedule prepared by the City's external auditor and verified selected items on-site. The schedule included items that had been reduced through depreciation to a zero balance. However, we discovered that several large items, detailed in **ATTACHMENT B**, were not included on the depreciation schedule. We verified that the City owned the unlisted equipment through title examination.

2. We determined the nature, composition, and current balance of all liabilities of the City of Laurel Hill.

- The total current liabilities balance for the City of Laurel Hill as of the FY 2020 audited financial statements (9/30/2020) was \$64,841. This includes General Fund accruals (payroll, insurance, other general expenses) of \$14,708 and Water Fund accruals (payroll, utilities, garbage) of \$5,954. The amount also includes the current portion of the long-term debt, customer deposits, and accrued interest.
- The City's water fund has a rural development loan through the US Department of Agriculture. As of December 31st, 2020, the outstanding balance of the loan was \$295,900. The loan has an interest rate of 5.25%, and the original amount was \$552,400. During Calendar 2020, the City paid \$33,848.25 on the loan, including \$16,448.25 in interest. The loan is scheduled to be paid off in 2033. The annual account statement from the USDA is included as **ATTACHMENT C**. The City has no other long-term debt.

3. We prepared a schedule of revenues of the City of Laurel Hill by type and amount.

Total, unadjusted revenue for FY 2020 was \$693,417. This includes taxes, fees, and interest in the General Fund of \$363,040 and charges for services in the Water Fund of \$330,377. A schedule of revenue by type is included as **ATTACHMENT D**.

4. We determined the revenue categories that will remain, and those that will cease, should the City of Laurel Hill dissolve.

- The ad-valorem taxes, all taxes related to business & alcohol licenses, fire facility fees, franchise fees, mobile home licenses, and state revenue sharing would cease upon dissolution.
- The local option ½ cent tax, the local option fuel tax, the infrastructure surtax, and the traffic court fines would remain with the County.
- Revenue from the Elite Trailers lease and the Ferrovial contract are dependent upon the County's decision to continue those agreements.

- The charges for services in the Water Fund would continue as revenue for whatever entity takes over the City's water system. Should the county take over the system, the revenue would be incorporated into Okaloosa County Water & Sewer based on their current rate structure.
- **ATTACHMENT D** includes a column describing each revenue item as *Ending, Continuing, or Undetermined*.

5. We performed a detailed examination of contingent and outstanding items, to include legal/accounting fees, payables, non-enterprise receivables, and contract payments.

- The City of Laurel Hill currently employs two attorneys: Anchors Smith Grimsley for a \$350 monthly retainer and hourly billings as needed. Romano Kopp Law, who serves as the city's land use attorney, and is paid hourly as needed. Both attorneys indicated that they are not aware of any outstanding or potential litigation involving the City. As of January 22, 2021, the city has no payables related to legal services.
- The City has leased a piece of city-owned property on New Ebenezer Road, in an area they call the Industrial Park, to Elite Trailers, a private business. The lease includes payments of \$15,900 per year.
- The City has a contract with The Panhandle Animal Welfare Society (PAWS) to provide animal control services within the city limits. The contract allows PAWS to use a facility located on city-owned property on New Ebenezer road in return for providing animal control services to the City. The contract does not require PAWS to remit any portion of collections or any franchise fee to the City; the value to the City is solely the animal control services.
- The City has a contract with Chapman Accounting Solutions to serve as external auditor for \$8,800 per year. The invoice for the FY 2020 audit has been paid and as of January 22, 2021 the City has no payable related to accounting or audit services.
- The City has a contract with Ferrovia Services that provides revenue of \$9,693.22 per year. Ferrovia contracts with the Florida Department of Transportation to provide right of way maintenance on State roads. Ferrovia has subcontracted this service to the City within Laurel Hill city limits.
- Other Contracts to which the City of Laurel Hill is currently a party:
 - Paul Johnson, Well Operator - \$6,000 per year
 - Waste Pro, Trash Service – Amount Collected from customers, less the City franchise fee
 - Dewberry, City Engineer Services – Hourly as needed
 - Ken Metcalf, Planner – Hourly, paid by grant funds
- The City has two open grants that have been awarded but not received: \$50,000 for park improvements and \$25,000 to update the Land Development Code. Our

procedures did not include an examination of the potential outcome of the awards should the City be dissolved.

- The City's electronic accounting records, maintained in the online version of QuickBooks, begin in FY 2009-2010. At initial recording, the Customer Deposits account in the Water Fund was recorded at \$18,573.04. The City Clerk stated that they do not have records related to customer deposits prior to this date. The City is unable to trace the initial balance recorded in QuickBooks to specific water customers.

We were engaged by the Okaloosa County Board of County Commissioners to perform this agreed-upon procedures engagement and we conducted our engagement in accordance with attestation standards established by the AICPA and government auditing standards issued by the Comptroller General of the United States. We were not engaged to and did not conduct an examination or review engagement, the objective of which would be the expression of an opinion or conclusion. Had we performed additional procedures; other matters might have come to our attention that would have been reported to you.

We are required to be independent of the Okaloosa County Board of County Commissioners and to meet our ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.



Andrew Thurman CPA, CFE, CIGI
Okaloosa County Clerk of Court
Department of Inspector General
Crestview, FL



For:
Brad Embry, Inspector General

ATTACHMENT A

Bank Account Descriptions and Balances

<u>Title</u>	<u>Description</u>	<u>12/31/2020 Balance</u>
General Revenue	General Fund Operating Account	\$289,178.67
Half Cent Surtax	Account for City's portion of surtax	\$103,585.49
Fire Impact	Account for collection of fire impact fees	\$7,696.20
Water Revenue	Water Fund Operating Account	\$300,846.01
Water Deposits	Collection of water customer deposits	\$40,274.24
Water Impact	Account for collection of water impact fees	\$73,144.83
Water Loan	Loan sinking fund, loan payments	\$89,441.55
General Fund CD	Certificate of Deposit recorded in General Fund	\$4,000
Water Fund CD	Certificate of Deposit recorded in Water Fund, Compensating Balance for Water Fund loan	\$35,135.24

Note: All accounts held at Hancock Whitney, except for the CDs, which are through CCB Community Bank

ATTACHMENT B

Capital Assets Absent from Depreciation Schedule

<u>Description</u>	<u>Date Acquired</u>	<u>Acquisition Cost</u>	<u>Accounting Value</u>
1988 Fire Truck	4/10/2019	DONATED	✓
2008 Ford Expedition	4/26/2016	DONATED	✓
2008 Ford Expedition	4/26/2016	DONATED	✓
1947 International Fire Truck	6/20/2005	DONATED	X
2005 Chevy 2500 w/ Toolbox	11/9/2018	\$2,500	✓
SCAG Mower 52" Deck	8/6/2007	\$7,072.5	X

Government Accounting Standards Board (GASB) Statement No. 34 states that donated capital assets should be reported at their estimated fair value at the time of acquisition plus ancillary charges. In the case of the SUVs and 1988 Fire Truck, ancillary charges would include adding the City livery to the vehicles. Though these vehicles would have likely been fully depreciated by the original owners, they should have been recorded at fair market value by the City and depreciated from that value. The City uses a 5-year service life for vehicles, meaning that the two SUVs and the fire truck would still have a balance on the City's statements. However, this value would be minimal, and its absence is not material to the presentation of the statements. We present this here because these assets, whether listed in the statements or not, would become County assets should the City dissolve.

The Chevy 2500, had it been recorded at its purchase price, would also still have a balance on the financial statements. NOTE: this truck was involved in an accident on 2/4/2021. As of 2/5, the City was awaiting an assessment by their insurance company, but City staff believe it to be totaled.

UNITED STATES DEPARTMENT OF AGRICULTURE
RURAL DEVELOPMENT
ANNUAL STATEMENT OF LOAN ACCOUNT

ATTACHMENT C

SAVE THIS INFORMATION
FOR INCOME TAX PURPOSES

DESCRIPTION	ADVANCES	INTEREST	PRINCIPAL	TOTAL	T	INTEREST RATE	EFFECTIVE DATE
CASE NUMBER 09-046-*****2139	FINAL YEAR OF LOAN 2033		AMOUNT OF LOAN 552,400.00				
FUND CODE 91	LOAN NUMBER 02	DATE OF LOAN 060993	INTEREST RATE 05.2500				
BEGIN LOAN BALNCE		5,452.86	313,300.00	318,752.86			010120
PAYMENT		16,448.25	17,400.00	33,848.25	R	05.2500	090120
TOTAL LOAN PMTS		16,448.25	17,400.00	33,848.25			
TOTAL PAID ON ALL LOANS THIS YEAR		16,448.25	17,400.00	33,848.25			
LOAN ACTIVITY	0.00	16,448.25	17,400.00	33,848.25			
LOAN BALANCE	UNPD INTEREST	5,150.04 **	UNPD PRIN	295,900.00 **			
NXT AMT DUE	33,834.75	DATE DUE 090121					
PAYMENT STATUS	ON SCHEDULE		INT PAID	16,448.25			
TAXES PAID							
ALL LOAN ACTIVITY	0.00	16,448.25	17,400.00	33,848.25			
BORR BAL	UNPD INTEREST	5,150.04	UNPD PRIN	295,900.00			
**These unpaid balances may not reflect the total amount due to the Agency at payoff.							
RECIPIENT'S/LENDER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no. USDA RURAL DEVELOPMENT PHONE# (833)797-3726 4300 GODFELLOW BLVD FC-1332 ST. LOUIS, MO 63120				CAUTION: The amount shown may not be fully deductible by you. Limits based on the loan amount and the cost and value of the secured property may apply. Also, you may only deduct interest to the extent it was incurred by you, actually paid by you, and not reimbursed by another person.		OMB NO. 1545-1380 2020 (Rev. June 2020) Form 1098	
RECIPIENT'S/LENDERS TIN 431757115				PAYER'S/BORROWER'S TIN *****2139		<input type="checkbox"/> CORRECTED (if checked) Mortgage Interest Statement COPY B FOR PAYER/BORROWER	
PAYER'S/BORROWER'S name, Street address (including apt. no.), city or town, state or province, country, and ZIP or foreign postal code CITY OF LAUREL HILL 09-701 P O BOX 158 LAUREL HILL FL 32567				1 Mortgage interest received from payer(s)/borrower(s)* \$ 0.00		3 Mortgage origination date	
9 Number of properties securing the mortgage 10 Other IRS FORM 1098 DOES NOT APPLY TO YOUR LOAN				4 Refund of overpaid interest \$		5 Mortgage insurance premiums \$	
Account number (see instructions) 09046*****213991 02				6 Points paid on purchase of principal residence \$		7 If address of property securing mortgage is the same as PAYER'S/BORROWER'S address, the box is checked, or the address or description is entered <input checked="" type="checkbox"/> in box 8.	
				8 Address or description of property securing mortgage (see instructions)		11 Mortgage acquisition date	



ATTACHMENT D

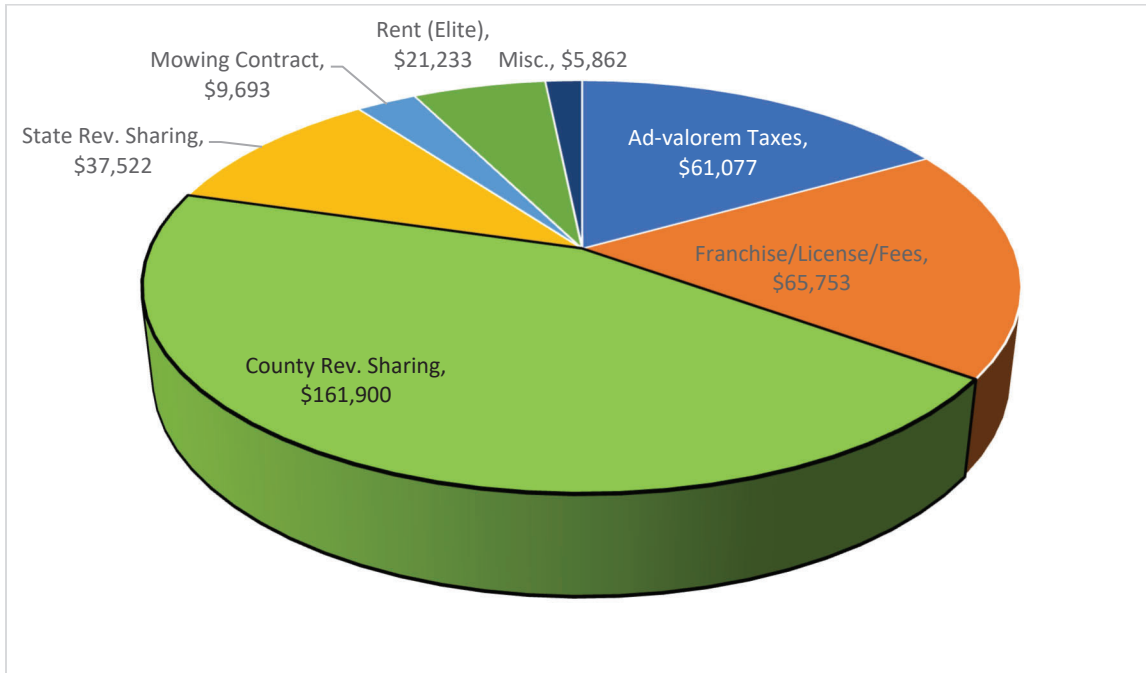
Schedule of Revenue, Fiscal Year 2020

Category	Amount	Continuing/Ending*
Ad-valorem Taxes	\$ 61,077	Ending
Franchise Fees/Utilities Charges	\$ 59,946	Ending
Local Business Fee/Alcohol License, Etc.	\$ 2,936	Ending
Fire Facilities Fee	\$ 2,871	Ending
Local Government ½ Cent Tax	\$ 59,706	Continuing
Local Option Fuel Tax	\$ 44,825	Continuing
Infrastructure Surtax	\$ 57,369	Continuing
State Revenue Sharing	\$ 37,522	Ending
Mowing Contract (Ferrovial)	\$ 9,693	Undetermined – See 1
Rent (Elite Trailers)	\$ 21,233	Undetermined – See 2
Interest/Misc.	\$ 5,486	Ending
Traffic Court Fines	\$ 376	Continuing
Water Charges for Service	\$ 337,600	Undetermined – See 3

* “Continuing” refers to revenue that would remain with the County should the City dissolve. “Ending” refers to revenue that would cease altogether should the City dissolve.

1. Regardless of the outcome of the referendum, Ferrovial will still have the FDOT contract to provide right-of-way maintenance. It will be up to the County whether they want to contract with Ferrovial to continue providing these services with the area of Laurel Hill.
2. If the City of Laurel Hill dissolves, the property upon which Elite Trailers operates will become County property. We are not in a position to, and did not, examine the legal circumstances associated with the lease in the case of dissolution.
3. The disposition of the water charges for service is dependent upon who takes over the water system. Should the County take over the system, it is assumed this revenue would continue at Okaloosa County Water & Sewer’s current rates.

General Fund Revenue FY 2020



County Revenue Sharing would remain with the County should the City dissolve. This amounts to 45% of the City's General Fund revenue.