

On Apr 18, 2024, at 4:26 PM, James Ogonowski <james.m.ogonowski@hotmail.com> wrote:

Diane,

I'm piecing it back together again. I'll try to explain it here, but if it's not clear then maybe we should talk.

- The July 2023 budget amendment showed a GF beginning fund balance of \$16,714,223 and an ending fund balance of \$5,253,548.
- The December 2023 budget amendment showed a GF beginning fund balance of \$11,902,952 and an ending fund balance of \$477,888.
- The downward difference in beginning fund balances between July and December of \$4,811,271 is a result primarily of a restatement from a prior year. I'm trying to track down more details.
- The \$477,888 ending fund balance you're remembering came as a result of the December budget amendment. Remember, this is authorized budget, not what actually happened with revenue and expenses throughout 2023. So the Council authorized the administration to spend down the General Fund to \$448K via the December budget amendment.
- When the mayor originally proposed the 2024 budget in October, he claimed a beginning fund balance for 2024 of \$6,664,594. The difference between this number and the \$448K is the result of the expected underrun of expenditures based on best extrapolation of actuals at that time (best I can tell but probably included a little fudging as well). And if you recall, part way through the budget discussions, Director Turley changed the projection downward to \$3,047,446 which ended up being the beginning fund balance in the adopted 2024 budget. I believe most of that change was due to the restatement as described above along with a better end-of-the-year estimate of 2023 revenues and expenses.
- Now that we have actual revenue and expense numbers for 2023, by my calculations, the GF 2024 beginning fund balance should be restated closer to \$2,231,808 (instead of \$3,047,446). At the last Finance Committee meeting Turley stated it will likely be around \$2.9M. He may have included some carry-forward amount in his number which hasn't been accounted for in the GF yet. I don't have a good way to estimate carry-forward amounts.

Clear as mud? This is a rough accounting of what happened. If I get a chance I'll put together a spreadsheet with better numbers, but what I have above is fairly accurate.

Hope this helps. I'll amend this note if I find any other useful information.

Jim

Hi Diane,

How is it that beginning fund balances can change? Aren't those numbers baked at the end of the previous year (12/31/2022)?

Government accounting is so bizarre. Appreciate any insight you can provide. Thanks. Ken

	EXHIBIT "A": Budget Amendment Summary			
		2023	2023	
		Beginning	Beginning	
		Fund Balance	Fund Balance	
		Reported at	Reported at	

		July	December	(Decrease)
		2023	2023	Increase
001	GENERAL FUND	16,714,223	\$ 11,902,952	\$ (4,811,271)
009	LEOFF-MEDICAL INS. RESERVE	\$ 194,409	\$ 216,864	\$ 22,455
011	RISK MANAGEMENT RESERVE FUND	\$ 25,000	\$ 25,000	\$ -
012	CONTINGENCY RESERVE FUND	\$ 1,782,150	\$ 1,782,150	\$ -
014	HISTORIC PRESERVATION GIFT FUND	\$ 10,522	\$ 11,701	\$ 1,179
016	BUILDING MAINTENANCE	\$ 3,739,645	\$ 4,296,604	\$ 556,959
017	MARSH RESTORATION & PRESERVATION FUND	\$ 848,617	\$ 849,766	\$ 1,149
018	EDMONDS HOMELESSNESS RESPONSE FUND	\$ -	\$ 200,000	\$ 200,000
019	EDMONDS OPIOID RESPONSE FUND	\$ -	\$ -	\$ -
104	DRUG ENFORCEMENT FUND	\$ 196,584	\$ 67,570	\$ (129,014)
111	STREET FUND	\$ 547,114	\$ 408,684	\$ (138,430)
112	COMBINED STREET CONST/IMPROVE	\$ 2,669,390	\$ 2,439,505	\$ (229,885)
117	MUNICIPAL ARTS ACQUIS. FUND	\$ 705,480	\$ 634,888	\$ (70,592)
120	HOTEL/MOTEL TAX REVENUE FUND	\$ 54,624	\$ 94,864	\$ 40,240
121	EMPLOYEE PARKING PERMIT FUND	\$ 76,184	\$ 75,032	\$ (1,152)
122	YOUTH SCHOLARSHIP FUND	\$ 12,808	\$ 15,208	\$ 2,400
123	TOURISM PROMOTIONAL FUND/ARTS	\$ 97,362	\$ 115,171	\$ 17,809
125	PARK ACQ/IMPROVEMENT	\$ 3,513,005	\$ 3,292,557	\$ (220,448)
126	SPECIAL CAPITAL FUND	\$ 3,771,542	\$ 4,025,522	\$ 253,980
127	GIFTS CATALOG FUND	\$ 3,176,109	\$ 3,063,792	\$ (112,317)
130	CEMETERY MAINTENANCE/IMPROV	\$ 267,890	\$ 268,169	\$ 279
136	PARKS TRUST FUND	\$ 166,760	\$ 161,439	\$ (5,321)
13	CEMETERY MAINTENANCE TRUST FD	\$ 1,175,601	\$ 1,103,300	\$ (72,301)
138	SISTER CITY COMMISSION	\$ 13,869	\$ 19,895	\$ 6,026
140	BUSINESS IMPROVEMENT DISTRICT FUND	\$ 20,801	\$ 39,784	\$ 18,983
141	AFFORDABLE & SUPPORTIVE HOUSING FUND	\$ 224,414	\$ 234,566	\$ 10,152
142	EDMONDS RESCUE PLAN FUND	\$ 44,888	\$ 64,588	\$ 19,700
143	TREE FUND	\$ 236,162	\$ 226,300	\$ (9,862)

211	LID FUND CONTROL	\$ -	\$ -	\$ -
231	2012 LTGO DEBT SERVICE FUND	\$ -	\$ -	\$ -
332	PARKS CONSTRUCTION	\$ 322,129	\$ 207,683	\$ (114,446)
421	WATER	\$ 30,924,419	\$ 31,888,623	\$ 964,204
422	STORM	\$ 15,101,336	\$ 18,071,732	\$ 2,970,396
423	SEWER / TREATMENT PLANT	\$ 57,120,908	\$ 62,999,334	\$ 5,878,426
424	BOND RESERVE FUND	\$ 843,951	\$ 843,961	\$ 10
511	EQUIPMENT RENTAL FUND	\$ 9,730,472	\$ 9,395,801	\$ (334,671)
512	Technology Rental Fund	\$ 693,587	\$ 962,502	\$ 268,915
	Totals	\$ 155,021,955	\$ 160,005,507	\$ 4,983,552

From: **Niall McShane** <nialljmcshane@gmail.com>

Date: Mon, Dec 11, 2023 at 10:07 AM

Subject: Re: 2023 Beginning Fund Balances?

To: Buckshnis, Diane <Diane.Buckshnis@edmondswa.gov>

CC: Ken Reidy <kenreidy@hotmail.com>, James Ogonowski <james.m.ogonowski@hotmail.com>, Chen, Will <will.chen@edmondswa.gov>, Olson, Vivian <Vivian.Olson@edmondswa.gov>

Ken, I have been trying to understand this for some time and, as yet, I only have a partial understanding. It is clear to me that the council should **NOT** adopt a 2024 budget this evening without a complete understanding of these discrepancies because to do so would expose us to the risk of further unexpected changes in the financial outlook in 2024. This is especially true of the projected revenues under the interfund service charges category in 2024 for reasons that will become clear as you read on.

Here's what I do understand:

- The restatement of the 2023 beginning fund balance is the result of two separate issues:
 - In the 2024 proposed budget, the 2021 beginning and closing balances were both reduced by \$1.8 million. Of course, if you restate the 2021 closing balance, that impacts the 2022 beginning and closing balances and hence the 2023 balance.
 - At the time the 2023 budget was adopted, the 2022 estimated revenues included \$3.9 million for interfund service charges but in the 2022 actuals reported as part of the 2024 proposed budget, that amount had gone to zero.
- Taken together, these two issues impacted the general fund balances in 2023 by ~\$5.7 million. This was partially offset by actual 2022 expenditures coming in below the level estimated in the 2023 budget statement but the net impact to the beginning balance for 2023 was around \$5 million.
- I haven't seen the July number that you reported before but my analysis has been based on the 2022 and 2023 adopted budgets and the 2024 proposed budget (see images attached to this reply).
- Comparing all three years, 2022-2024, the final closing balance for 2021 (blue highlights in each of the snapshots below) actually increased between the 2022 proposed budget and the 2023 proposed budget to the tune of almost \$2.7 million due mainly to an underrun in the actual expenditures for services (green highlights). This, in combination with higher than expected revenues and lower than expected expenditures in

2022 pushed the projected balances for 2022 up from \$12.9 million to \$16.9 million at the time of the 2023 budget. Included in this improved outlook was an increase in the estimated revenue for Interfund service charges (fuchsia highlights) from a budgeted amount of \$3.575 million to over \$3.9 million. When we get to the 2024 proposed budget, we see that \$1.8 million reduction in the closing balances of the 2021 period (blue highlights), but there is no change in any of the actual revenue or expenditure numbers, rather the beginning balance for 2021 (red highlights) also reduced indicating that whatever drove this change occurred in a period prior to 2021 but since 2021 is the earliest year that is included in the 2024 budget proposal we have no visibility into what might have driven this change. And we also see that Interfund service charge revenue for 2022 going to zero as noted before but the fact that this was actually increased between the 2022 budget and the 2023 budget only to then be reversed to zero makes me even more confused about what is going on here.

- According to the responses that I received to my public records requests, the city informed me that the \$1.8 million change in the 2021 beginning and closing balances was a true up of the actuals as allowed by city ordinance 4168. However, that ordinance refers to trueing up previously reported estimates with actual data whereas this is a case of restating previously reported actuals. They also referred me to the 2021 ACFR which shows beginning and closing balances at approximately the same levels as shown in the 2024 proposed budget. This records request remains open and I am expecting another update from the city on or before December 14. I have also emailed Finance@edmondswa.gov requesting further clarification on this response which the public records officer could not provide but I have not received any response to that inquiry.
- In response to my second public records request, concerning the interfund service charges change, I was informed that this was a result of the audit of the 2021 accounts. The actual response said; "The highlighted section on the 2nd page of the uploaded Schedule of Uncorrected Items shows direction from the auditors for this change. They notated it in the 2021 audit, and we implemented it in 2022. The Status Meeting 1-11-23 is also uploaded with the auditor showing that we did not correct this for 2021 but it was recommended. The City made the change for 2022 and plan to make the same journal entry for 2023." The referenced documents are attached but the highlighted section in the schedule of uncorrected items states: "Central services and engineering overhead revenues are interfund reimbursements. Interfund reimbursements should be netted against expenses. Revenues and expenses are overstated by \$3,257,846". I have no idea what that actually means in practical terms and the amount referenced does not account for the entire \$3.9 million at issue. The highlighted section in the 1-11-23 status meeting minutes states, "General fund revenues and expenditures overstated by \$3,060,185. (Not Corrected)" which differs from both the previous document and the \$3.9 million number.
- This statement that the city plans to make the same journal entry for 2023 is of particular concern because the 2023 budget included projected revenues of \$3.4 million under interfund service charges and if, as I suspect, these too have been reset to zero, this may explain the further degradation in general fund balances that were reported in the September financial report. Furthermore, if this reflects an ongoing structural issue with how the city has been accounting for these funds, then the \$4 million in projected interfund service charge revenue to the general fund that is included in the 2024 proposed budget is also at risk and any budget that is dependent on that revenue is necessarily in trouble too.
- I also requested a copy of the 2021 audit report which is available here: [Audit Reports | Office of the Washington State Auditor](#). This site shows that there were findings for both FY2020 and 2021.
- In the audit report for FY2020, the finding was that "The City's internal controls were inadequate for ensuring compliance with federal requirements for allowable activities and costs and subrecipient monitoring" in relation to the Coronavirus Relief Fund. There is a very detailed analysis of the finding and the city's response but the amounts discussed in this finding are ambiguous and do not fully account for the entire \$1.8 million in restated beginning and closing balances for 2021. In my interpretation, these account for around \$1.65 million.
- In the audit report for FY2021, there are two findings. The first reports that, "The City did not have adequate internal controls ensuring accurate reporting of grant funds received in advance and the elimination of interfund reimbursements in their financial statements" which is in relation to ARPA funds that were received by the city in

advance of expenditure and which caused issues with appropriate revenue recognition processes. According to the detailed analysis of this finding, the city received \$5.8 million of ARPA funding and incurred \$1.1 million of eligible expenditure. This finding speaks specifically to the practice of paying for things out of the general fund and allocating those costs to other funds which then reimburse the general fund for those costs so this does seem to relate directly to the zeroing out of the interfund service charges. There is a lot of technical jargon in the detailed analysis of this finding which makes it difficult for me to claim to fully understand the puts and takes - however, the following section of the city's response to this finding is probably pertinent and does suggest that there is an ongoing issue with how these interfund service charges are accounted for: "Regarding the Interfund Reimbursement Eliminations, the City has recognized income and expense recognition for central services in this manner for many years, and this methodology has always passed audit. This is the first time that this issue has been brought to our attention. The City is currently examining what the effects of making this change will be, as we will need to make significant changes in the way we budget for central services and report their impacts to the financial statements." However, my reading of this finding also suggests that this may be "just" an accounting issue and the actual monies involved may still be available to the city if they can figure out how to properly account for them. The proposal to transfer funds from the ARPA grants into the general fund implies just that but if/how this can be done legally and within GAAP controls remains an open question.

- The second finding in 2021 is a continuation of the problems with the CARES funding that were noted in the 2020 audit, however with some different flavors of concern. The amount challenged in this audit is \$176 K which brings the total amount across 2020 and 2021 to around the \$1.8 million level that accounts for the restatement of the 2021 balances.
- Note that the 2020 audit report was published in March of 2022 and, in their response to the 2021 audit findings, the city notes that the guidance and training related to the 2020 errors was not received until late in 2021 and was not able to be applied to prevent errors in that year.

In summary, I now believe that the restatement of the 2021 balances is fully understood and is related to these audit findings concerning the administration of the CARES funds. This should be a one time event and while concerning, does not affect our going forward position except to the extent that anything the city can do to recover funds that were distributed incorrectly should be given due consideration. The more pressing concern is the status of interfund service charge revenue on a going forward basis. If, as implied by the city's response to the auditor's finding, this is an area where the city's accounting practices have been incorrect for a long time and if we can no longer rely on this source of revenue into the general fund in the future, then the impact of this on the 2024 budget needs to be understood now, before any 2024 budget commitments are finalized.
