

## William C. Statler

Fiscal Policy ■ Financial Planning ■ Analysis ■ Training ■ Organizational Review

### MEMORANDUM

August 18, 2014

TO: Andrew Carter, City Administrator  
City of Guadalupe

FROM: Bill Statler 

SUBJECT: FINANCIAL ASSESSMENT

In light of the findings and recommendations provided in the May 27, 2014 report to the Council, which identified inappropriate interfund transactions and other concerns, in June 2014 the City Administrator authorized me to provide a “high-level” financial assessment in three key areas:

- Further analyzing the findings of the May 27 report regarding direct postings between funds and interfund transfers, including developing a reasonable methodology for allocating indirect costs.
- Assessing cash flow needs for the balance of 2013-14 and the following year (2014-15), and developing options for meeting them.
- Following-up with the City’s auditors (Glenn Burdette) on prior audit reports and findings.

Along with presenting findings and recommendations for these three areas, this report also addresses other matters that came to my attention in the course

#### “High Level” Assessment

**What does this mean?** Given limited time and resources, this financial assessment was performed at a “reconnaissance” level. This means that where problems surfaced, the final report is limited in providing detailed, task-by-task recommendations. However, it provides useful descriptions of current practices in the three focus areas and any significant problem areas where improvements are needed for efficiency, effectiveness or appropriate internal control.

It also identifies areas where additional documentation or follow-up review is needed. Regarding auditor performance, it is not a detailed “peer review” of their work papers, practices and professional standards, but a high level review of whether their due diligence obligations to the City appear to have been met.

Lastly, where appropriate, it presents practical recommendations for improvements that reflect the City’s resource constraints.

of my assessment, of which the most significant is how the City currently accounts for the Solid Waste Fund.

## SUMMARY OF KEY FINDINGS AND RECOMMENDATIONS

The following summarizes key findings and recommendations. Additional detail follows later in this report.

❶ **Indirect Cost Allocation Plan.** The revised budget for 2013-14 and adopted budget for 2014-15 address the incorrect direct-cost postings for utilities and street maintenance staff that surfaced last fiscal year. Indirect cost reimbursements for these two years were also sharply reduced by almost 50%. On July 28, 2014, I submitted to the City a formal indirect cost allocation plan prepared in accordance with generally accepted accounting principles. It fully documents reimbursement transfers that are very close to revised budget estimates (within \$5,700).

❷ **Cash Flow.** Based on City budget projections for 2013-14 and 2014-15 and a high-level assessment of cash flows during the year, the General Fund will need cash advances totaling about \$557,000 at the end of 2014-15. External borrowing will not be required to meet these cash flow needs, which are likely to grow by about \$800,000 by March 2004 (and then be reduced to \$557,000 by June when property taxes are received): internal borrowing from available cash balances in other funds should be sufficient to meet the General Fund's cash flow needs through 2014-15. At that time, assuming the passage of the proposed revenue ballot measure in November 2014, the General Fund should have a structurally balanced budget in 2015-16 without further service or expenditure reductions. However, interfund loans need to be appropriately documented and borrowed funds need to be repaid. This report recommends keys steps in doing so.

❸ **Auditor Follow-Up.** Given concerns with past incorrect account distributions, large indirect cost reimbursements and late tax withholding payments, the workscope included a high-level assessment of the auditor's (Glenn Burdette) performance.

The Short Story: As discussed below, external auditors have a limited role in assessing the effectiveness of internal controls: this is the City's responsibility. Given this limited role as well as my review of the City's most recent audited financial statements, analytical assessment of the incorrect account distributions and reimbursement transfers, findings previously reported by the auditors regarding accounting deficiencies and material internal control weaknesses, and follow-up interview with the partner in charge of the City's engagement, I have concluded that the auditors have met their due diligence obligations in auditing the City's financial statements.

❹ **Other Issues.** I have made modest findings and recommendations regarding budget format, cash management and landscape/lighting maintenance district tax revenues. More problematic are my findings regarding the Solid Waste Fund. This fund primarily exists to account for the City's third-party "agent" role in collecting garbage fees on behalf of Health Sanitation Company (owned by Valley Garbage and Rubbish Company). As such, while there are other minor transactions in this fund, it should be accounted for as an Agency Fund (since the City acts as an "agent" for the Health Sanitation Company) rather than as an

Enterprise Fund. This misunderstanding of the role of the City in collecting fees on behalf of Health Sanitation Company (HSC) has led to the fiscal challenges in this fund.

The following provides more detailed findings and recommendations.

## **❶ INDIRECT COST ALLOCATION PLAN**

### **Findings**

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In the City Administrator's report to the Council on May 27, 2014, he identified significant concerns with past reimbursement transfers to the General Fund. While it is certainly reasonable for funds like water and wastewater to reimburse the General Fund for administrative services provided to them such as finance, human resources, legal services and building maintenance, past transfers intuitively seemed too high in light of the total costs of these internal services.

In response to this, the 2014-15 Preliminary Budget (and revised estimates for 2013-14) were revised significantly downward (almost in half from previous estimates). This financial assessment included a review of the appropriateness of the revised transfers.

### **Recommendations**

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Under generally accepted accounting principles, the best way of determining reasonable reimbursement transfers is to prepare a cost allocation plan, which provides a consistent and logical way of allocating indirect costs (like finance and human resources) to direct cost programs (like police, fire, streets, water and sewer).

Accordingly, a formal cost allocation plan for the City based on the 2014-15 Preliminary Budget was prepared as part of this workscope and presented to the City on July 28, 2014. Provided in Appendix A is the transmittal memorandum to the cost allocation plan, which highlights key findings and recommendations (the full cost allocation plan is provided in Appendix B.). Among these are proposed reimbursement transfers compared with the Budget.

As reflected in the following summary, while there are variances between funds, overall the cost allocation plan proposes reimbursement transfers that are very close to budget estimates (within \$5,700).

<b>Reimbursement Transfers</b>				
	2014-15 Budget	Cost Allocation Plan	Police Grant Limitation*	Variance
Special Revenue Funds				
Street & Roads Funds	125,000	72,700	0	(52,300)
Public Safety Funds*	26,000	100,000	(74,000)	-
Lighting and Landscape Maintenance	0	12,300	0	12,300
CDBG - Microenterprise	15,000	0	0	(15,000)
Enterprise Funds				
Water Fund Operating	200,000	232,400	0	32,400
Wastewater Fund Operating	150,000	155,700	0	5,700
Transit Fund	35,000	46,200	0	11,200
<b>Total</b>	<b>\$551,000</b>	<b>\$619,300</b>	<b>(\$74,000)</b>	<b>(\$5,700)</b>

*\*Assumes reimbursements are limited to the budget amount and reflects downward adjustment from the Preliminary Budget of \$60,000 due to discontinuing involvement in the countywide SBRNT program (drug task force).*

**② CASH FLOW**

**Findings**

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- Presented in Appendix C are cash flow projections based on City budget projections for 2013-14 and 2014-15. As reflected in this “high-level” assessment, the General Fund will need cash advances totaling about \$557,000 by the end of 2014-15. However, external borrowing will not be required to meet these cash flow needs, which are projected to reach their highest level of about \$800,000 by March 2004: internal borrowing from available cash balances in the water, sewer and lighting/landscape maintenance funds should be sufficient to meet the General Fund’s cash flow needs through 2014-15.
- At that time, assuming the passage of the proposed revenue ballot measure in November 2014, the General Fund should have a structurally balanced budget in 2015-16 without further service or expenditure reductions (which are already significant).
- However, interfund loans need to be appropriately documented and borrowed funds need to be repaid.

**Recommendations**

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- The City needs to document via resolution its intent to borrow from the water, sewer and lighting/landscape maintenance funds and the terms and conditions for doing so, including repayment period and interest rate.
- I recommend a term not to exceed ten years with interest based on the yields on investments in the Local Agency Investment Fund (LAIF), which is currently about 0.025% annually. This is the return currently earned by these funds, and as such, the loan will be revenue neutral to them. The rate should be set at the beginning of each fiscal

year. Additionally, the borrowed funds can be paid earlier if the General Fund’s fiscal circumstances improve.

- While borrowed funds can be repaid in level installments, given the City’s near-term challenges and prospects for an improved fiscal outlook in the future, lower payments in the early years followed by higher ones in the later years may make sense.

The following are examples of the two options, using a conservative estimate of a 0.5% interest rate. With level debt service, annual payments will be about \$57,500 annually beginning in 2015-16. Assuming graduated principal payments beginning at \$10,000 per year in 2015-16, annual payments would range from a low of \$12,700 in 2015-16 to a high of \$110,300 in 2024-25.

***Sample Repayment Options***

<b>Level Debt Service Repayment</b>			
Fiscal Year	Principal*	Interest	Total
2015-16	54,800	2,700	57,500
2016-17	55,100	2,400	57,500
2017-18	55,400	2,100	57,500
2018-19	55,500	2,000	57,500
2019-20	55,800	1,700	57,500
2020-21	56,100	1,400	57,500
2021-22	56,400	1,100	57,500
2022-23	56,600	900	57,500
2023-24	56,900	600	57,500
2024-25	57,200	300	57,500
<b>Total</b>	<b>\$559,800</b>	<b>\$15,200</b>	<b>\$575,000</b>

\* *Estimated borrowing of \$557,000 plus interest at 0.5% of \$2,800: \$559,800*

<b>Graduated Debt Service Repayment</b>			
Fiscal Year	Principal*	Interest	Total
2015-16	10,000	2,700	12,700
2016-17	20,000	2,600	22,600
2017-18	30,000	2,500	32,500
2018-19	40,000	2,500	42,500
2019-20	50,000	2,300	52,300
2020-21	60,000	2,000	62,000
2021-22	70,000	1,700	71,700
2022-23	80,000	1,400	81,400
2023-24	90,000	1,000	91,000
2024-25	109,800	500	110,300
<b>Total</b>	<b>\$559,800</b>	<b>\$19,200</b>	<b>\$579,000</b>

Given the tough fiscal outlook remaining in 2015-16 for the General Fund even if all three revenue measures pass in November 2014, I recommend initially adopting the “graduated” approach, with the option of accelerating payments further if the General Fund’s financial condition improves.

### ⑤ AUDITOR FOLLOW-UP

Given concerns with past incorrect account distributions, large indirect cost reimbursements and late tax withholding payments, the workscope included a high-level assessment of the auditor’s performance.

#### Findings

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##### *Limited Auditor Responsibility for Internal Controls*

External auditors have a very limited role in assessing the effectiveness of internal controls: stated simply, this is the City’s responsibility, not the auditor’s. In accordance with generally accepted auditing standards, Glenn Burdette’s audit opinion for the fiscal year ending June 30, 2013 is conditioned as follows:

##### ***“Management’s Responsibility for the Financial Statements***

*Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.”*

The auditor’s responsibility is to express an opinion on the financial statements prepared by the City. As stated in their audit opinion, Glenn Burdette’s responsibility is limited to considering:

*“... internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion.” [Emphasis added]*

Stated simply, while external auditors have a responsibility for testing internal controls, it is only for the purpose of expressing an opinion on the fairness of the presentation of the financial statements taken as a whole. Accordingly, their focus will be on appropriate approval of transactions (such as appropriate authorizations and whether singular employee approval is avoided) and policy compliance.

For example, in testing accounts payable (such as utility payments), their focus will be on an independently generated vendor invoice and whether the City’s purchasing and payment approval procedures were followed. For payroll transactions, their focus will be on how master payroll records (such as salary and benefits) are kept up to date (and accurate) via appropriate approvals; that time records are appropriately maintained and approved; and that

payments are correctly made based on master records and timesheets. They will also check to see if employee withholdings are appropriately disbursed to third parties. (In this case, the auditors did identify concerns with federal withholding payments in their internal control report to the Council for 2012-13.)

However, unless something surfaces to indicate otherwise, it would be unusual for auditors to identify specific account distribution errors, especially where a process is in place for this (such as account distributions in personnel action forms, timesheets or budget documents).

Auditors will also review for policy compliance. In the case of reimbursement transfers, these were made pursuant to an approved policy document (the Budget).

### ***Analytical Review***

That said, auditors have a responsibility for an analytical assessment of the reasonableness of the financial results. In short, stepping back from specific transaction testing and spreadsheets, and asking: do the statements seem to make sense? One of the key assessment methods is to look for significant changes (up or down) from prior year results in key revenue and expenditure areas. No such concerns would have arisen in the case of utility bills, payroll costs or reimbursement transfers: these were comparable to prior years.

However, given the size of reimbursement transfers in the General Fund – \$738,600 in 2012-13, reflecting 20% of General Fund resources – I initially thought that this was an area that the auditors could have pursued further in their analytical review. However, even with the reduced transfers in 2014-15, the ratio of reimbursement transfers to total General Fund resources is even higher than in 2012-13: 26%. In this context, 20% does not seem excessive, given that they were similar to past years and made in accordance with the budget.

### ***Auditor Internal Control Findings***

As noted above, internal control weaknesses are not the focus of external audits. Nonetheless, in the course of their audit for 2012-13, Glenn Burdette identified five material internal control weaknesses and four areas of accounting deficiencies. In short, internal control matters did not escape their attention.

### ***Going Concern Finding***

Along with identifying internal control weaknesses, the auditors also made a significant (and rare for local government) “going concern” finding in the 2012-13 audit, where they expressed “substantial doubt about the City’s ability to continue as a going concern.” Again, this reflects the auditor’s “due diligence” in their opinion of the City’s financial statements.

### ***Management Responsibility for the Financial Statements and Full Disclosure***

Lastly, the City’s responsibility for its financial statements is reflected in its comprehensive “representation letter” to the auditors, where in accordance with generally accepted auditing standards, the City states that it has made all disclosures necessary for its financial statements to fairly present its financial condition and results of operations.

## **Recommendations**

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Given the limited role that external auditors have in assessing the effectiveness of internal controls combined with my review of the City's most recent audited financial statements, analytical assessment of the incorrect account distributions and reimbursement transfers, findings previously reported by the auditors regarding accounting deficiencies and material internal control weaknesses, and follow-up interview with the partner in charge of the City's engagement, I have concluded that the auditors have met their due diligence obligations in auditing the City's financial statements.

However, I believe that the City's relationship with its auditors and confidence in the results can be strengthened by forming an Audit Committee and improving "candid communication" with "those charged with governance."

### ***Audit Committee***

Due to the Brown Act, local government audit committees in California cannot serve as envisioned by national "best practices" in having a majority of Council members serve on the committee with the ability to make audit decisions (such as selecting the audit firm and awarding the contract) and meet in closed session for "candidness." Nonetheless, many cities in California have benefited from establishing standing audit committees composed of two Council members. In these circumstances, the audit committee reviews the audit workscope, auditor contracts and other audit issues before they are presented to the Council as a whole. By forming a council sub-committee focused on the city's audit process and results, the goal for many cities is heightened awareness and oversight of the city's financial condition.

Additionally, as discussed below, an audit committee can also facilitate the requirements of Statement on Auditing Standards (SAS) No. 114, which sets forth the auditor's responsibility for candid communication with those charged with governance; and SAS No. 115, which sets forth standards for identifying and reporting on internal control weaknesses.

For continuity and best meeting the goals of SAS No. 114 as discussed below, I recommend that the Audit Committee be composed of the Mayor and Vice-Mayor.

### ***SAS No. 114***

This statement establishes standards and guidance to independent auditors on matters to be communicated with "those charged with governance." While the concerns that led to SAS No. 114 surfaced in the private sector, it applies to both private and public sector organizations. In the case of the City, "those charged with governance" under SAS No. 114 guidelines are Council members. In facilitating candid, two-way communication on audit matters, SAS No. 114 requires that independent auditors communicate with someone (or group) who represents "those charged with governance."

SAS No. 114 sets forth the following areas for auditor communication with "those charged with governance:"



- The auditor's responsibilities under generally accepted auditing standards.
- An overview of the planned scope and timing of the audit.
- Any significant findings from the audit. Depending on the circumstances, this could include: the auditor's views about the qualitative aspects of the entity's significant accounting policies, practices and financial statement disclosures, if appropriate; any significant difficulties encountered during the audit; any significant uncorrected misstatements; disagreements with management; and any other findings or issues arising from the audit that, in the auditor's professional judgment, are significant and relevant to "those charged with governance."

SAS No. 114 leaves to each organization the best way of achieving these goals. In the City's case, these responsibilities mesh well with the proposed Audit Committee. It will facilitate achieving the goals of SAS No. 114 in a manner that is consistent with State open meeting laws (Brown Act). Forming this committee will not change the Council's relationship with the City's independent auditors because:

- The Council as a whole will continue to review the audit workscope and award all audit contracts.
- The independent auditors will continue to report to the entire Council on the results of the City's financial operations via audited financial statements, which are publicly presented to the Council and posted on the City's web site.
- Written communications on any identified material internal control weakness or significant accounting deficiencies (these requirements are set forth in SAS No. 115) will continue to be provided to the entire Council and posted on the City's web site.

This change simply provides the auditors with Council representatives to discuss any significant audit related matters in a direct and candid forum in a manner consistent with the Brown Act.

### ***Auditor Rotation***

Many local governments in California have a standing practice of periodically rotating auditors. Consistent with this practice, the City has decided to request proposals and select a new audit firm for 2014-15. However, it plans to retain Glenn Burdette for the 2013-14 audit. Based on my high-level review of the work Glenn Burdette has performed in the past, I believe that the City can have confidence in the results of their audit for 2013-14.

### **④ OTHER ISSUES**

While other matters that came to my attention in the course of my assessment, including modest findings regarding budget format, cash management and landscape/lighting maintenance district tax revenues, the most significant is how the City currently accounts for the Solid Waste Fund. Each of these issues is discussed below.

## Accounting for the Solid Waste Fund

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### *Findings*

- Under its franchise agreement with HSC, the City is responsible for billing for trash service and remitting its collections to HSC. Accordingly, the City acts as an “agent” for HSC: it is not billing for services that the City provides. The Solid Waste Fund primarily exists to account for the City’s third-party “agent” role in collecting garbage fees on behalf of HSC. As such, while there are other minor transactions in this fund, it should be accounted for as an Agency Fund (since the City acts as an “agent” for HSC) rather than as an Enterprise Fund.
- As an agency-type fund, this means there are no revenues, expenditures or net assets (fund balance): all transactions are “balance sheet” accounts of assets and directly offsetting liabilities. The assets are the cash (and receivables) that the City collects on behalf of HSC, which are fully offset by the City’s liability to pass-through these collections to HSC.
- This misunderstanding of the role of the City in collecting fees on behalf of HSC has led to the fiscal challenges in this fund, resulting in a negative equity in this fund of \$240,100 as of June 30, 2013 (the most recent audit).
- While billing on behalf of franchised refuse companies was once common in California, this is no longer the case. With the passage of AB 939 and related diversion/recycling goals, most refuse companies are now responsible for their own billings.
- The City does not receive any direct compensation from HSC for providing this billing and collection service. For the few cities that continue to bill on behalf of franchised companies, this is not a common practice.
- The City remits payments to HSC based on a monthly invoice submitted by HSC on the number of accounts HSC believes are active and current rates. While this is a useful cross-check for the City, it is under no obligation to pay based on this. The City is only obligated to pay what it has collected on behalf of HSC. For any number of reasons (timing, delinquencies, vacancies), there always be differences between the amounts that HSC believes it should be paid and the amounts actually collected by the City.
- This inappropriate practice is largely responsible for the \$240,100 negative financial position in this fund: stated simply, the City has remitted more to HSC than it has collected.

### *Recommendations*

In the near term:

- The City should discontinue remitting payments to HSC based on its monthly invoice: the City should only remit what it has collected that month. (This follows the first rule of

holes: when you find yourself in one, stop digging.) However, the City should provide HSC with a reconciliation between the amount calculated by HSC and the amount being remitted.

- The Solid Waste Fund should no longer be accounted for as an enterprise fund: it should be accounted for as an agency fund. This change should be made in the City's audited financial statements for 2013-14. Working closely with the City's auditors in making this change, strategies for presenting the current negative net assets will need to be developed.

In the longer term:

- The City should work with HSC to discontinue billing on its behalf, and for HSC to take on this responsibility (or if this continues, to be compensated directly for the City's service). This change will require an amendment to franchise agreement, which can only be done with HSC's concurrence. Based on similar changes that have occurred in other cities, it is likely that HSC will be amenable to the change as long as they are fairly compensated for their increased costs.
- The City needs to develop strategies for addressing the existing negative net assets in this fund.

### **Budget Format**

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The current budget is a straight-forward "line item" budget that focuses on the numbers, but not what services they fund or why. This concern is largely offset by a clear "Budget Message" from the City Administrator that frames key issues. That said, the following are modest recommendations for improving the budget document:

- Along with "the numbers," narrative descriptions for each major program area should be provided that discuss the program's purpose, key service activities, staffing, any significant expenditure changes and key objectives for the coming year.
- The current budget format shows revenues, expenditures and the difference between the two (positive or negative) for each fund. This presentation would be strengthened by showing the beginning financial condition for each fund (fund balance for the governmental funds and working capital for the enterprise funds) and the resulting ending financial condition. This should be presented for at least three years: last completed fiscal year (to ensure that the budget starts with audited figures), current year estimate and projection for the budget year.
- Regular staffing costs are the General Fund's largest expenditure, and this is ultimately driven by the level of authorized staffing. Accordingly, the budget should include a schedule of authorized regular positions by fund/department. Like changes in fund balance above, it should be for at least three years: last completed fiscal year, current year estimate and projection for the budget year.

- The current budget shows proposed reimbursement transfers to the General Fund. However, this schedule should be expanded to show all interfund transfers between funds: this will ensure that they are in balance. Again, this schedule should be for at least three years: last completed fiscal year (to ensure that the budget starts with audited figures), current year estimate and projection for the budget year.
- The Budget should include the assessment districts, since these are City funds. The assessment report and public hearing typically follow preparation and consideration of the Preliminary Budget, and as such, these will initially be “best estimates.” However, the final Budget document should reflect the assessment revenues and expenditures approved by Council.
- The Budget shows water purchased from the Central Coast Water Authority (CCWA) as a capital outlay. While debt service for past capital improvements is a significant factor in determining the amount due to the CCWA, this is an operating cost and should be shown as such in the City’s budget.
- Lastly, operating and capital costs are shown as separate funds in the Budget for water and wastewater. This should be discontinued and just one fund presented for both water and wastewater. This separation is not required; and in fact, makes the City’s finances less transparent and results in added accounting efforts with no added value.

### **Cash Management**

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In a recent review of the City’s cash and investments, a large portion of the City’s cash balances were un-invested (those that were, were appropriately invested in LAIF). Given the low yield on LAIF investments (currently about 0.025%), there is very little fiscal impact due to this. Moreover, consistent with the practice in many local governments, the City may be required to maintain large compensating balances in covering its banking service costs. As time permits, the City should review its banking service agreements and assess its investment of idle cash.

### **Landscape/Lighting Maintenance District Tax Revenue**

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Along with assessment revenue, the Lighting and Landscape Maintenance Fund receives a share of the 1% general property tax levy: about \$54,500 annually. This apportionment is based on factors that preceded Proposition 13. In similar circumstances where the Council is the governing body for the district, some cities in California have used their discretion in allocating these general, 1%-levy revenues to the General Fund. The City should consider whether this is appropriate under its circumstances. Additionally, the City should further research whether a portion of these revenues should be allocated to the Successor Agency.

### **SUMMARY**

Consistent with the workscope approved by the City Administrator, this report has provided a “high level” assessment of the City’s financial operations in three key areas – reimbursement transfers, cash flow and auditor performance – as well as other matters that came to my

attention as part of this review; and provided detailed findings and recommendations for each area. As the City goes forward in considering these, I am available to assist with their implementation on an as needed basis.

**APPENDIX**

- A. Transmittal Memorandum: Cost Allocation Plan
- B. 2014-15 Cost Allocation Plan
- C. Cash Flow Analysis



## William C. Statler

Fiscal Policy ■ Financial Planning ■ Analysis ■ Training ■ Organizational Review

# MEMORANDUM

July 28, 2014

TO: Andrew Carter, City Administrator  
City of Guadalupe

FROM: Bill Statler 

SUBJECT: COST ALLOCATION PLAN

Attached is the Cost Allocation Plan for 2014-15 prepared as part of the “Financial Assessment” that the City authorized in June 2014. The following highlights key findings:

1. **Introduction.** The Plan is introduced with a concise description of its purpose, methodology and process for annual updating.
2. **City Only: Successor Agency Excluded.** As we discussed at the briefing on July 9, the plan has been prepared for the City of Guadalupe, and accordingly, does not include the Successor Agency. It is appropriate to charge the Successor Agency separately for administrative services per the agreed upon “Recognized Obligation Payments Schedule” (ROPS), budgeted at \$80,000 in 2014-15.
3. **Solid Waste Fund Excluded: Pass-Through Payments.** As we also discussed, the Solid Waste Fund primarily exists to account for pass-through collections made by the City on behalf of the franchisee (Waste Management). Accordingly, as discussed in the Introduction, is also excluded from the Plan. The Financial Assessment report that will follow shortly after this one will recommend several changes in the accounting for this fund. Pending the possible implementation of that report’s findings and recommendations, it is appropriate to continue charging this fund \$15,000 for collection services.
4. **Reimbursement Transfers.** Along with other uses as described in the Introduction, the Plan provides a strong analytical basis for reimbursement transfers. As reflected below, while there are variances between funds, the overall reimbursements based on the Plan are very close to revised transfers reflected in the 2014-15 Budget.

## Cost Allocation Plan

Reimbursement Transfers				
	2014-15 Budget	Cost Allocation Plan	Police Grant Limitation*	Variance
Special Revenue Funds				
Street & Roads Funds	125,000	72,700	0	(52,300)
Public Safety Funds*	26,000	100,000	(74,000)	-
Lighting and Landscape Maintenance	0	12,300	0	12,300
CDBG - Microenterprise	15,000	0	0	(15,000)
Enterprise Funds				
Water Fund Operating	200,000	232,400	0	32,400
Wastewater Fund Operating	150,000	155,700	0	5,700
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<b>Total</b>	<b>\$551,000</b>	<b>\$619,300</b>	<b>(\$74,000)</b>	<b>(\$5,700)</b>

\*Assumes reimbursements are limited to the budget amount and reflects downward adjustment from the Preliminary Budget of \$60,000 due to discontinuing involvement in the countywide SBRNT program (drug task force).

As reflected above, recommended Plan transfers overall are within \$5,700 of budget estimates. The following highlights key assumptions and variances.

- **Ability of Reimbursing Funds to Make the Transfers.** This table assumes that the reimbursing fund is capable of making the transfer. This may not be the case for all funds.
  - **Public Safety Funds.** This table assumes that reimbursements from the Public Safety Funds will be limited to the budget amount of \$60,000 (whereas the Cost Allocation Plan shows \$100,000 in indirect costs). This amount may in fact be reduced further: although the General Fund shows \$60,000 in reimbursements, the Public Safety Funds only show \$26,000 in transfers out.
  - **Landscape and Lighting Maintenance.** While no transfers are shown in the 2014-15, there are funds available to make the transfer. In fact, assessment calculations for levies in 2014-15 (and in past years) included administrative costs, but these reimbursements are not reflected as transfers in the Budget. (The key reason: the assessment districts are not included in the Budget document: in accounting for these reimbursements in the past, it appears that they were treated as credits to expenditures.) While estimates are included in the assessment worksheets, I recommend using the Cost Allocation Plan results as the basis for transfers for 2013-14 and 2014-15, and in the future. The Plan shows an indirect cost rate of 18.8% in 2014-15 (ratio of indirect to direct costs). This can be the basis for estimating costs in the future.
  - **Community Development Block Grant (CDBG).** The Plan does not support any transfers from this fund. While that results in a shortfall in the General Fund, the CDBG fund did not show any transfers out in the 2014-15 Budget.
5. **Basis for 2013-14 Reimbursements.** Given the closeness of Plan results compared with 2013-14 and 2014-15 estimates, I recommend using the 2014-15 Cost Allocation Plan as the basis for making transfers in 2013-14, since it provides a firmer analytical

## Cost Allocation Plan

basis than the budget estimates. While preparing a separate plan for 2013-14 is an option, given limited resources and the likelihood of very similar results, I believe that the 2014-15 Plan provides a reasonable basis for 2013-14 transfers.

6. **General Liability Insurance.** As part of my financial assessment, the City Administrator asked me to review the 2014-15 general liability cost allocations. After assessing other options, the 2014-15 budget allocations appear reasonable. As outlined below, an option used by other agencies is to allocate general liability costs based on operating budget.

General Liability Cost Allocation Options					
Direct Cost Program	Base of Allocation	Percent of Total	Cost Allocation	Budget	Variance
<b>General Fund</b>					
Police	1,303,200	31.0%	37,300	15,000	22,300
Fire	354,000	8.4%	10,100	5,000	5,100
Parks & Recreation	118,100	2.8%	3,400	5,000	(1,600)
Permits	109,900	2.6%	3,100	-	3,100
Administration				15,000	(15,000)
<b>Total General Fund</b>	<b>1,885,200</b>	<b>44.8%</b>	<b>53,900</b>	<b>40,000</b>	<b>13,900</b>
<b>Special Revenue Funds</b>					
Street & Roads Funds	381,800	9.1%	10,900	60,000	(49,100)
Public Safety Funds	179,800	4.3%	5,100	-	5,100
Lighting & Landscape Maintenance	65,500	1.6%	1,900	-	1,900
<b>Enterprise Funds</b>					
Water Fund Operating	1,087,400	25.9%	31,000	10,000	21,000
Wastewater Fund Operating	603,900	14.4%	17,200	10,000	7,200
Transit Fund*					
<b>Total Special Funds</b>	<b>2,318,400</b>	<b>55.2%</b>	<b>66,100</b>	<b>80,000</b>	<b>(13,900)</b>
<b>Total Direct Cost Programs</b>	<b>\$4,203,600</b>	<b>100.0%</b>	<b>\$120,000</b>	<b>\$120,000</b>	<b>\$0</b>

\* Assumes risk transferred to contractor via agreement, and as such, no allocation is made to the Transit Fund.

As reflected above, this option results in very similar allocations to the General Fund, especially when considering that the Administration allocation is in turn allocated to direct cost programs via the Cost Allocation Plan. Moreover, using operating budget appears to under-allocate liability to street programs. Accordingly, I recommend retaining the current approach for 2014-15. As resources permit, an approach the City may want to consider in the future is basing half of the premium on a three-to-five year average of claims filed and half on operating budget. This would balance actual experience with claims potential based on the financial scope of operations.

## SUMMARY

The 2014-15 Cost Allocation Plan has been prepared in accordance with generally accepted accounting principles and provides a strong analytical basis for reimbursement transfers in both 2013-14 and 2014-15. Along with the formal Plan document, I have provided the City with the underlying Word and Excel documents for future updating.



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# **COST ALLOCATION PLAN**

**Fiscal Year 2014-15**



# **City of Guadalupe**

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**INTRODUCTION**

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**OVERVIEW**

**Purpose of the Plan**

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The purpose of the City’s Cost Allocation Plan is to identify the total costs of providing specific City services. Why is a separate cost accounting analysis required to do this? Because in almost all organizations—whether in the private or the public sector—the cost of producing goods or delivering services can be classified into two basic categories: direct and indirect costs.

“Direct costs” by their nature are usually easy to identify and relate to a specific service. However, this is not the case for “indirect costs.” As such, if we want to know the “total cost” of providing a specific service, then we need to develop an approach—a plan—for reasonably allocating indirect costs to direct cost programs.

**What Are Direct and Indirect Costs?**

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Direct costs are those that can be specifically identified with a particular cost objective, such as street maintenance, police protection and water service. Indirect costs are not readily identifiable with a direct operating program, but rather, are incurred for a joint purpose that benefits more than one cost objective.

Common examples of indirect costs include accounting, legal services, human resources and building maintenance. Although indirect costs are generally not readily identifiable with direct cost programs, their cost should be included if we want to know the total cost of delivering specific services.

**Budgeting and Accounting for Indirect Costs**

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Theoretically, all indirect costs could be directly charged to specific cost objectives; however, practical difficulties generally preclude such an approach for organizational and accounting reasons. As such, almost all organizations in both the private and public sector separately budget and account for direct and indirect costs at some level depending on their

financial reporting needs and the level of sophistication and complexity of their operations.

**Distributing Indirect Costs**

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However, in order to determine the total cost of delivering specific services, some methodology for determining and distributing indirect costs must be developed, and that is the purpose of cost allocation plans: to identify indirect costs and to allocate them to benefiting direct cost programs in a logical, consistent and reasonable manner.

*Plan Goal: Reasonable Allocation of Costs.* It is important to stress that the goal of the Cost Allocation Plan is a reasonable allocation of indirect costs, not a “perfect” one. By their very nature, indirect costs are difficult to link with direct costs. As such, in developing an allocation approach, it is important to keep this goal in mind balancing the cost and of effort of complicated allocation methods with the likely benefits from the end results.

**DETERMINING DIRECT AND INDIRECT COSTS**

The first step in preparing the City's Cost Allocation Plan is determining direct and indirect costs. Program costs that primarily provide service to the public are identified as direct costs, whereas the cost of programs that primarily provide services to the organization are identified as indirect costs.

Additionally, use allowance costs for City Hall have also been developed. In accordance with generally accepted accounting principles, only operating costs are considered in preparing the cost allocation plan. As such, capital outlay, debt service, interfund transfers and “pass-through” costs (such as solid waste billing for the Valley Refuse and Garbage Company) are excluded from the calculations.

**ALLOCATING INDIRECT COSTS**

For general purposes, the City-wide indirect cost rate can be used as the basis for allocating indirect costs. The indirect cost rate is simply the ratio

## INTRODUCTION

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between indirect and direct costs, which can be easily computed for the City as a whole once the direct and indirect cost base has been determined.

### Citywide Indirect Cost Rate

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Provided in Table 1 (page 4) is a summary of direct and indirect costs for the City of Guadalupe based on the approved 2014-15 Budget, along with the resulting citywide indirect cost rate. By applying the overall indirect cost rate to any specific direct cost program, the total cost of the program can be determined. For example, with an overall indirect cost rate of 26.1%, the total cost for a direct program of \$100,000 in Guadalupe would be \$126,100 with this approach.

### Bases of Allocation

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This method of cost allocation assumes that all indirect costs are incurred proportionately to the direct cost of the program. However, this may not be a reasonable assumption in all cases, as the benefit received from certain types of support service programs may be more closely related to another indicator of activity than cost.

For example, if a program service is primarily delivered through contract and does not have any City staffing directly associated with it, distributing payroll preparation and Human Resources costs to it may result in an inequitable allocation of costs. Because of this, the City's Cost Allocation Plan establishes separate *bases of allocation* for each major indirect cost category. With this approach, indirect costs can be allocated to each direct cost program in a fair, convenient, and most importantly, consistent manner. Provided in Table 2 (page 6) is a summary of the primary methods of allocation used in distributing indirect costs to direct cost programs.

Some of these costs lend themselves to an easily justified, rational approach of distribution. For example, payroll and human resources costs are related to the number of employees serviced. Other costs may appear to be arbitrarily distributed; however, the allocation bases are consistent with generally accepted accounting principles, and recognize the concept that the cost of developing the information necessary to perform the cost allocations should not exceed the benefits likely to be gained.

### Summary of Indirect Cost Allocations

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A summary of the indirect cost allocations is provided in Tables 5.1 through 5.4 (pages 9 through 12), followed by the detailed allocations for each specific indirect cost program (Tables 6.1 through 6.6, pages 13 to 23).

### Simple Method of Allocating Costs

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In performing the cost allocations, all indirect costs have been allocated only to direct cost programs rather than using a more complex sequential allocation system. Although there are some conceptual difficulties with this approach, since all indirect costs are ultimately allocated to direct programs, the difference in the end result is insignificant. However, the cost of preparation, review and audit is significantly reduced; and how indirect costs are allocated is much more transparent.

For example, the cost of general administration by the City Administrator's office is allocated solely to direct cost programs based on their operating budget. However, as the general administration program also benefits the other indirect cost programs such as human resources, finance and building maintenance, the cost allocations could appear to be distorted since no allocations are made to them. Similarly, payroll preparation also benefits the general administration program (in fact, it also benefits itself).

Under a more sophisticated, two-step system, the cost of the general administration program would be allocated to the other indirect costs programs, and iterative allocations then made to direct cost programs until all indirect costs are distributed. However, this process is extremely time consuming (and places far more reliance on the underlying significance of the allocation bases than may be appropriate) and results in the same basic cost allocations as the simpler method since all indirect costs are allocated in the final product. Again, as noted above, the plan's goal is a reasonable allocation of costs, not a "perfect" one.

## INTRODUCTION

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### USES OF THE COST ALLOCATION PLAN

By identifying total program costs, the Cost Allocation Plan can be used as an analytical tool in many financial decision-making situations, including:

- **Grant Administration.** Under federal cost accounting policies (Circular A-87), it is permissible to include indirect costs in accounting for grant programs. By establishing indirect cost rates, the cost allocation plan can be used in recovering the total costs (direct and indirect) associated with implementing grant programs.
- **Reimbursement Transfers.** The Cost Allocation Plan identifies the costs incurred by the General Fund in providing administrative support services to the City's other funds such as enterprise operations and special revenue funds.
- For example, although the City's administrative, legal services, finance, human resources and building maintenance programs are budgeted and accounted for in the General Fund, these programs provide support services to other City funds. The Cost Allocation Plan provides a clear methodology for determining this level of support in for the reimbursement of these costs. Recommended reimbursement transfers based on the Cost Allocation Plan compared with budget estimates are provided in Table 7 (page 24).
- **General Fund User Charges.** Similar to ensuring that enterprise fund revenues fully recover their costs, the Cost Allocation Plan can also be used in determining appropriate user fees for General Fund services, such as planning applications, building permits and recreation activities, in ensuring that full cost of services are considered in setting rates.
- **Labor Rates.** In preparing the Budget, the City has developed full compensation costs for each of its regular employees. Along with accounting for paid leave (such as vacation, sick and holidays), “full cost” hourly labor rates can be developed that appropriately include indirect costs.

- **Contracting-Out for Services.** By identifying total costs, the cost allocation plan can also be helpful in analyzing the costs of contracting for services versus performing services in-house.

### PLAN PREPARATION

In a true cost accounting system, indirect costs would be computed and allocated on an ongoing basis throughout the fiscal year based on actual costs. However, frequent updating in municipal finance would not serve any specific purpose—such as unit price control in a manufacturing company—but it would consume significant accounting resources. As such, the City’s Cost Allocation Plan is prepared annually based on the budget adopted by the Council.

### SUMMARY

The Cost Allocation Plan makes determining total program costs possible by establishing a reasonable methodology for identifying and allocating indirect costs to direct cost programs. Because of this, the Cost Allocation Plan can be a valuable analytical tool in a number of situations, including allocating organizational resources, performing expense analyses, evaluating the costs of performing services in-house versus contract, establishing fees designed for full cost recovery, recovering indirect costs associated with grant programs and reimbursing support service costs provided by the General Fund to other funds.

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**DIRECT AND INDIRECT COST SUMMARY**

<b>DIRECT COSTS</b>	
General Fund	
Police	1,303,200
Fire	354,000
Parks & Recreation	118,100
Permits	109,900
Special Revenue Funds	
Street & Roads Funds	381,800
Public Safety Funds	179,800
Lighting and Landscape Maintenance	65,500
Enterprise Funds	
Water Fund Operating	1,087,400
Wastewater Fund Operating	603,900
Transit Fund	355,000
<b>TOTAL DIRECT COSTS</b>	<b>\$4,558,600</b>

<b>INDIRECT COSTS</b>	
City Council	9,500
City Administration	464,200
City Attorney	51,000
Finance	379,800
Building Maintenance	105,500
City Hall Use Allowance	178,300
<b>TOTAL INDIRECT COSTS</b>	<b>\$1,188,300</b>

<b>OVERALL INDIRECT COST RATE</b>	
Indirect Costs Divided by Direct Costs	26.1%

Under generally accepted accounting principles, capital outlay, debt service, interfund transfers and pass-through payments are usually excluded in calculating indirect cost rates; accordingly, only operating costs (less transfers) are considered in the City's cost allocation plan.

**SUMMARY OF EXCLUDED COSTS AND OTHER ADJUSTMENTS**

**RECONCILIATION TO 2014-15 BUDGET**

<b>Excluded Costs and Other Reconciling Adjustments</b>	
<i>Less Non-Budget Costs</i>	
City Hall Use Allowance	(178,300)
City Council	(9,500)
Lighting and Landscape Maintenance	(65,500)
<i>Plus Excluded Costs</i>	
General Fund Reimbursement Transfers	
Special Revenue Funds	
Street & Roads Funds	125,000
Public Safety Funds	26,000
Enterprise Funds	
Water Fund Operating	200,000
Wastewater Fund Operating	150,000
Solid Waste Trash Fund	15,000
Transit Fund	35,000
Other Transfers	
Police to Public Safety Funds	52,800
Gas Tax to Solid Waste	28,000
Solid Waste to Affordable Housing	10,000
Capital Outlay	
General Fund	1,500
Special Revenue Funds	
Street & Roads Funds	-
Public Safety Funds	8,000
CDBG - Legion Hall	495,000
Enterprise Funds	
Water Fund	729,000
Wastewater Fund	410,000
Transit Fund	83,900
Debt Service	
Water Fund	65,000
Wastewater Fund	67,000
Pass-Throughs	
Solid Waste Fund	555,300
<b>Total</b>	<b>\$2,803,200</b>

<b>Cost Allocation Plan</b>	
Indirect	1,188,300
Direct	4,558,600
<b>Total</b>	<b>\$5,746,900</b>

Under generally accepted accounting principles, capital outlay, debt service interfund transfers and pass-through payments are usually excluded in calculating indirect cost rates; accordingly, only operating costs (less transfers and pass-throughs) are considered in the City's Cost Allocation Plan.

This schedule identifies these excluded costs, and along with other adjustments ("such as non-budgeted" use allowance costs), reconciles the direct and indirect costs used in the Cost Allocation Plan with the adopted budget.

<b>2014-15</b>	
<b>Total: All City Funds</b>	<b>\$8,550,100</b>

**BASIS OF INDIRECT COST ALLOCATIONS**

INDIRECT COST PROGRAM	BASIS OF ALLOCATION
City Council	Operating Budget
City Administration	
General Administration	Operating Budget
Program Supervision	Assigned Program
Human Resources	Full-Time Equivalent Staffing
City Attorney	Operating Budget
Finance	
General Finance	Operating Budget
Payroll	Full-Time Equivalent Staffing
Utility Billing	Water and Wastewater Funds
Business License Tax	General Fund Operating Budget
Building Maintenance	Assigned Space/Operating Budget
City Hall Use Allowance	Assigned Space/Operating Budget



**CITY ADMINISTRATION PROGRAM COSTS**

	General Administration	Program Supervision	Human Resources	Total
<b>Staffing</b>	<b>Percent</b>			
City Administrator	0.20	0.75	0.05	1.00
Administrative Assistant	0.20	0.75	0.05	1.00
Human Resources Coordinator			1.00	1.00
<b>Allocated Cost</b>				
City Administrator	29,300	109,600	7,300	146,200
Administrative Assistant	17,300	65,100	4,300	86,700
Human Resources Coordinator	-	-	53,000	53,000
<b>Total Staffing</b>	<b>46,600</b>	<b>174,700</b>	<b>64,600</b>	<b>285,900</b>
Percent	16.3%	61.1%	22.6%	100.0%
<b>Other Operating Costs</b>	<b>14,100</b>	<b>53,100</b>	<b>19,600</b>	<b>86,800</b>
<b>Total Allocated</b>	<b>60,700</b>	<b>227,800</b>	<b>84,200</b>	<b>372,700</b>
<b>Direct Allocations</b>				
Planning (Permits)				26,500
Animal Regulation (Police)				65,000
<b>TOTAL</b>				<b>\$464,200</b>

**FINANCE PROGRAM COSTS**

	General Finance	Payroll	Utility Billing	Business License Tax	Total
<b>Staffing</b>	<b>Percent</b>				
Finance Director	75.0%	5.0%	15.0%	5.0%	100.0%
Business Manager	10.0%	62.5%	25.0%	2.5%	100.0%
Account Clerk	67.5%		30.0%	2.5%	100.0%
Account Clerk: Part-Time	15.0%		75.0%	10.0%	100.0%
<b>Allocated Cost</b>					
Finance Director	90,507	6,034	18,101	6,034	120,676
Business Manager	10,579	66,120	26,448	2,645	105,792
Account Clerk	54,626	-	24,278	2,023	80,928
Account Clerk: Part-Time	5,760	-	28,800	3,840	38,400
<b>Total Staffing</b>	<b>161,500</b>	<b>72,200</b>	<b>97,600</b>	<b>14,500</b>	345,800
Percent	46.7%	20.9%	28.2%	4.2%	100.0%
Other Operating Costs	15,900	7,100	9,600	1,400	34,000
<b>TOTAL</b>	<b>\$177,400</b>	<b>\$79,300</b>	<b>\$107,200</b>	<b>\$15,900</b>	<b>\$379,800</b>

**SUMMARY OF INDIRECT COST ALLOCATIONS**

	DIRECT COST PROGRAM SUMMARY			Total
	General Fund	Special Revenue Funds	Enterprise Funds	
City Council	3,900	1,300	4,300	9,500
City Administration				
General Administration	25,100	8,400	27,200	60,700
Program Supervision	169,800	24,900	124,600	319,300
Human Resources	52,000	18,200	14,000	84,200
City Attorney	21,000	7,000	23,000	51,000
Finance				
General Finance	73,400	24,400	79,600	177,400
Payroll	49,000	17,100	13,200	79,300
Utility Billing			107,200	107,200
Business License Tax	15,900			15,900
Building Maintenance	82,600	7,600	15,300	105,500
City Hall Use Allowance	139,700	12,700	25,900	178,300
<b>TOTAL INDIRECT COSTS</b>	<b>\$632,400</b>	<b>\$121,600</b>	<b>\$434,300</b>	<b>\$1,188,300</b>

Total Direct Costs	1,885,200	627,100	2,046,300	4,558,600
Total Costs	\$2,517,600	\$748,700	\$2,480,600	\$5,746,900
Indirect Cost Rate	33.5%	19.4%	21.2%	26.1%

**SUMMARY OF INDIRECT COST ALLOCATIONS**

	GENERAL FUND				Total
	Police	Fire	Parks & Recreation	Permits	
City Council	2,800	700	200	200	3,900
City Administration					
General Administration	17,300	4,700	1,600	1,500	25,100
Program Supervision	73,900	8,900	7,100	79,900	169,800
Human Resources	36,900	9,800	1,900	3,400	52,000
City Attorney	14,500	4,000	1,300	1,200	21,000
Finance					
General Finance	50,700	13,800	4,600	4,300	73,400
Payroll	34,700	9,300	1,800	3,200	49,000
Utility Billing					
Business License Tax	11,000	3,000	1,000	900	15,900
Building Maintenance	26,900	12,500	35,300	7,900	82,600
City Hall Use Allowance	45,400	21,300	59,600	13,400	139,700
<b>TOTAL INDIRECT COSTS</b>	<b>\$314,100</b>	<b>\$88,000</b>	<b>\$114,400</b>	<b>\$115,900</b>	<b>\$632,400</b>

Total Direct Costs	1,303,200	354,000	118,100	109,900	1,885,200
Total Costs	\$1,617,300	\$442,000	\$232,500	\$225,800	\$2,517,600
Indirect Cost Rate	24.1%	24.9%	96.9%	105.5%	33.5%

**SUMMARY OF INDIRECT COST ALLOCATIONS**

	SPECIAL REVENUE FUNDS			Total
	Streets & Roads	Public Safety	Lighting & Landscape	
City Council	800	400	100	1,300
City Administration				
General Administration	5,100	2,400	900	8,400
Program Supervision	17,800		7,100	24,900
Human Resources	6,800	11,400		18,200
City Attorney	4,300	2,000	700	7,000
Finance				
General Finance	14,900	7,000	2,500	24,400
Payroll	6,400	10,700		17,100
Utility Billing				
Business License Tax				
Building Maintenance	6,200	1,000	400	7,600
City Hall Use Allowance	10,400	1,700	600	12,700
<b>TOTAL INDIRECT COSTS</b>	<b>\$72,700</b>	<b>\$36,600</b>	<b>\$12,300</b>	<b>\$121,600</b>
Total Direct Costs	381,800	179,800	65,500	627,100
Total Costs	\$454,500	\$216,400	\$77,800	\$748,700
Indirect Cost Rate	19.0%	20.4%	18.8%	19.4%

**SUMMARY OF INDIRECT COST ALLOCATIONS**

	ENTERPRISE FUNDS			Total
	Water	Wastewater	Transit	
City Council	2,300	1,300	700	4,300
City Administration				-
General Administration	14,500	8,000	4,700	27,200
Program Supervision	53,400	53,400	17,800	124,600
Human Resources	4,500	9,500		14,000
City Attorney	12,200	6,800	4,000	23,000
Finance				-
General Finance	42,300	23,500	13,800	79,600
Payroll	4,300	8,900		13,200
Utility Billing	71,800	35,400		107,200
Business License Tax				-
Building Maintenance	10,100	3,300	1,900	15,300
City Hall Use Allowance	17,000	5,600	3,300	25,900
				-
<b>TOTAL INDIRECT COSTS</b>	<b>\$232,400</b>	<b>\$155,700</b>	<b>\$46,200</b>	<b>\$434,300</b>
Total Direct Costs	1,087,400	603,900	355,000	2,046,300
Total Costs	\$1,319,800	\$759,600	\$401,200	\$2,480,600
Indirect Cost Rate	21.4%	25.8%	13.0%	21.2%

**INDIRECT PROGRAM COST ALLOCATION**

Indirect Cost Program	City Council
Budget	\$9,500
Base of Allocation	Operating Budget

<b>Direct Cost Program</b>	<b>Base of Allocation</b>	<b>Percent of Total</b>	<b>Cost Allocation</b>
General Fund			
Police	1,303,200	28.6%	2,800
Fire	354,000	7.8%	700
Parks & Recreation	118,100	2.6%	200
Permits	109,900	2.4%	200
Special Revenue Funds			
Street & Roads Funds	381,800	8.4%	800
Public Safety Funds	179,800	3.9%	400
Lighting and Landscape Maintenance	65,500	1.4%	100
Enterprise Funds			
Water Fund Operating	1,087,400	23.9%	2,300
Wastewater Fund Operating	603,900	13.2%	1,300
Transit Fund	355,000	7.8%	700
<b>Total Direct Cost Programs</b>	<b>4,558,600</b>	<b>100.0%</b>	<b>\$9,500</b>

**INDIRECT PROGRAM COST ALLOCATION**

Indirect Cost Program	City Administration: General Administration
Budget	\$60,700
Base of Allocation	Operating Budget

<b>Direct Cost Program</b>	<b>Base of Allocation</b>	<b>Percent of Total</b>	<b>Cost Allocation</b>
General Fund			
Police	1,303,200	28.6%	17,300
Fire	354,000	7.8%	4,700
Parks & Recreation	118,100	2.6%	1,600
Permits	109,900	2.4%	1,500
Special Revenue Funds			
Street & Roads Funds	381,800	8.4%	5,100
Public Safety Funds	179,800	3.9%	2,400
Lighting and Landscape Maintenance	65,500	1.4%	900
Enterprise Funds			
Water Fund Operating	1,087,400	23.9%	14,500
Wastewater Fund Operating	603,900	13.2%	8,000
Transit Fund	355,000	7.8%	4,700
<b>Total Direct Cost Programs</b>	<b>4,558,600</b>	<b>100.0%</b>	<b>\$60,700</b>



**INDIRECT PROGRAM COST ALLOCATION**

Indirect Cost Program Budget	City Administration: Program Supervision
Base of Allocation	\$319,300 Assigned Program

Direct Cost Program	Percent of Total	Cost Allocation	Animal Regulation	Staff Planner	Total
General Fund					
Police	4%	8,900	65,000		73,900
Fire	4%	8,900			8,900
Parks & Recreation	3%	7,100			7,100
Permits	23%	53,400		26,500	79,900
Special Revenue Funds					
Street & Roads Funds	8%	17,800			17,800
Public Safety Funds					
Lighting and Landscape Maintenance	3%	7,100			7,100
Enterprise Funds					
Water Fund Operating	23%	53,400			53,400
Wastewater Fund Operating	23%	53,400			53,400
Transit Fund	8%	17,800			17,800
<b>Total Direct Cost Programs</b>	<b>100%</b>	<b>\$227,800</b>	<b>\$65,000</b>	<b>\$26,500</b>	<b>\$319,300</b>

**INDIRECT PROGRAM COST ALLOCATION**

Indirect Cost Program	City Administration: Human Resources	
Budget	\$84,200	
Base of Allocation	Full-Time Equivalent Employees	

<b>Direct Cost Program</b>	<b>Base of Allocation</b>	<b>Percent of Total</b>	<b>Cost Allocation</b>
General Fund			
Police	9.75	43.8%	36,900
Fire	2.60	11.7%	9,800
Parks & Recreation	0.50	2.2%	1,900
Permits	0.90	4.0%	3,400
Special Revenue Funds			
Street & Roads Funds	1.80	8.1%	6,800
Public Safety Funds	3.00	13.5%	11,400
Lighting and Landscape Maintenance			
Enterprise Funds			
Water Fund Operating	1.20	5.4%	4,500
Wastewater Fund Operating	2.50	11.2%	9,500
Transit Fund			
<b>Total Direct Cost Programs</b>	<b>22.25</b>	<b>100.0%</b>	<b>\$84,200</b>

**INDIRECT PROGRAM COST ALLOCATION**

Indirect Cost Program	City Attorney
Budget	\$51,000
Base of Allocation	Operating Budget

<b>Direct Cost Program</b>	<b>Base of Allocation</b>	<b>Percent of Total</b>	<b>Cost Allocation</b>
General Fund			
Police	1,303,200	28.6%	14,500
Fire	354,000	7.8%	4,000
Parks & Recreation	118,100	2.6%	1,300
Permits	109,900	2.4%	1,200
Special Revenue Funds			
Street & Roads Funds	381,800	8.4%	4,300
Public Safety Funds	179,800	3.9%	2,000
Lighting and Landscape Maintenance	65,500	1.4%	700
Enterprise Funds			
Water Fund Operating	1,087,400	23.9%	12,200
Wastewater Fund Operating	603,900	13.2%	6,800
Transit Fund	355,000	7.8%	4,000
<b>Total Direct Cost Programs</b>	<b>4,558,600</b>	<b>100.0%</b>	<b>\$51,000</b>

**INDIRECT PROGRAM COST ALLOCATION**

Indirect Cost Program Budget	Finance: General Finance
Base of Allocation	\$177,400 Operating Budget

<b>Direct Cost Program</b>	<b>Base of Allocation</b>	<b>Percent of Total</b>	<b>Cost Allocation</b>
General Fund			
Police	1,303,200	28.6%	50,700
Fire	354,000	7.8%	13,800
Parks & Recreation	118,100	2.6%	4,600
Permits	109,900	2.4%	4,300
Special Revenue Funds			
Street & Roads Funds	381,800	8.4%	14,900
Public Safety Funds	179,800	3.9%	7,000
Lighting and Landscape Maintenance	65,500	1.4%	2,500
Enterprise Funds			
Water Fund Operating	1,087,400	23.9%	42,300
Wastewater Fund Operating	603,900	13.2%	23,500
Transit Fund	355,000	7.8%	13,800
<b>Total Direct Cost Programs</b>	<b>4,558,600</b>	<b>100.0%</b>	<b>\$177,400</b>

**INDIRECT PROGRAM COST ALLOCATION**

Indirect Cost Program	Finance: Payroll
Budget	\$79,300
Base of Allocation	Full-Time Equivalent Staffing

<b>Direct Cost Program</b>	<b>Base of Allocation</b>	<b>Percent of Total</b>	<b>Cost Allocation</b>
General Fund			
Police	9.75	43.8%	34,700
Fire	2.60	11.7%	9,300
Parks & Recreation	0.50	2.2%	1,800
Permits	0.90	4.0%	3,200
Special Revenue Funds			
Street & Roads Funds	1.80	8.1%	6,400
Public Safety Funds	3.00	13.5%	10,700
Lighting and Landscape Maintenance			
Enterprise Funds			
Water Fund Operating	1.20	5.4%	4,300
Wastewater Fund Operating	2.50	11.2%	8,900
Transit Fund			
<b>Total Direct Cost Programs</b>	<b>22.25</b>	<b>100.0%</b>	<b>\$79,300</b>

**INDIRECT PROGRAM COST ALLOCATION**

Indirect Cost Program	Finance: Utility Billing
Budget	\$107,200
Base of Allocation	Water and Wastewater

<b>Direct Cost Program</b>	<b>Percent of Total</b>	<b>Cost Allocation</b>
General Fund		
Police		
Fire		
Parks & Recreation		
Permits		
Special Revenue Funds		
Street & Roads Funds		
Public Safety Funds		
Lighting and Landscape Maintenance		
Enterprise Funds		
Water Fund Operating	67.0%	71,800
Wastewater Fund Operating	33.0%	35,400
Transit Fund		
<b>Total Direct Cost Programs</b>	<b>100.0%</b>	<b>\$107,200</b>

**INDIRECT PROGRAM COST ALLOCATION**

Indirect Cost Program	Finance: Business License Tax
Budget	\$15,900
Base of Allocation	General Fund Operating Budget

<b>Direct Cost Program</b>	<b>Base of Allocation</b>	<b>Percent of Total</b>	<b>Cost Allocation</b>
General Fund			
Police	1,303,200	69.1%	11,000
Fire	354,000	18.8%	3,000
Parks & Recreation	118,100	6.3%	1,000
Permits	109,900	5.8%	900
Special Revenue Funds			
Street & Roads Funds			
Public Safety Funds			
Lighting and Landscape Maintenance			
Enterprise Funds			
Water Fund Operating			
Wastewater Fund Operating			
Transit Fund			
<b>Total Direct Cost Programs</b>	<b>1,885,200</b>	<b>100.0%</b>	<b>\$15,900</b>

**INDIRECT PROGRAM COST ALLOCATION**

Indirect Cost Program	Building Maintenance	<i>Direct</i>	<i>Indirect</i>	<i>Total</i>
Budget	\$105,500	\$80,500	\$25,000	\$105,500
Base of Allocation	Assigned Space/Operating Budget	12,960	4,017	16,977

Direct Cost Program	Direct Cost Programs			Indirect Cost Programs			Total Cost Allocation
	Base of Allocation	Percent of Total	Cost Allocation	Base of Allocation	Percent of Total	Operating Allocation	
General Fund							
Police	3,178	24.5%	19,700	1,303,200	28.6%	7,200	26,900
Fire	1,713	13.2%	10,600	354,000	7.8%	1,900	12,500
Parks & Recreation	5,583	43.1%	34,700	118,100	2.6%	600	35,300
Permits	1,178	9.1%	7,300	109,900	2.4%	600	7,900
Special Revenue Funds	-						
Street & Roads Funds	654	5.0%	4,100	381,800	8.4%	2,100	6,200
Public Safety Funds	-			179,800	3.9%	1,000	1,000
Lighting and Landscape Maintenance	-			65,500	1.4%	400	400
Enterprise Funds	-						
Water Fund Operating	654	5.0%	4,100	1,087,400	23.9%	6,000	10,100
Wastewater Fund Operating	-			603,900	13.2%	3,300	3,300
Transit Fund	-			355,000	7.8%	1,900	1,900
<b>Total Direct Cost Programs</b>	<b>12,960</b>	<b>100.0%</b>	<b>\$80,500</b>	<b>4,558,600</b>	<b>100.0%</b>	<b>\$25,000</b>	<b>\$105,500</b>



**INDIRECT PROGRAM COST ALLOCATION**

Indirect Cost Program	City Hall Use Allowance	<i>Direct</i>	<i>Indirect</i>	<i>Total</i>
Budget	\$178,300	\$136,100	\$42,200	\$178,300
Base of Allocation	Assigned Space/Operating Budget	12,960	4,017	16,977

Direct Cost Program	Direct Cost Programs			Indirect Cost Programs			Total Cost Allocation
	Base of Allocation	Percent of Total	Cost Allocation	Base of Allocation	Percent of Total	Operating Allocation	
General Fund							
Police	3,178	24.5%	33,400	1,303,200	28.6%	12,000	45,400
Fire	1,713	13.2%	18,000	354,000	7.8%	3,300	21,300
Parks & Recreation	5,583	43.1%	58,500	118,100	2.6%	1,100	59,600
Permits	1,178	9.1%	12,400	109,900	2.4%	1,000	13,400
Special Revenue Funds				-			
Street & Roads Funds	654	5.0%	6,900	381,800	8.4%	3,500	10,400
Public Safety Funds				179,800	3.9%	1,700	1,700
Lighting and Landscape Maintenance				65,500	1.4%	600	600
Enterprise Funds				-			
Water Fund Operating	654	5.0%	6,900	1,087,400	23.9%	10,100	17,000
Wastewater Fund Operating				603,900	13.2%	5,600	5,600
Transit Fund				355,000	7.8%	3,300	3,300
<b>Total Direct Cost Programs</b>	<b>12,960</b>	<b>100.0%</b>	<b>\$136,100</b>	<b>4,558,600</b>	<b>100.0%</b>	<b>\$42,200</b>	<b>\$178,300</b>

Rental rates are conservatively based on a market rental rate of 87.5 cents per month per square feet based on three factors:

1. A recent appraisal for Successor Agency property shows market rents in the City ranging from 60 cents to \$1.20 per square foot per month for commercial uses. 87.5 cents is slightly below the middle of this range.
2. Commercial space is currently on the market for \$1.00 per square foot per month.
3. This market rate use allowance is made even more conservative based its application to “net” square footage (net of circulation, bathrooms, storage and other common areas), whereas commercial rates are typically based on “gross area.”

**GENERAL FUND REIMBURSEMENT TRANSFERS: BUDGET VERSUS ACTUAL**

	2014-15 Budget	Cost Allocation Plan	Police Administration		Variance
			Allocated Cost (See Below)	Police Grant Limitation*	
Special Revenue Funds					
Street & Roads Funds	125,000	72,700			(52,300)
Public Safety Funds*	26,000	36,600	63,400	(74,000)	-
Lighting and Landscape Maintenance		12,300			12,300
CDBG - Microenterprise	15,000				(15,000)
Enterprise Funds					
Water Fund Operating	200,000	232,400			32,400
Wastewater Fund Operating	150,000	155,700			5,700
Transit Fund	35,000	46,200			11,200
<b>Total</b>	<b>\$551,000</b>	<b>\$555,900</b>	<b>\$63,400</b>	<b>(\$74,000)</b>	<b>(\$5,700)</b>

\*Assumes reimbursements are limited to the budget amount and reflects downward adjustment from the Preliminary Budget of \$60,000 due to discontinuing involvement in the countywide SBRNT program (drug task force).

**Allocation of Police Administration Costs**

Police Cost Summary	
Police Administration	
Staffing	
Police Chief	95,900
Office Manager	84,500
Records Technician	57,600
Supplies and Services	
Dispatch and Lab Services	55,000
Communications	5,600
Vehicle Maintenance & Fuel	39,500
Liability Insurance	15,000
Contract Services	15,000
Other Operating Costs	18,600
Total Police Administration	386,700
Direct Costs	
General Fund	916,500
Public Safety Grants	179,800
<b>Total Police Costs</b>	<b>\$1,483,000</b>

Allocation of Police Administration			
	Operating Budget	Percent	Allocation
General Fund	916,500	83.6%	323,300
Public Safety Grants	179,800	16.4%	63,400
<b>Total</b>	<b>\$1,096,300</b>	<b>100.0%</b>	<b>\$386,700</b>

**ALLOCATION BASES: FULL-TIME STAFFING**

<b>DIRECT COST PROGRAMS</b>	
General Fund	
Police	9.75
Fire	2.60
Parks & Recreation	0.50
Permits	0.90
Special Revenue Funds	
Street & Roads Funds	1.80
Public Safety Funds	3.00
Lighting and Landscape Maintenance	-
Enterprise Funds	
Water Fund Operating	1.20
Wastewater Fund Operating	2.50
Transit Fund	-
<b>TOTAL DIRECT COST PROGRAMS</b>	<b>22.25</b>

<b>INDIRECT COST PROGRAMS</b>	
City Council	-
Administration	2.50
City Attorney	-
Finance	3.70
Building Maintenance	0.50
City Hall Use Allowance	-
<b>TOTAL INDIRECT COST PROGRAMS</b>	<b>6.70</b>

**TOTAL** **28.95**

**ALLOCATION BASES: ASSIGNED SPACE**

DIRECT COST PROGRAMS	
General Fund	
Police	3,178
Fire	1,713
Parks & Recreation	5,583
Permits	1,178
Special Revenue Funds	
Street & Roads Funds	654
Public Safety Funds	
Lighting and Landscape Maintenance	
Enterprise Funds	
Water Fund Operating	654
Wastewater Fund Operating	
Transit Fund	
<b>TOTAL DIRECT COST PROGRAMS</b>	<b>12,960</b>

INDIRECT COST PROGRAMS	
City Council	1,523
Administration	1,377
City Attorney	-
Finance	1,117
Building Maintenance	-
<b>TOTAL INDIRECT COST PROGRAMS</b>	<b>4,017</b>

Cost\* @ \$0.875 per square foot per month \*\* \$136,100

Total Cost **\$178,300** Total Sq Ft **16,977**

	Direct	Indirect
Percent of Total Square Feet	76.3%	23.7%

\* Rental rates are conservatively based on a market rental rate of 87.5 cents per month per square feet based on three factors:

1. A recent appraisal for Successor Agency property shows market rents in the City ranging from 60 cents to \$1.20 per square foot per month for commercial uses. 87.5 cents is slightly below the middle of this range.
2. Commercial space is currently on the market for \$1.00 per square foot per month.
3. This market rate use allowance is made even more conservative based its application to “net” square footage (net of circulation, bathrooms, storage and other common areas), whereas commercial rates are typically based on “gross area.”

\*\* Excludes circulation, storage, restrooms and other common areas

**Cash Flow Analysis**

<b>Fiscal Year 2013-14</b>					
	Beginning Balance 7/1/2013	Revenues & Sources	Expend & Uses	Net Change	Ending Balance 6/30/2014
General Fund	381,000	2,582,000	3,195,000	(613,000)	(232,000)
Lighting/Landscape	248,100	195,000	95,000	100,000	348,100
Water Fund	284,500	1,779,800	1,406,900	372,900	657,400
Wastewater Fund	113,400	906,000	998,100	(92,100)	21,300
<b>Total</b>	<b>1,027,000</b>	<b>5,462,800</b>	<b>5,695,000</b>	<b>(232,200)</b>	<b>794,800</b>

## Cash Flow Analysis

Fiscal Year 2014-15													
	July	August	Sept	Oct	Nov	Dec	Jan	Feb	March	April	May	June	Total
<b>General Fund</b>													
Revenues						437,500					437,500		875,000
Property Tax						437,500					437,500		875,000
Sales Tax	15,625	15,625	15,625	15,625	15,625	46,875	15,625	15,625	15,625	15,625	46,875	15,625	250,000
Franchise Fees	2,417	2,417	2,417	2,417	2,417	2,417	2,417	2,417	2,417	118,417	2,417	2,417	145,000
Utility Users Tax	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	31,000	31,000	31,000	273,000
Business License Tax	12,500	2,500	500	500	500	500	500	500	500	500	500	500	20,000
Transfers	56,667	56,667	56,667	56,667	56,667	56,667	56,667	56,667	56,667	56,667	56,667	56,667	680,000
Other Revenues	31,000	31,000	31,000	31,000	31,000	31,000	31,000	31,000	31,000	31,000	31,000	31,000	372,000
Total Revenues	138,208	128,208	126,208	126,208	126,208	594,958	126,208	126,208	126,208	253,208	605,958	137,208	2,615,000
Expenditures	245,000	245,000	245,000	245,000	245,000	245,000	245,000	245,000	245,000	245,000	245,000	245,000	2,940,000
<b>Net Change</b>	<b>(106,792)</b>	<b>(116,792)</b>	<b>(118,792)</b>	<b>(118,792)</b>	<b>(118,792)</b>	<b>349,958</b>	<b>(118,792)</b>	<b>(118,792)</b>	<b>(118,792)</b>	<b>8,208</b>	<b>360,958</b>	<b>(107,792)</b>	<b>(325,000)</b>
Beginning Balance	(232,000)	(338,792)	(455,583)	(574,375)	(693,167)	(811,958)	(462,000)	(580,792)	(699,583)	(818,375)	(810,167)	(449,208)	(232,000)
<b>Ending Balance</b>	<b>(338,792)</b>	<b>(455,583)</b>	<b>(574,375)</b>	<b>(693,167)</b>	<b>(811,958)</b>	<b>(462,000)</b>	<b>(580,792)</b>	<b>(699,583)</b>	<b>(818,375)</b>	<b>(810,167)</b>	<b>(449,208)</b>	<b>(557,000)</b>	<b>(557,000)</b>
<b>Lighting/Landscape</b>													
Revenues						97,500					97,500		195,000
Expenditures	7,917	7,917	7,917	7,917	7,917	7,917	7,917	7,917	7,917	7,917	7,917	7,917	95,000
<b>Net Change</b>	<b>(7,917)</b>	<b>(7,917)</b>	<b>(7,917)</b>	<b>(7,917)</b>	<b>(7,917)</b>	<b>89,583</b>	<b>(7,917)</b>	<b>(7,917)</b>	<b>(7,917)</b>	<b>(7,917)</b>	<b>89,583</b>	<b>(7,917)</b>	<b>100,000</b>
Beginning Balance	348,100	340,183	332,267	324,350	316,433	308,517	398,100	390,183	382,267	374,350	366,433	456,017	348,100
<b>Ending Balance</b>	<b>340,183</b>	<b>332,267</b>	<b>324,350</b>	<b>316,433</b>	<b>308,517</b>	<b>398,100</b>	<b>390,183</b>	<b>382,267</b>	<b>374,350</b>	<b>366,433</b>	<b>456,017</b>	<b>448,100</b>	<b>448,100</b>
<b>Water Fund</b>													
Revenues	152,417	152,417	152,417	152,417	152,417	152,417	152,417	152,417	152,417	152,417	152,417	152,417	1,829,000
Expenditures	51,950	51,950	51,950	51,950	51,950	51,950	51,950	51,950	51,950	51,950	51,950	780,950	1,352,400
<b>Net Change</b>	<b>100,467</b>	<b>100,467</b>	<b>100,467</b>	<b>100,467</b>	<b>100,467</b>	<b>100,467</b>	<b>100,467</b>	<b>100,467</b>	<b>100,467</b>	<b>100,467</b>	<b>100,467</b>	<b>(628,533)</b>	<b>476,600</b>
Beginning Balance	657,400	757,867	858,333	958,800	1,059,267	1,159,733	1,260,200	1,360,667	1,461,133	1,561,600	1,662,067	1,762,533	657,400
<b>Ending Balance</b>	<b>757,867</b>	<b>858,333</b>	<b>958,800</b>	<b>1,059,267</b>	<b>1,159,733</b>	<b>1,260,200</b>	<b>1,360,667</b>	<b>1,461,133</b>	<b>1,561,600</b>	<b>1,662,067</b>	<b>1,762,533</b>	<b>1,134,000</b>	<b>1,134,000</b>
<b>Wastewater Fund</b>													
Revenues	86,042	86,042	86,042	86,042	86,042	86,042	86,042	86,042	86,042	86,042	86,042	461,042	1,407,500
Expenditures	68,408	68,408	68,408	68,408	68,408	68,408	68,408	68,408	68,408	68,408	68,408	478,408	1,230,900
<b>Net Change</b>	<b>17,633</b>	<b>17,633</b>	<b>17,633</b>	<b>17,633</b>	<b>17,633</b>	<b>17,633</b>	<b>17,633</b>	<b>17,633</b>	<b>17,633</b>	<b>17,633</b>	<b>17,633</b>	<b>(17,367)</b>	<b>176,600</b>
Beginning Balance	21,300	38,933	56,567	74,200	91,833	109,467	127,100	144,733	162,367	180,000	197,633	215,267	21,300
<b>Ending Balance</b>	<b>38,933</b>	<b>56,567</b>	<b>74,200</b>	<b>91,833</b>	<b>109,467</b>	<b>127,100</b>	<b>144,733</b>	<b>162,367</b>	<b>180,000</b>	<b>197,633</b>	<b>215,267</b>	<b>197,900</b>	<b>197,900</b>
<b>Total Ending Balance</b>	<b>798,192</b>	<b>791,583</b>	<b>782,975</b>	<b>774,367</b>	<b>765,758</b>	<b>1,323,400</b>	<b>1,314,792</b>	<b>1,306,183</b>	<b>1,297,575</b>	<b>1,415,967</b>	<b>1,984,608</b>	<b>1,223,000</b>	<b>1,223,000</b>