



DATE: 06/30/09

TO: Mayor Harold Perrin & Finance Committee

cc: Jonesboro City Council & All Department Heads

FROM: Jim W. Barksdale, Finance Director

RE: JETS Cash Flow Issues

The situation with JETS cash flow can be explained by two very significant impacts to JETS. The first was due to an accounting change to properly quantify each cost center's expenditures. The second was due to a drawdown error that took place in February of 2008. Below, I have attempted to provide you with details that will explain what and why this happened.

ISSUE #1 - IMPACT OF ACCOUNTING CHANGE

In the past, these expenditures for pension cost, insurance and license and workman's compensation insurance were paid in the consolidated billing to the City. In 2006, 2007 and 2008, the funds came out of the General Fund, instead of the JETS Fund.

In the 2009 budgeting process we put all known cost in their appropriate cost center. **The 2009 cost of pension cost, building content insurance & license and workman's compensation insurance for JETS will be \$69,261.15.** (See Attached Spreadsheet and Proposed Budget Amendment) This change in accounting procedure had caused JETS to pay these costs out of the \$130K subsidy, which was not done in the previous three year.

This resulted in a need for temporary cash flow loans from the General Fund. So far this year, we have made several loans to JETS and \$100K is due back to the General Fund in 2009. (See attached trial balance detail for JETS loans)

Since there was no written policy, we asked the Council to approve a temporary loan for \$50K, which they did in March's meeting, until a permanent funding solution was developed in the 2010 budget process. However, in June, an additional temporary loan of \$50K was required to cover cash flow.

In addition to approving a \$69,261.15 budget amendment for JETS, the City needs to decide how to handle the \$100K in outstanding loans to the General Fund.

ISSUE # 2 - IMPACT OF INCORRECT 2008 DRAWDOWN

The drawdown for \$228,201 was made on February 21, 2008. The draw down was incorrectly classified by Former Transit Director as capital expenditures but should have been operational expenditures. The significance of that is, capital cost is reimbursed at 80 cents on the dollar while operational cost is only 50 cents on the dollar.

The error was discovered by the auditors during the FTA Triennial Review. FTA gave JETS a deadline of June 30, 2008 to correct the mistake by debiting grant X076 in the amount of \$228,201 and crediting grant X066 with the same amount. In other words, instead of repaying the money out of City's General Fund, it was to be repaid out of the next grant – X066.

We explained to FTA that we did not have available funds to repay the mistake. FTA granted a 90-day extension to complete the application for the new grant; this gave JETS until the end of 2008. The new grant would have sufficient funds to repay the capital grant with operating funds.

We corrected this error and repaid FTA in November of 2008. Our FTA grant manager, Eddie Chavarria, closed the finding on January 15, 2009.

This mistake cost JETS many man hours by the grant manager and JETS staff trying to correct the problem from the beginning of May 2008 until it was corrected in November 2008. **Furthermore, JETS was deprived of \$68,460 in cash flow because the former director essentially spent this amount more in 2007 due to the incorrect classification.**



JETS Cost Paid by City of Jonesboro

| | Budgeted 2009 |
|---|----------------------|
| Annual Subsidy to JETS | \$ 130,000.00 |
| <u>Other JETS Expenditures (1)</u> | |
| Pension Cost | \$ 26,303.00 |
| Insurance and Licenses (2) | \$ 8,253.00 |
| Workman's Compensation | \$ 34,705.15 |
| Total Non-Subsidy Cost | \$ 69,261.15 |
| Total Support to JETS from City of Jonesboro | \$ 199,261.15 |

NOTE (1): *These expenditures were previous paid in the consolidated billing to the City. The funds actually were paid out of the General Fund, not the JETS Fund.*

NOTE (2): *The insurance invoice was not billed by departments so the cost for JETS could not be broken out for 2006 - 2008. Since I did the budget by cost center, I had the insurance company break out the JETS cost seperately on the invoice.*