



## **STAFF REPORT TO THE CITY COUNCIL**

**DATE:** Regular Meeting of January 14, 2025

**TO:** Mayor and Members of the City Council

**VIA:** Dante Hall, City Manager

**SUBMITTED BY:** Edwin Gato, Director of Finance

**SUBJECT:** Acceptance of the Annual Comprehensive Financial Report and other regulatory financial reports for the Fiscal Year Ended June 30, 2024.

### **RECOMMENDED ACTION:**

Receive the Fiscal Year (FY) 23-24 Annual Comprehensive Financial Report (ACFR) and Accept the Audited Financial Statements.

### **EXECUTIVE SUMMARY:**

The Annual Comprehensive Financial Report (ACFR) for the fiscal year ending June 30, 2024, is now complete and ready for City Council approval. Alongside the ACFR, additional audit compliance reports are also being submitted for acceptance.

This report presents the final audited ACFR for the year ending June 30, 2024. The City received an unmodified (or "clean") audit opinion, confirming the fair presentation of its financial position as of that date. Overall, the City's finances demonstrate stability, reflecting sound management practices and prudent financial decisions.

### **BACKGROUND:**

The Annual Comprehensive Financial Report (ACFR) presents a clear and organized overview of the City's financial condition and activities, ensuring compliance with the accounting and financial reporting standards established by the Governmental Accounting Standards Board (GASB). This report offers valuable historical and comparative data for City staff, elected officials, and external stakeholders, including debt rating agencies, businesses, other public agencies, and City residents. The most recent ACFR, along with

reports from previous years, is available at the City's libraries, the Finance Department, and the City's Finance website at:

<https://www.ci.hercules.ca.us/government/finance/comprehensive-annual-financial-reports>.

The City of Hercules compiles audited financial statements for each fiscal year, as mandated by various financing covenants and regulations concerning restricted funding. To guarantee compliance with these requirements and bond indentures, the City engages an independent audit firm. The Pun Group, as the City's external auditor, has successfully completed the independent audit and issued the audit report for the fiscal year ending June 30, 2024.

The quality of the City's financial reporting and the ACFR is evaluated through two key measures: (1) the issuance of an unmodified audit report by independent auditors and (2) the receipt of the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association (GFOA). Attaining the latter is regarded as the highest form of recognition in governmental accounting and financial reporting.

Auditors adhere to the standards established by the American Institute of Certified Public Accountants (AICPA). These standards necessitate that auditors provide an opinion on specific aspects of the City's financial statements, based on a comprehensive process of observations, inquiries, transaction testing, and analysis.

## **ANALYSIS:**

We are pleased to present the City of Hercules Annual Comprehensive Financial Report (ACFR) for the fiscal year ending June 30, 2024. This report adheres to the governmental financial reporting model, which accurately represents the City as a singular government-wide entity while also offering traditional fund-based financial statements.

The City's financial statements have been thoroughly audited by the independent auditing firm, The Pun Group. They have issued an unmodified audit opinion, often referred to as a "clean" opinion, confirming that the City's financial position as of June 30, 2024, is fairly presented. The findings in the ACFR indicate that the City continues to uphold a sound and stable financial position.

In addition, the City of Hercules has been honored with the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association of the United States and Canada (GFOA) for its fiscal year 2022-23 ACFR. This prestigious recognition reflects the City's ongoing commitment to transparency and accountability in its financial practices and marks the fourth consecutive year that this esteemed award has been received.

To qualify for the Certificate of Achievement, governments must prepare an annual financial report that is not only clear and well-organized but also compliant with generally accepted accounting principles and applicable legal regulations. It is important to note that this certificate is valid for one year. The FY 2023-24 ACFR has been prepared in accordance

with these rigorous standards and has been submitted to the GFOA for evaluation with the aim of receiving another certificate.

## **FILINGS WITH THE STATE CONTROLLER’S OFFICE AND ISSUANCE OF SUPPLEMENTAL REPORTS**

The City is responsible for preparing the City Financial Transactions Report, which is an important document submitted to the California State Controller’s Office. This report provides insight into the city’s financial activities and ensures transparency in fiscal management.

In addition to this primary report, the City is required to produce several supplemental documents to comply with local and state regulations. These include the FY 2023-24 Wastewater Financial Report, which outlines the financial status of the city’s wastewater operations; the Agreed Upon Procedures (AUP) for Measures B and N, which evaluate specific financial practices; and the GANN Appropriation Limit Calculation, which determines the maximum amount of tax revenue the city can appropriate. All these reports are attached for reference.

## **OTHER OUTSTANDING AUDITS**

The City conducts a separate single audit in accordance with the Federal Single Audit Act and guidance from the U.S. Office of Management and Budget regarding audits of state and local governments. This report must be submitted to the federal clearinghouse no later than March 31 each year. The single audit for fiscal year 2023-24 is currently in progress and will be submitted by the deadline.

## **FISCAL IMPACT:**

The audited results for the fiscal year 2023-24 will serve as a foundational reference in the development of the fiscal year 2025-26 budget. Staff will subsequently return to the Council for the FY 2024-25 mid-year budget update.

The chart below illustrates that the City’s General Fund wrapped up the year with a modest surplus exceeding \$400,000. This positive outcome reflects the careful and effective management of the City’s finances, showcasing a commitment to fiscal responsibility and prudent budgeting practices.

Revenues	\$20,329,001
Less: Expenditures	(18,244,538)
Less: Transfers/Others	(1,014,375)
Net (as reported in ACFR)	1,070,088
Less: Outstanding Encumbrances	(626,897)
<b>Net Annual Surplus (Deficit)</b>	<b><u><u>\$443,191</u></u></b>

On June 28, 2022, the City Council conducted a thorough review and subsequently approved amendments to the financial principles and policies during the budget adoption process, as recorded in Resolution No. 22-056. This resolution specifies a strategic

allocation of the General Fund surplus intended to bolster the city's financial stability and facilitate future growth. The surplus will be distributed as follows:

- 25% will be designated for the Operating Reserve, ensuring the city maintains a robust financial safety net for unforeseen expenses and economic uncertainties.
- 25% will fund the Section 115 trust for pensions, reinforcing the city's commitment to providing secure retirement benefits for its employees.
- 50% will be invested in future capital improvement projects to enhance public infrastructure and support community development initiatives.

These allocations reflect a prudent approach to fiscal management and a forward-looking strategy for effectively meeting the community's needs.

**ATTACHMENTS:**

1. FY 23-24 Annual Comprehensive Financial Report (ACFR)
2. FY 23-24 Hercules Wastewater Fund Financial Statements
3. FY 23-24 Agreed Upon Procedures (AUP) Report on Measure B
4. FY 23-24 Agreed Upon Procedures (AUP) Report on Measure N
5. FY 24-25 Agreed Upon Procedures (AUP) Report on GANN Appropriation Limit Calculation
6. FY 23-24 AU-C260\_Required Communications/Conclusion Letter
7. Presentation