

City of Hercules

AU-C 260 Communication With Those Charged With Governance

For the Year Ended June 30, 2022

February 14, 2023



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SCOPE OF WORK

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- Audit of the Comprehensive Annual Financial Report
- Audit of the Hercules Wastewater Fund
- Report on internal control over financial reporting and on compliance in accordance with *Government Auditing Standards*
- Agreed Upon Procedures:
 - GANN Limit
 - Measure B – Transactions and Use Tax Revenues
 - Measure C – Utility Users Tax Rate Revenues
- Communication with Those Charged with Governance

OUR RESPONSIBILITY IN ACCORDANCE WITH PROFESSIONAL STANDARDS

- Form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America
- Our responsibility is to plan and perform the audit to obtain “reasonable” assurance (not “absolute” assurance) about whether the financial statements are free of material misstatements.
- Exercise professional judgment and maintain professional skepticism throughout the audit.
- We considered internal control over financial reporting. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City’s ability to continue as a going concern for a reasonable period of time.

Required Communications (AU-C 260) (Report to the City Council)

Required Communications (AU-C 260)

- **Ethics and Independence**
 - Complied with ALL relevant ethical requirements regarding independence
- **Significant Accounting Policies**
 - The City disclosed all significant accounting policies in Note 1 to the financial statements.
 - The City implemented GASB Statement No. 87, *Leases*
- **Significant Estimates**
 - Fair Value on Investments
 - Depreciation and Amortization on Capital and Lease Assets
 - Lease Receivable and related Deferred Inflows of Resources
 - Lease Payable
 - Net Pension Liability
 - Net OPEB Liability

Required Communications (AU-C 260)

- **Sensitive Disclosures**
 - Note 4 – Lease Receivable
 - Note 8 – Retirement Plans
 - Note 9 – Deferred Compensation Plan
 - Note 10 – Other Postemployment Benefits
 - Note 11 – Risk Management
 - Note 12 – Commitments and Contingencies
 - Note 13 – Joint Powers Agreements
 - Note 17 – Special Items
 - Note 18 – Restatement

Required Communications (AU-C 260)

- **Misstatements**
 - There were uncorrected misstatement reported.
- **Consultation with Other Accountants**
 - Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and other matters.
- **Significant Difficulties**
 - We encountered no significant difficulties in dealing with management.
- **Disagreement with Management**
 - We did not have any disagreement with management in terms of accounting treatments nor audit procedures performed.

OVERVIEW OF THE FINANCIAL STATEMENTS

Net Position @ June 30, 2022

	Governmental Activities	Business-type Activities	Total
Total Assets	\$ 132,113,254	\$ 67,607,302	\$ 199,720,556
Total Deferred Outflows of Resources	4,431,651	201,404	4,633,055
Total Liabilities	38,550,171	32,938,188	71,488,359
Total Deferred Inflows of Resources	20,020,393	600,117	20,620,510
Net Position:			
Net investment in capital assets	60,257,709	15,704,349	75,962,058
Restricted	9,237,967	-	9,237,967
Unrestricted	8,478,665	18,566,052	27,044,717
Total Net Position	<u>\$ 77,974,341</u>	<u>\$ 34,270,401</u>	<u>\$ 112,244,742</u>

Changes in Net Position

	Governmental Activities	Business-type Activities	Total
Expenses	\$ 24,483,746	\$ 5,221,938	\$ 29,705,684
Program revenues:			
Charges for services	2,827,552	5,852,278	8,679,830
Operating grants and contributions	16,934,012	-	16,934,012
Total program revenues	19,761,564	5,852,278	25,613,842
Net cost of services	(4,722,182)	630,340	(4,091,842)
General revenues	17,206,844	(157,318)	17,049,526
Special items	(39,586,347)	(10,587,627)	(50,173,974)
Net change in net position	\$ (27,101,685)	\$ (10,114,605)	\$ (37,216,290)

General Fund Balance @ June 30, 2022 and 2021

	2022	2021	Variance
Nonspendable			
Prepaid items	\$ 10,806	\$ 10,112	\$ 694
Long-term receivable	-	27,787,637	(27,787,637)
Total nonspendable	<u>10,806</u>	<u>27,797,749</u>	<u>(27,786,943)</u>
Restricted			
Pension Section 115 Trust	2,054,252	2,237,248	(182,996)
Total restricted	<u>2,054,252</u>	<u>2,237,248</u>	<u>(182,996)</u>
Assigned			
Earthquake insurance deductible	500,000	500,000	-
Fiscal neutrality reserve	4,034,517	4,034,517	-
Capital projects	450,000	450,000	-
Planning and building	953,800	846,800	107,000
Reusable bags	13,930	13,930	-
Public, Education, and Government (PEG)	70,000	70,000	-
Total assigned	<u>6,022,247</u>	<u>5,915,247</u>	<u>107,000</u>
Unassigned	<u>22,926,831</u>	<u>10,008,178</u>	<u>12,918,653</u>
Total fund balance	<u>\$ 31,014,136</u>	<u>\$ 45,958,422</u>	<u>\$ (14,944,286)</u>

Net Pension Liability

	Plan's Net Pension Liability		
	Discount Rate -1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate +1% (8.15%)
Miscellaneous	\$ 8,669,259	\$ 4,514,222	\$ 1,079,312
Safety	10,627,918	5,378,400	1,066,569
Total	\$ 19,297,177	\$ 9,892,622	\$ 2,145,881

Net OPEB Liability (Asset)

	Plan's Net OPEB Liability (Asset)		
	Current Discount		
	Discount Rate -1%	Rate	Discount Rate +1%
PEHMCA (5.15%)	\$ 295,249	\$ (14,244)	\$ (275,253)
SOMAR (3.54%)	\$ 1,595,392	\$ 1,341,133	\$ 1,158,833

AUDIT RESULTS

Audit Results

- **Financial Statements**
 - Unmodified Opinions
 - Financial Statements are fairly presented in all material respects
 - Significant accounting policies have been consistently applied
 - Estimates are reasonable
 - Disclosures are properly reflected in the financial statements
- **Agreed Upon Procedures – GANN, Measure B, and Measure C**
 - No exceptions were noted
- **AU-C 265, *Communicating Internal Control Related Matters Identified in an Audit***
 - None Reported



THE
PUN GROUP
ACCOUNTANTS & ADVISORS

Thank You



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