

# City of Hercules

## AU-C 260 Communication With Those Charged With Governance

For the Year Ended June 30, 2020

January 12, 2021



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# SCOPE OF WORK

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- Audit of the Comprehensive Annual Financial Report
- Audit of the Hercules Wastewater Fund
- Audit of the Hercules Public Financing Authority
- 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.
- 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.

# 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. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*
- **Significant Estimates**
  - Fair Value on Investments
  - Depreciation on Capital Assets
  - 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 16 – Special Items – Settlement payable to Department of Finance
- Note 17 – Subsequent Events



# Required Communications (AU-C 260)

- **Misstatements**

- There were no corrected or 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, 2020

	Governmental Activities	Business-type Activities	Total
Assets	\$ 158,551,993	\$ 82,253,339	\$ 240,805,332
Deferred Outflows of Resources	4,382,729	227,564	4,610,293
Liabilities	44,023,834	39,867,623	83,891,457
Deferred Inflows of Resources	1,752,083	107,787	1,859,870
Net Position:			
Investment in capital asset	73,639,890	11,587,259	85,227,149
Restricted	20,047,707	7,674,002	27,721,709
Unrestricted	23,471,208	23,244,232	46,715,440
Total net position	<u>\$ 117,158,805</u>	<u>\$ 42,505,493</u>	<u>\$ 159,664,298</u>

# Changes in Net Position

	Governmental Activities	Business-type Activities	Total
Expenses	\$ 26,468,326	\$ 4,593,120	\$ 31,061,446
Program Revenues:			
Charges for services	5,957,360	5,719,257	11,676,617
Operating grants and contributions	1,945,666	-	1,945,666
Capital grants and contributions	655,467	-	655,467
Total program revenues	8,558,493	5,719,257	14,277,750
<b>Net cost of services</b>	<b>(17,909,833)</b>	<b>1,126,137</b>	<b>(16,783,696)</b>
General Revenues	14,855,295	501,741	15,357,036
Special Items	(3,624,150)	-	(3,624,150)
<b>Changes in net position</b>	<b>\$ (6,678,688)</b>	<b>\$ 1,627,878</b>	<b>\$ (5,050,810)</b>

# General Fund Balance @ June 30, 2020

## **Nonspendable**

Prepaid	\$ 7,772
Section 115 trust for pension stabilization	1,974,254
Advances	<u>27,787,637</u>
<b>Total nonspendable</b>	<u>29,769,663</u>

## **Assigned:**

Encumbrances	79,314
Capital projects	450,000
Earthquake Insurance deductible	500,000
Planning and building	846,800
Reusable bags	19,000
PEG Fees	70,000
Decision Packages Carryovers	49,205
Economic Uncertainty	<u>4,191,336</u>
<b>Total assigned</b>	<u>6,205,655</u>

## **Unassigned**

<b>Total Fund Balance</b>	<u><u>\$ 44,374,263</u></u>
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# Net Pension Liability

	<b>Plan's Net Pension Liability</b>		
	<b>Discount Rate - 1% (6.15%)</b>	<b>Current Discount Rate (7.15%)</b>	<b>Discount Rate + 1% (8.15%)</b>
Miscellaneous	\$ 10,814,985	\$ 7,154,193	\$ 3,363,295
Safety	\$ 14,052,277	\$ 9,847,764	\$ 5,326,700
Total	\$ 24,867,262	\$ 17,001,957	\$ 8,689,995

# Net OPEB Liability (Asset)

	<b>Plan's Net OPEB Liability (Asset)</b>		
	<b>Discount Rate - 1%</b>	<b>Current Discount</b>	<b>Discount Rate + 1%</b>
PEHMCA (5.4%)	\$ 161,753	\$ (172,372)	\$ (449,500)
SOMAR (2.2%)	\$ 2,215,519	\$ 1,864,795	\$ 1,571,051
Total	\$ 2,377,272	\$ 1,692,423	\$ 1,121,551

# 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



# Thank You



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