



STAFF REPORT TO THE CITY COUNCIL

DATE: Special Meeting of March 12, 2024

TO: Members of the City Council

VIA: Dante Hall, City Manager

SUBMITTED BY: Edwin Gato, Director of Finance

SUBJECT: Acceptance of the FY 22-23 Annual Comprehensive Financial Report and other regulatory financial reports.

RECOMMENDED ACTION:

Receive the Fiscal Year (FY) 22-23 Annual Comprehensive Financial Report (ACFR) and Accept the Audited Financial Statements.

EXECUTIVE SUMMARY:

The Annual Comprehensive Financial Report (ACFR), which contains the Auditor's Opinion, for the fiscal year ended, June 30, 2023, is complete and ready for City Council acceptance. In addition to the ACFR, there are other audit compliance reports being presented for acceptance.

This report transmits the final audited ACFR for the year ended June 30, 2023. The City received an unmodified (or "clean") audit opinion validating the fair presentation of its financial position as of June 30, 2023. Overall, the City's finances show signs of stability, a result of the City's sound management practices and prudent financial decisions.

BACKGROUND:

The ACFR communicates the City's financial condition and activity in a transparent and organized manner and in compliance with accounting and financial reporting standards established by the Governmental Accounting Standards Board (GASB). The report presents historical and comparative information that can be useful to City staff, elected officials, and external users such as debt rating agencies, businesses, other public agencies, and the City's residents. The most recent ACFR and prior years reports are available at the

City's libraries, the City's Finance Department, and on the City's Finance website at: <https://www.ci.hercules.ca.us/government/finance/comprehensive-annual-financial-reports>

The City of Hercules prepares audited financial statements for each fiscal year as required by various financing covenants and rules associated with restricted funding. To ensure compliance with these requirements and bond indentures, the City contracts with an independent audit firm. The City's external audit firm, The Pun Group, completed the independent audit and issued the audit report for the fiscal year ended June 30, 2023.

The quality of the City's financial reporting and the ACFR are measured in two ways: (1) an unmodified audit report by the independent auditors; and (2) the Certificate of Achievement for Excellence in Financial Reporting, awarded by GFOA. The attainment of the latter is the highest form of recognition in governmental accounting and financial reporting.

Auditors follow audit industry standards established by the American Institute of Certified Public Accountants (AICPA). These standards require auditors to provide an opinion on specific areas of the City's financial statements based on observations, inquiries, testing of transactions, and analysis.

DISCUSSION:

We are pleased to present the City of Hercules ACFR for the fiscal year ending June 30, 2023. The Report is based on the governmental financial reporting model, which depicts the City as a single government-wide entity while continuing to provide traditional fund-based financial statements.

The City's external independent audit firm, The Pun Group, completed its audit of the annual Financial Statements and has issued an unmodified (or "clean") audit opinion validating the fair presentation of the City's financial position as of June 30, 2023. The City's ACFR shows that the City continued to hold a sound financial position.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Hercules for its 2022 ACFR. This is the 4th consecutive year the City has achieved this prestigious award. To be awarded a Certificate of Achievement, a government must publish an easily readable and well-organized annual financial report. This Report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for one year only. The 2023 Annual Comprehensive Financial Report continues to meet the award program's requirements and has been submitted to the GFOA to determine its eligibility for another certificate.

FILINGS WITH THE STATE CONTROLLER'S OFFICE AND ISSUANCE OF SUPPLEMENTAL REPORTS

In addition, the City prepares the City Financial Transactions Report to be submitted to the California State Controller's Office and the report was filed.

Also, the City is required to issue the following supplemental reports: the FY 22-23, Wastewater Financial Report, and Agreed Upon Procedures (AUP) for Measure B and N, and GANN Appropriation Limit Calculation as attached.

OTHER OUTSTANDING AUDITS

The City prepares a separate single audit in conformity 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 is required to be filed with the federal clearing house on or before March 31 each year. The Single Audit for FY 22-23 is still in progress and will be submitted on time.

FISCAL IMPACT:

There is no financial impact associated with accepting this report. The audited results of the FY 22-23 fiscal year are utilized as a starting point in the development of the FY 24-25 budget, especially regarding the one-time funding.

ATTACHMENTS:

1. FY 22-23 Annual Comprehensive Financial Report (ACFR)
2. FY 22-23 Hercules Wastewater Fund Financial Statements
3. FY 22-23 Agreed Upon Procedures (AUP) Report on Measure B
4. FY 22-23 Agreed Upon Procedures (AUP) Report on Measure N
5. FY 23-24 Agreed Upon Procedures (AUP) Report on GANN Appropriation Limit Calculation
6. Presentation