



STAFF REPORT TO THE CITY COUNCIL

DATE: Regular Meeting of February 13, 2018

TO: Members of the City Council

SUBMITTED BY: David Biggs, City Manager
Annie To, Finance Director

SUBJECT: FY 2016/17 Comprehensive Annual Financial Reports

RECOMMENDED ACTION: Receive the FY 2016/17 Comprehensive Annual Financial Reports and Accept the Audited Statements.

FISCAL IMPACT OF RECOMMENDATION: None as result of this action. The audited results of the 2016/17 fiscal year are utilized as a starting point in the development of the FY 2018/19 budget, especially in regard to the one-time funding.

DISCUSSION: The City of Hercules prepares audited financial statements for each fiscal year in accordance with generally accepted accounting principles (GAAP). The firm of Clifton Larson Allen (CLA) (formerly Gallina, LLP) has served as the independent auditors for FY 2016/17. CLA has completed their audit of all City funds including the General Fund, the Sewer Fund, and the Hercules Public Financing Authority. In addition, the auditor completed the Single Audit which covers federally funded programs and activities. They also performed an Agreed-Upon Procedures to the revenues received related to Measures B and C.

These audited financial report and related materials are contained in the Comprehensive Annual Financial Report (CAFR) for FY 2016/17 which is attached and available on the City's website. There are no audit findings for the FY 2016/17 CAFR. The Management Discussion and Analysis for FY 2016/17 is included in the CAFR.

The Single Audit identified a significant deficiency which relates to a transaction that was booked in FY14-15. During FY14-15, the City reported a \$5.2 million from the Redevelopment Property Tax Trust Fund (RPTTF) as unearned revenue. The City made the error originally and classified the revenue as unearned rather than as earned revenue. So, while reflected in the City's balance sheet, it was not reflected in the Operating Statement as actual revenue received. This has been corrected in the FY16-17 Financial Statements. On a forward going basis, the City will review unearned revenue balances as part of its year-end closing process to ensure that revenue recognition requirements have not been met for amounts reported as unearned.

The Audit Partner from CLA will be attending the City Council meeting to provide an overview of their audit.

Review and Analysis

The budget for FY 2016/17 was adopted with a small operating surplus of approximately \$21K. The 2017/18 budget was developed using estimated positive year-end results for FY 2016/17 of approximately \$2.25 million.

On the revenue side, actual revenues in the general fund operating budget were a net of (\$865K), which is slightly below the final budget FY16-17. Even with slightly lowered actual revenues than budgeted revenues, the net change in Fund Balances at the end of June 30, 2017 is \$2.3 million as shown in the FY16-17 audited report.

On the expenditure side, actual expenditures in the general fund operating budget were a net of \$3 million lower than the final budget for FY16-17. This was due primarily, to lower than budgeted healthcare cost increases, vacant positions in multiple departments, lower legal expenses, lower debt service payments in Finance, and lower claim payouts. Though some one-time planned projects and activities were not completed and will still be undertaken. The proposed budget for FY 2018/19 will include modifications in these areas to capture the surplus and to carry-over any one-time funding.

The FY16-17 results in a \$2.3 million positive change to fund balance in the General Fund. Most of this amount was anticipated at the time the FY 2017/18 budgeted was developed and was allocated as part of that process either as one-time or on-going expenditures as reflected in the Budget Balancing Spreadsheet.

ATTACHMENTS:

1. FY 16/17 City Annual Financial Report
2. FY 16/17 PFA Annual Financial Report
3. FY 16/17 Waste Water Financial Report
4. FY 16/17 Single Audit Report
5. FY 16/17 City of Hercules GANN report
6. FY 16/17 Agreed Upon Procedure (AUP) for Measures B
7. FY 16/17 Agreed Upon Procedure (AUP) for Measures C

<i>Financial Impact</i>			
Description: No Fiscal Impact			
Funding Source:			
Budget Recap:			
Total Estimated cost:	\$	New Revenue:	\$
Amount Budgeted:	\$	Lost Revenue:	\$
New funding required:	\$	New Personnel:	\$
Council Policy Change: Yes <input type="checkbox"/> No <input type="checkbox"/>			