



STAFF REPORT TO THE FINANCE COMMISSION

DATE: Regular Meeting of January 14, 2019

TO: Members of the Finance Committee

SUBMITTED BY: David Biggs, City Manager/Executive Director

SUBJECT: FY 2017/18 Comprehensive Annual Financial Reports

RECOMMENDED ACTION: Receive the FY 2017/18 Comprehensive Annual Financial Reports and Accept the Audited Statements.

FISCAL IMPACT OF RECOMMENDATION: None as result of this action. The audited results of the 2017/18 fiscal year are utilized as a starting point in the development of the FY 2019/20 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 Galina, LLP) has served as the independent auditors for FY 2017/18. 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 reports and related materials are contained in the Comprehensive Annual Financial Report (CAFR) for FY 2017/18 which is attached and available on the City's website. There are no audit findings for the FY 2017/18 CAFR. There are no audit findings for the Single Audit as well. The Management Discussion and Analysis for FY 2017/18 is included in the CAFR.

The Audit Partner from CLA attended the City Council meeting on January 14, 2019 to provide an overview of their audit.

Review and Analysis

The budget for FY 2017/18 was adopted with operating deficit of approximately \$2.5million. The 2017/18 budget was developed using estimated positive year-end results for FY 2017/18 of approximately \$3.6 million.

On the revenue side, actual revenues in the general fund operating budget were a net of \$2.25 million, which is slightly below the final budget FY17-18. Even with slightly lowered actual revenues than budgeted revenues, the net change in Fund Balances at the end of June 30, 2018 is \$2.6 million as shown in the FY17-18 audited report.

On the expenditure side, actual expenditures in the general fund operating budget were a net of \$3.8 million lower than the final budget for FY17-18. This was due primarily to lower than budgeted healthcare cost increases, vacant positions in multiple departments, and lower debt service payments in Finance. Though some one time planned projects and activities were not completed and will still be undertaken. The proposed budget for FY 2019/20 will include modifications in these areas to capture the surplus and to carry-over any one-time funding.

The FY17-18 results in a \$2.6 million positive change to fund balance in the General Fund. Most of this amount was anticipated at the time the FY 2017/18 budget 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 17/18 City Annual Financial Report
2. FY 17/18 PFA Annual Financial Report
3. FY 17/18 Waste Water Financial Report
4. FY 17/18 Single Audit Report
5. FY 17/18 City of Hercules GANN report
6. FY 17/18 Agreed Upon Procedure (AUP) for Measures B
7. FY 17/18 Agreed Upon Procedure (AUP) for Measures C
8. FY 17/18 Governance Letter

| <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"/> | | | |