



STAFF REPORT TO THE CITY COUNCIL

DATE: Regular Meeting of January 22, 2019

TO: Members of the City Council

SUBMITTED BY: David Biggs, City Manager
Edwin Gato, Finance Director

SUBJECT: FY 2017/18 Comprehensive Annual Financial Reports

RECOMMENDED ACTION: Receive the Fiscal Year (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 Finance Commission reviewed and discussed the audit at their January 14, 2019, meeting. While the Finance Commission had some detailed follow-up questions primarily regarding the year end results, they were complimentary regarding the audit and its timely completion.

The Audit Partner from CLA will attend the City Council meeting on January 22, 2019 to provide an overview of their audit.

Review and Analysis

The General fund is the chief unrestricted operating fund of the City. On June 30, 2018, the City's General Fund had a fund balance of over \$44 million, which included unassigned funds of approximately \$14 million and \$30 million were committed and assigned for long-term obligations, general operations, and fiscal neutrality.

The budget for FY 2017/18 was adopted with total expenditures exceeding annual revenues by approximately \$2.5 million, due to one-time decision packages and transfers approved by the City Council. The operating budget approved had a small operating surplus. The FY 2017/18 year-end resulted in an overall surplus of \$2.6 million including transfers, which was \$5.3 million better than estimated. The total revenues received were higher compared to the City's estimated revenues by \$2.2 million on Licenses and Permits, Aid from other governments, charges for services, and miscellaneous revenues. Total expenditures were \$3.8 million lower than the final budget for FY 2017/18. This was due primarily to lower than budgeted healthcare cost increases, vacant positions in multiple departments, and one-time planned projects and activities, included in decision packages, which were not completed and will still be undertaken.

Most of these amounts were 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. The proposed budget for FY 2019/20 will include modifications in these areas to capture the surplus and to carry-over and re-budget these one-time projects and activities as needed.

The statements of revenues, expenditures, and changes in fund balances in the audit have been prepared on the modified accrual basis of accounting in accordance with Generally Accepted Accounting Procedures (GAAP). The City adopts its budgets each fiscal year on a cash basis of accounting, which results in some items which are budgeted as expenditures, like transfers to reserves, being reflected in the audit as balance sheet adjustments.

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

Financial Impact

Description:

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"/>		