



STAFF REPORT TO THE FINANCE COMMISSION

DATE: Special Meeting of December 9, 2019

TO: Members of the Finance Committee

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

SUBJECT: FY 2018-19 Comprehensive Annual Financial Reports

RECOMMENDED ACTION: Receive the Fiscal Year (FY) 2018-19 Comprehensive Annual Financial Reports (CAFR) and Accept the Audited Statements.

FISCAL IMPACT OF RECOMMENDATION: None as result of this action. The audited results of the 2018-19 fiscal year are utilized as a starting point in the development of the FY 2020-21 budget, especially in regard to the one-time funding.

DISCUSSION: The City of Hercules prepares audited financial statements for each fiscal year as required by various financing covenants and rules associated with restricted funding sources, under generally accepted accounting principles (GAAP). To ensure compliance with these requirements and bond indentures, the City contracts with an independent audit firm. The City's external audit firm, Clifton Larson Allen (CLA) (formerly Galina, LLP), has served as the independent auditors for year-ending June 30, 2019.

The CAFR is a comprehensive document reflecting the financial position of the City. The CAFR's Management's Discussion and Analysis, provide an overview and analysis of the financial activities for the year ended June 30, 2019. 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 GAAP. The term "basis of accounting" is used to describe the timing of recognition, that is, when the effects of transactions or events should be recognized. The CAFR and other reports are attached. These audited financial reports and related materials are contained in the CAFR for FY 2018-19, which is attached and available on the City's website.

It should be noted that this completion of the annual audit by the City's independent auditor this year is the earliest it has occurred in a considerable time. Given our ability to present the audit to the City Council this early in December, the auditors were unavailable to attend to provide their overview. Should the City Council desire, the auditors can be invited to present at a meeting after the first of the year.

REVIEW AND ANALYSIS

The City's external independent audit firm, CLA, 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, 2019. The City's CAFR shows that the City continued to hold a sound financial position for FY 2018-19.

GENERAL FUND

The General fund is the chief unrestricted operating fund of the City. On June 30, 2019, the City's General Fund had a fund balance of over \$45 million, of which \$10 million is unassigned, and \$2.5 million is available for expenditures. The General Fund operation resulted in annual revenue exceeded total expenditures by approximately \$1 million due primarily to the unanticipated residual tax increment pass-through from the former Redevelopment Agency, and expenditure savings as a result of unfilled authorized positions.

OTHER GOVERNMENTAL FUNDS

Fund balances in the City's other restricted governmental funds (including Debt Service, Gas Tax, Measure C Street Fund, City Capital Projects, and other governmental funds) totaled approximately \$21 million as of June 30, 2019. These funds are governed by many covenants and restrictions and may only be used on specific projects and programs.

INTERNAL SERVICE FUNDS

The available net position (i.e., working capital) in the City's Internal Service Funds totaled approximately \$1.3 million as of June 30, 2019. This was higher by \$400,000 compared to the ending balance in the prior fiscal year due to an accumulation of reserves to meet future fleet, equipment, and information technology replacements, and facility maintenance needs.

SEWER ENTERPRISE FUND

The net position in the City's Sewer Fund totaled approximately \$40.8 million as of June 30, 2019, which was \$1.3 million greater than the ending balance in the prior fiscal year. Of the \$40.8 million in net position, \$9.4 million is invested in capital assets, \$7.6 million is restricted for debt service, and \$23.9 million is unrestricted for sewer system replacement.

The basis of accounting used for purposes of financial reporting in accordance with GAAP is not necessarily the same basis used in preparing the budget document. For example, governmental funds are required to use the modified accrual basis of accounting in GAAP financial statements. In contrast, the cash basis of accounting or the "cash plus encumbrances" basis of accounting may be used in those same funds for budgetary purposes. Disparities between GAAP and the budgetary basis of accounting often occur because regulations governing budgeting (e.g., laws or ordinances of the state, county, city, or some other jurisdiction) differ from GAAP. Thus, 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 for example, transfers to reserves, being reflected in the audit as balance sheet adjustments.

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

The City prepares the City Financial Transactions to be submitted to the California State Controller's Office by January 31, 2019. Also, the City is required to issue the following supplemental reports: the FY 19-20 Public Financing Authority Financial Report, Waste Water Financial Report, and Agreed Upon Procedures (AUP) for Measure B and C by December 31, 2019. These reports are expected to be completed and issued by the due dates.

ATTACHMENTS:

1. FY 18-19 City Annual Financial Report
2. FY 18-19 City of Hercules GANN report
3. FY 18-19 Governance Letter

<i>Financial Impact</i>			
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"/>			