



Council Agenda Report

From: Deanne Purcell, Interim Administrative Services Director

Subject: Comprehensive Annual Financial Report

Date: January 17, 2017

Facts

1. A Comprehensive Annual Financial Report (CAFR) is prepared to provide comprehensive and detailed information regarding the financial results of City operations. The information presented is developed by an independent, outside auditor, using accepted standards and report formats, to ensure that light is shined on the City's financial practices and overall financial condition, revealing both the good and the bad.
2. The CAFR is prepared in accordance with generally accepted accounting procedures (GAAP), including compliance with pronouncements issued by the Governmental Accounting Standards Board (GASB). The report is designed to highlight changes in the City's financial condition and practices over time and to enable meaningful comparison with other cities.
3. An audit of the City's financial records was performed by the outside certified public accounting firm, Moss, Levy & Hartzheim, who has been the City's auditor for the past decade.
4. The audit addresses the City's General Fund, each of the City's enterprise funds, and all of the City's other funds. Each and every financial practice and transaction is able to be examined.
5. The opinion letter issued by Moss, Levy & Hartzheim for FY 2015-6 is Unqualified (clean) and indicates that the financial statements and other information reported in the CAFR fairly represent, in all material respects, the financial position of the City as of June 30, 2016.
6. Hard copies of the CAFR are available for review in the City Library and City Clerk's Office at 1000 Spring Street; and the Administrative Services Offices at 821 Pine Street. A reference copy for the City Council has been placed in the City Council office. An electronic copy of the CAFR is on the City's website.

Options

1. Do nothing.
2. Receive and file the Comprehensive Annual Financial Report for the fiscal year ending June 30, 2016.
3. Provide alternative direction to staff or the auditor.

Analysis and Conclusions

Key results for major funds are summarized below:

General Fund – The General Fund's fund balance is \$28.7 million, which is an increase of just under \$10 million from the prior fiscal year. Of this amount, \$6.1 million was a "transfer in" due to a consolidation of some of the smaller nonmajor funds into the General Fund. Of the \$28.7 million in fund balance, approximately \$8.6 million is restricted and \$5.6 million is set aside for General Fund reserves (15% of operating), which leaves \$14.5 million "unassigned" and available to meet the City's current and future

needs. [Note: the Council's recently approved increase in minimum reserves to 20% of operating expenditures will be reflected in the next CAFR.]

Water Operations – The Water Fund ended the year with a reduction of \$1.3 million in its reserves primarily due to the decrease in revenues from water use restrictions imposed by the State and the construction of the Water Treatment Plant. The reduction due to construction was planned during the last water rate study. The adopted rates, which began in January 2012, were increased annually over the five-year study period. A proposed new rate structure went into effect on January 1, 2017, which will allow for the fund to replenish its reserves over the five-year planning period and include a new \$5 per month fixed fee per customer in the first year in addition to a consumption based usage charge on a per unit basis.

Operating revenues exclude such items as interest income, taxes, proceeds from grants; proceeds from debt issuance, impact fees, and developer contributed fixed assets and sale of surplus property. Operating expenses exclude interest expense, contributions to other agencies, bond issuance costs, and the acquisition of fixed assets.

Water operations experienced an operating deficit of approximately \$3.2 million, which is a reduction of its reserves that are used to cover unfunded depreciations expenses, and to pay back the Water Fund for the construction of the new water treatment plant.

With regard to cash resources, the balance at June 30, 2016 was \$7.4 million. For reporting purposes, all water related funds are consolidated, i.e., these cash balances include development impact fees as well as user fees.

Sewer Operations – The Sewer Fund ended the year with a \$1.5 million addition to its reserves (a.k.a., retained earnings). In July 2012, new sewer rates were implemented and will increase annually for the next five years. These new rates incorporated the debt service for the recently upgraded Wastewater Treatment plant, the largest capital project in the City's history. The project has been funded by a State Revolving Fund loan with an interest of only 1.7%. The loan balance at June 30, 2016 was \$44.7 million.

Operating revenues exclude such items as interest income, taxes, proceeds from grants; proceeds from debt issuance, impact fees, developer contributed fixed assets, and sale of surplus property. Operating expenses exclude interest expense, contributions to other agencies, bond issuance costs, and the acquisition of fixed assets.

Sewer operations experienced an operating "surplus" (a.k.a., retained earnings, commonly known as "increase to reserves") of approximately \$1.5 million. These additional funds will become part of the fund reserves to cover unfunded depreciation expenses and to help pay the new debt service payments, which began in FY 2015-16.

With regard to cash resources, the balance at June 30, 2016 was \$13.5 million. For reporting purposes, all wastewater related funds are consolidated, i.e., these cash balances included development impact fees as well as user fees.

Airport Operations – The Airport Funds ended the year with a \$30 thousand addition to its cash reserves. However, the Airport Fund was not able to cover its entire depreciation costs of \$386 thousand, such that it showed an operating "loss" of \$84 thousand. The Airport Fund has a loan with the State for the Airport Fuel Facility project. The current balance at June 30, 2016 is \$549 thousand.

With regard to cash resources, the balance at June 30, 2016 was \$2.0 million. This includes the Airport Operations fund, Airport Capital Match fund, and the Airport Terminal Repair fund.

Fiscal Impact

None.

Recommendation

Receive the Comprehensive Annual Financial Report (CAFR), which includes the Independent Auditor's Report on the City's financial statements for the Fiscal Year Ended, June 30, 2016.

Attachments

1. CAFR

Please Refer to Attachment Document:

Attachment 1 – Comprehensive Annual Fiscal Report

<http://www.prcity.com/government/departments/adminservices/reports.asp>

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