



# Council Agenda Report

**From:** Ryan Cornell, Finance Manager

**Subject:** Comprehensive Annual Financial Report for Fiscal Year 2018-19

**Date:** December 17, 2019

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## Facts

1. The Comprehensive Annual Financial Report (CAFR) is a set of financial statements comprising the financial report of the City. The information presented has been reviewed by an independent auditor, using accepted standards and report formats, to ensure the accuracy on the City's financial practices and overall financial condition.
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 allow consistencies between all state, municipal, and other governmental agencies.
3. An audit of the City's financial records was performed by the outside certified public accounting firm, Brown Armstrong CPA's.
4. City management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
5. The independent auditors issued an unqualified opinion, meaning 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, 2019 and the financial activities beginning on July 1, 2018 and ending on June 30, 2019.
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 Office 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 also available on the City's [website](#).

## Options

1. Take no action;
2. Receive and file the Comprehensive Annual Financial Report for the fiscal year ending June 30, 2019;  
or
3. Provide alternative direction to staff or the auditor.

## Analysis and Conclusions

State law requires that every general-purpose local government publish an annual report on its financial position and activity, and that the report be audited by an independent firm of certified public accountants. Taken together, the CAFR, the multi-year fiscal forecast, and the budget provide the best overview of the City's fiscal health and opportunities for future financial stability. Because the CAFR is audited by an independent expert, the report provides additional assurance to the community that the City is being a responsible steward of the community's tax dollars.

The City's financial statements, internal documents, and controls have been audited by Brown Armstrong, Certified Public Accountants. The goal of the independent audit was to provide reasonable assurance that

the financial statements of the City for the fiscal year ended June 30, 2019 are free of material misstatements. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditors' report is presented as the first component of the financial section of this report.

#### CAFR Organization

The City's CAFR is organized into three major sections: Introductory, Financial, and Statistical. The following is a brief summary of the contents of each of these sections:

1. Introductory Section: The letter of transmittal and other information of general interest are presented in this section including the organizational chart, directory of officials as well as the Government Finance Officers Association's *Certificate of Achievement for Excellence in Financial Reporting*. The letter of transmittal is an opportunity for management to provide an overview of the City's activities, prospective information as well as subjective information useful in assessing the City's economic condition.
2. Financial Section: The financial section includes the report of the independent auditor, management's discussion and analysis, basic financial statements (including notes), required supplementary information and related notes, combining statements (i.e. nonmajor funds), and individual fund financial statements and schedules.
3. Statistical Section: The statistical section offers operational, economic, and historical data that provides a context for assessing the City's economic condition. Such data includes information on financial trends, information on revenue capacity, information on debt capacity, demographic and economic information, and operating information.

#### Recognition for Excellence in Financial Reporting

Beginning in fiscal year 2017-18, the City's CAFR has been awarded the *Certificate of Achievement for Excellence in Financial Reporting* from the Government Finance Officers Association of the United States and Canada (GFOA). This is a prestigious national award recognizing the City's use of the highest standards in preparing our annual financial report.

#### Financial Highlights

Key financial highlights for FY 2018-19, are as follows:

- The City issued \$13.1 million of General Obligation (GO) Bonds to refund (i.e. refinancing) prior GO-issued bonds. The refunding resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately \$4.9 million.
- The City issued \$8.1 million of Water Revenue Bonds for the purpose of providing funds for the replacement of the 21st Street Reservoir. The reservoir is an approximately four-million-gallon storage tank located on the west side of the City and a critical piece of the water system infrastructure. It is estimated that the project will be completed in 2020.
- The City's new tertiary treatment facility (i.e., for recycled water) has been under construction for the past two years and is officially in operation. As of June 30, 2019, \$14.1 million has been expended towards this new facility. The next phase of the project, the distribution system for the recycled water, is currently in design with construction anticipated over the next 3 to 4 years. The purpose of this project is to add recycled water to the City's water supply portfolio and to use recycled water for irrigation of City park facilities and to replenish the groundwater basin. The majority of the funding for these projects will be paid through low-interest State Revolving loans as well as development impact fees and current wastewater utility rates.
- The City continues to address its underfunded pension liability by making discretionary payments to both CalPERS and the Section 115 Trust (a funding mechanism where the City can set funds aside to help offset pension costs in the future). During the fiscal year, the City contributed

approximately \$3.1 million to the Section 115 Trust and \$2.0 million directly with CalPERS. As of June 30, 2019, the City's Section 115 Trust account balance was \$6.7 million, and the City anticipates contributing an additional \$917,400 in FY 2019-20.

- General Fund property, sales, and transient occupancy (i.e. hotel) taxes increased by 5.2% when compared to the previous fiscal year, for a total received of \$33.1 million. These three revenue sources comprise approximately 78% of the total revenue the General Fund receives.
- The one-half cent sales tax initiative approved by voters in 2012 generated approximately \$5.1 million in additional revenues during the fiscal year, \$115,000 more than anticipated. Although the supplemental sales tax is a general tax and can be used for general purposes, City Council has continued to appropriate general funds in amounts over and above that generated by the tax directly toward street and road repairs and maintenance.

**Fiscal Impact**

None

**Recommendation**

Receive and file 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, 2019.

**Attachments**

1. [Comprehensive Annual Financial Report \(CAFR\)](#)