



Council Agenda Report

From: Catherine Piatti, Finance Manager

Subject: Comprehensive Annual Financial Report for Fiscal Year 2019-20

Date: February 2, 2021

Facts

1. The Comprehensive Annual Financial Report (CAFR) is a set of financial statements comprising all of the financial activity of the City. The information presented in the CAFR 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 Accountancy Corporation.
4. City management is responsible for the preparation and fair presentation of the financial statements as well as the design, implementation, and maintenance of internal control. Internal controls are the mechanisms, rules, and procedures implemented by the City to ensure the integrity of financial and accounting information, promote accountability, and prevent fraud.
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, 2020 and the financial activities beginning on July 1, 2019 and ending on June 30, 2020.
6. In addition to receiving an unqualified opinion, the auditors did not note any deficiencies within the City's accounting practices or internal controls, thus informing the community that the City's financial practices contribute to the City's commitment to be trustworthy stewards of the community's tax dollars. Over the past 21 years, the City has excelled in financial reporting, resulting in various awards and audits that have been clear of findings and material misstatements.
7. 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, 2020;
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 Accountancy Corporation. 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, 2020 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 auditor's report is presented as the first component of the financial section of the CAFR.

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., non-major 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 each year with 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 2019-20 are as follows:

- The COVID-19 pandemic has had an immediate, unprecedented, and significant impact on the local economy. Tourism, specifically the taxes it generates, both in sales tax and transient occupancy tax (TOT), is a key industry in the City and it came to a screeching halt in the latter part of March 2020. As a result, for the remaining three months of FY 2019-20, sales tax and TOT had estimated revenues losses of approximately \$2.2 million (when factoring in the projected growth anticipated pre-pandemic).
- The City acquired property located at 2930 Union Road to secure a location for the City's third Fire Station. This location will not only be the site of Fire Station No. 3 but has the capacity to accommodate other essential City operations, including a backup Emergency Operations Center (EOC), a fire training facility, a police department substation, and a shooting range. The acquisition price of this 8.5 acre-lot was \$3.4 million and was paid solely with development impact fees (which are paid for by new development and not by existing residents). Development of this property will occur over the next several years, with the first phase of work starting in 2021.

- In July 2019, the City’s tertiary wastewater treatment facility project was officially completed. The project resulted in a facility that produces high quality recycled water and includes flow equalization basins, a recycled water storage pond and pump station, a nutrient harvesting system as well as a maintenance shop. The project was awarded the Global Water Awards 2020 Wastewater Project of the Year by Global Water Intelligence and was made possible using a 30-year, low-interest, loan from the Clean Water State Revolving Fund. Additionally, this project was also eligible for a State grant (via loan forgiveness) in the amount of \$4 million. The total cost of the project was approximately \$14.2 million.
- On February 4, 2020, the City Council adopted a six-year street maintenance plan that outlines how the remaining six years of the Supplemental Sales Tax revenues will be allocated to address residential streets, arterials, and collectors. The streets were selected using the “critical point pavement management” system to maximize the extension of a street’s useful life, with minimum expense. The adopted 6-Year Plan also identifies how Gas Tax and Road Maintenance and Rehabilitation Account (i.e., SB-1) funds and development impact fees will be used each year. In FY 2019-20 there were 24 streets that received comprehensive treatment, including crack sealing, slurry seal, hot spot repairs, and pavement striping for a total of \$627,674. Additionally, the project on Union Road along Barney Schwartz Park included removal and replacement of deteriorated asphalt, installation of reclaimed water lines, sewer forced main and conduit for future fiber lines, and the installation of a pedestrian activated flashing signal at the main crosswalk to Barney Schwartz Park. At completion, this project will have cost approximately \$1.8 million, with \$1.3 million expended in FY 2019-20.

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, 2020.

Attachments

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