



Council Agenda Report

From: Ryan Cornell, Administrative Services Director
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Subject: Annual Comprehensive Financial Report for Fiscal Year 2020-21

Date: December 7, 2021

Facts

1. The Annual Comprehensive Financial Report (ACFR) is a set of financial statements comprising all financial activity of the City. The information presented in the ACFR 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 ACFR 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 ACFR fairly represent, in all material respects, the financial position of the City as of June 30, 2021 and the financial activities beginning on July 1, 2020 and ending on June 30, 2021.
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 ACFR 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 ACFR 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, 2021;
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 ACFR, 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 ACFR 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, 2021 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 ACFR.

ACFR Organization

The City's ACFR 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 ACFR 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 2020-21 are as follows:

- The COVID-19 pandemic caused a lot of uncertainty surrounding the economic activity anticipated for FY 2020-21. As such, city staff took a conservative approach when estimating revenues, and projected that General Fund expenditures would exceed revenues by \$4 to \$5 million. Yet as the year went on—and as mentioned during the quarterly update reports to City Council throughout the year—revenues were being received much better than initially anticipated. In April 2021, the use of reserves (i.e., expenses exceeding revenues) was estimated to be approximately \$2 million. However, economic activity increased in the last three months of the FY so significantly, that the City's General Fund ended the fiscal year with a \$1.2 million surplus (Note: for the ACFR, the General Fund includes other funds such as the Information Technology, Fleet, and Facility Replacement Funds. As such, the financial activity of the General Fund in the ACFR will differ from quarterly budget update reports presented to City Council throughout the year).
- One of the most significant factors to this surplus is due to tourism and the taxes it generates, both in sales tax and transient occupancy tax (TOT). Despite the continuing COVID-19

pandemic, tourism activity has made a tremendous rebound in FY 2020-21 when compared to the previous fiscal years. For FY 2020-21, transient occupancy tax revenue increased by \$2 million, or 40%, when compared to FY 2019-20; \$885,000, or 14%, when compared to FY 2018-19.

- In November 2020, the voters of Paso Robles approved Measure J-20, a one-cent supplemental sales tax (SST), beginning on April 1, 2021, and ending on March 31, 2033 (unless ended earlier by the voters). It has the potential to generate approximately \$10 million each year in sales tax revenues. The main priorities for spending the Measure J-20 SST revenue are for Police, Fire and Emergency Services, and Street and Road Maintenance. For FY 2020-21, the City spent \$1.2 million of this revenue towards the 911 Communications Project; \$100,000 towards Automatic License Plate Readers; and approximately \$80,000 towards one Dispatch Supervisor, three Firefighter's, and one Street Maintenance Specialists (note: these positions were hired towards the end of the fiscal year, and as a result, the amounts shown above are the actual expenses incurred, and are not the annualized costs for these positions). Additional appropriations and positions are budgeted for FY 2021-22.
- On February 4, 2020, the City Council adopted an updated Six-Year Street Maintenance Plan which outlines which residential streets, arterials, and collectors will be maintained over the next six years. The streets selected used the 'Critical Point Pavement Management' system to maximize the extension of a streets useful life, with minimum expense. The Plan also identifies how Gas Tax, Road Maintenance and Rehabilitation Account, and development impact fees will be used each year. For FY 2020-21, the City conducted major road maintenance on the following street segments:
 - Union Road (along Barney Schwartz Park): \$1.9 million expended-to-date. Project completed in FY 2020-21.
 - Creston Road: \$1.8 million expended-to-date. Majority of the rehabilitation (from River Road to Lana Street) anticipated in FY 2022-23 after the completion of the roundabout at Golden Hill Road and Union Road.
 - Spring Street (24th Street to 36th Street): \$2.8 million expended-to-date. Project completed and in plant establishment phase.
 - Dry Creek Road Improvements: \$3.4 million expended-to-date. Phase I (Airport Road to Warbirds Museum) is completed with Phase II (from Warbirds Museum to Jardine Road) currently underway.
 - Olive, 16th, 17th, 18th, 19th and 20th Streets: \$119,000 expended-to-date. Completion anticipated in FY 2021-22.
 - Rambouillet/Nicklaus Area: \$134,000 expended to-date. Completion anticipated in FY 2021-22.
- The City purchased the leasehold interest and improvements located at 4301 Second Wind Way in the amount of \$6.1 million. The improvements include five separate buildings in which the City already owns the land on which these improvements are located. These include: two office spaces totaling 12,800 sq. ft., a 40,150 sq. ft. warehouse, and two airplane hangars totaling 6,400 sq. ft. The warehouse along with one office space and one hangar are currently being leased, with the remaining office space and hangar being utilized for police operations.
- The City also purchased a piece of property located on Union road in the amount of \$2.4 million. This property purchase was necessary for the future recycled water line distribution project and the Union Road overpass at Highway 46 East. This property will provide a needed easement for the recycled water pipeline and provide a right-of-way and construction easement for the Union Road overpass. Additionally, the City will have the ability to sell any future remnant parcel for future development. The purchase utilized General Fund reserves with a future reimbursement

from the Wastewater Fund for the recycled water line easement and anticipated reimbursements from the Traffic Impact Fee Fund for the future overpass right-of-way constructions easements.

Fiscal Impact

None

Recommendation

Receive and file the Annual Comprehensive Financial Report, which includes the Independent Auditor's Report on the City's financial statements, for the fiscal year ended, June 30, 2021.

Attachments

1. Comprehensive Annual Financial Report (ACFR)

Annual Comprehensive Finance Report

<https://www.prcity.com/ArchiveCenter/ViewFile/Item/1132>