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Title: Submission and acceptance of the Restated City of Fresno Comprehensive Annual Financial Report (CAFR) and Comprehensive Annual Debt Report (CADR) for Fiscal Year 2015.

Sponsors: Finance Department

Indexes:

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Attachments: 1. FINAL CAFR and CADR Restated.pdf

Date	Ver.	Action By	Action	Result
6/2/2016	1	City Council	approved	Pass

REPORT TO THE CITY COUNCIL

DATE: June 2, 2016

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Finance Department

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SUBJECT

Submission and acceptance of the Restated City of Fresno Comprehensive Annual Financial Report (CAFR) and Comprehensive Annual Debt Report (CADR) for Fiscal Year 2015.

RECOMMENDATION

Staff recommends that the City Council receive and accept the revised pages of the CAFR and the CADR for the fiscal year ended June 30, 2015.

EXECUTIVE SUMMARY

The Fiscal Year 2015 CAFR and the CADR were formally submitted and accepted by Council on March 17, 2016. Shortly after submission, it was determined that Water Fund (Water) expenses were overstated and Construction in Progress was understated by \$8.85 million. Because Water's financial results are displayed or included in several CAFR fund/Citywide schedules and a CADR schedule, the discrepancy affected several pages of the CAFR and one page of the CADR. City staff

proactively contacted the City's external audit firm and work began on making the necessary corrections to both documents.

The auditors performed required supplementary field work in order to verify that no additional modifications or disclosures were necessary to the CAFR. Their reissued Opinion on the CAFR remained unqualified or unmodified, but was updated to May 16, 2016. This continues to mean that there are no reservations concerning the financial statements and that the auditors believe that they are fairly presented.

BACKGROUND

All governmental or public entities are required under law to have the financial statements for the entity's fiscal year-end be audited. Once those statements are audited, many agencies (including the City of Fresno) release those statements in the form of a CAFR. Information from this document is used by City policy makers, citizens, investors, and external agencies to assess and determine the organization's financial viability. As required by the City Charter, the amounts reflected in the Fiscal Year 2015 CAFR were audited by an independent certified public accounting firm, Brown Armstrong, who issued an unqualified opinion.

Within weeks after submission, City staff determined that certain expenditures in Water which were initially identified as repairs / retrofits to existing water meters were instead related to the complete removal of old meters and installation of new meters. As a result, Water expenses were overstated and Water Construction in Progress was understated, both by \$8.85 million. In addition to impacting Water's numbers on fund-specific financial statements, this presentation negatively impacted the debt coverage calculation on Water's bonds. The inaccurate debt coverage ratio potentially could adversely impact future ratings on those bonds, as well as impact Water's ability to continue to receive low interest rate loans from the State. Consequently, staff made the proactive decision to reissue the CAFR and the CADR to accurately reflect the financial treatment of the \$8.85 million in expenditures.

Brown Armstrong staff performed required supplementary field work in order to verify that no additional modifications or disclosures were necessary to the CAFR. Their reissued Opinion on the CAFR remained unqualified or unmodified, but was updated to May 16, 2016. This continues to mean that there are no reservations concerning the financial statements and that the auditors believe that they are fairly presented. While the statements in totality have been determined to be fairly presented, the change affected not only those statements showing Water's finances, but also statements that reflect the City's financial position (due to the fact that Water's financial results are "rolled-up" into the City-wide financial statements). In addition to the fund and City-wide financial statement, other information in the Management Discussion & Analysis, the Notes to the Financial Statements, and the Statistical Section was impacted by the adjustment. Attached to this report are all the CAFR and CADR pages affected by this adjustment.

With the initial issuance of the CAFR, the City met the reporting and disclosure requirements for the Electronic Municipal Market Access system (EMMA®), which is the official repository for financial and other information on virtually all municipal bonds. The reissued CAFR will be uploaded to EMMA upon Council's acceptance of the new pages.

Additionally, the initial filing deadline for the Government Finance Officers Association (GFOA) was met in order to participate in the Certificate of Achievement in Excellence in Financial Reporting

Program. The City will also submit a corrected copy of the CAFR to GFOA. The City has been awarded the Certificate of Achievement for Excellence in Financial Reporting for 22 straight years: a streak staff believes the Fiscal Year 2015 CAFR has a strong probability of maintaining.

Finance will enhance training and communication between departments in order to avoid similar situations in the future.

ENVIRONMENTAL FINDINGS

By the definition provided in the California Environmental Quality Act Guidelines Section 15378, this item does not qualify as a “project” and is therefore exempt from the California Environmental Quality Act requirements

LOCAL PREFERENCE

Local preference was not a factor due to the fact that there is no bid involved, nor is State or federal money involved with this item.

FISCAL IMPACT

This report relates only to the submission of corrected/revised pages to the CAFR which consist of informational financial accounting data and calls for no approval for spending or acceptance of receipts.

Attachment:

City of Fresno Comprehensive Annual Financial Report - restated pages

City of Fresno Comprehensive Annual Debt Report - restated page