

**CITY OF SEBASTOPOL  
CITY COUNCIL  
STAFF REPORT**

**Meeting Date:** February 20, 2018

**To:** Honorable Mayor and City Councilmembers

**From:** Ana Kwong – Finance Director

**Subject:** Presentation from Badawi & Associates for the City’s annual audit for the year-ended June 30, 2017

**Recommendation** That the City Council Accept the City’s Annual Audit for the year-ended June 30, 2017

**Funding:** Currently Budgeted:  Yes  No  N/A  
Net General Fund Cost:  
If Cost to Other Fund(s),

**INTRODUCTION:**

The item is an informational presentation from Badawi & Associates, Certified Public Accountants for the City’s annual audit for the year ended June 30, 2017.

**BACKGROUND:**

The Comprehensive Annual Financial Report (CAFR) is an audited summary report of the financial transactions of the City for the Fiscal Year 2016/17, ending June 30, 2017. The report is presented to the City Council and designed to provide summary financial information for citizens, other government agencies, municipal lenders and other interested parties. The format of this report complies with the generally accepted accounting principles (GAAP) and reporting requirements of the national Governmental Accounting Standards Board (GASB). The City’s operations show signs of stability, a result of the prudent and sound management practices of the City of Sebastopol.

Each year the City of Sebastopol has an audit conducted by an independent auditing firm. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Sebastopol for the fiscal year ended June 30, 2017, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting 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. Badawi & Associates is a licensed Certified Public Accountants, who specializes in governmental audits, has audited the City of Sebastopol's financial statements has issued the City a clean audit

report and that the accompanying financial statements have no significant or unusual transactions in the City's statement of net position and fund statements.

Following completion of the CAFR, Management has submitted for the first time this CAFR to the Governmental Finance Officers Association (GFOA) Certificate for Excellence in Financial Reporting program. The GFOA is a nationally recognized nonprofit professional association serving more than 18,000 finance professionals in the United States and Canada, and the Certificate of Achievement is the highest form of recognition in the area of governmental accounting and financial reporting.

### **DISCUSSION:**

The City's financial statements provide information about the finances of the City in its entirety, as well as information about individual funds. The CAFR is organized into the three sections summarized below.

#### **Introductory Section**

- Letter of Transmittal - which is designed to complement *Management's Discussion and Analysis* (the MD&A), is prepared by management and used to communicate information on areas that may have an impact on the City's finances now and in the future. This includes economic factors as well as budget and management factors. Both should be read together to understand the City's financial position.

#### **Financial Section (the main body of the CAFR for current year information)**

- Independent Auditors' Report – the City's report card on the content of the CAFR
- Management's Discussion and Analysis (MD&A) – provides an analytical overview of the City's financial status and results for the year
- Basic Financial Statements – reports finances at a point in time (assets - liabilities) and throughout the year (revenues - expenditures), and cash flows
  - City-Wide Statements – overview of financial information including all of the City's operations by financial activity
  - Fund Financial Statements – a detailed look at funds, reporting the Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance
  - Notes to the Financial Statements (Notes) – a narrative explanation that accompanies the Basic Financial Statements

#### **Required Supplementary Information**

- Budget to Actual Comparisons – for all governmental funds with a legally adopted budget
- Pension Information – schedule of changes in the pension liability and related ratios; schedule of contributions by plan
- OPEB Information – schedule showing three years of Other Post-Employment Benefits Other Than Pensions

#### **Statistical Section (current and historical information – up to 10 years)**

The last section of the CAFR, which is unaudited, contains schedules of statistical data about the City of Sebastopol in five major categories:

- Financial Trends
- Revenue Capacity

- Debt Capacity
- Demographic and Economic Information
- Operating Information

These schedules, generally covering a ten-year period, provide operating context for the financial data presented in the financial section of the CAFR.

The CAFR will be available on the City's website after tonight's meeting, and attached to this staff report. Copies are also available for review in the Finance Department.

## **Financial Highlights**

### Government-Wide Financial Statements

- The assets and deferred outflows of the City exceeded the liabilities and deferred inflows by \$18,968,000 (net position) at June 30, 2017: Governmental activities' net position was \$9,894,000; and business-type activities' net position was \$9,074,000.
  - Total net position is categorized as follows:
    - \$13,167,000 is the net investment in capital assets;
    - \$ 3,748,000 is restricted for specific purposes (restricted net position); and,
    - \$ 2,054,000 is the unrestricted net position, the residual of total net position less the other categories of net position. Unrestricted net position, when positive, is used by the city to meet its ongoing obligations to citizens and creditors.
  - For the fiscal year, the net position of governmental activities increased by \$1,038,000, while business-type net position increased by \$1,178,000; accounting for a government-wide increase in net position of \$2,216,000.
  - At June 30, 2017, the city's governmental funds reported a combined ending fund balance of \$9,005,000; an increase of \$381,000 from June 30, 2016.
  - The general fund reports fund balance of \$6,650,000 at June 30, 2017; and it is distributed in these categories:
    - 1) \$11,000 is categorized as non-spendable, representing prepaid items.
    - 2) \$185,000 is committed fund balance, and represents the amounts that can only be used for specific purposes as determined by the City Council. Individual commitments are displayed on the governmental funds' balance sheet.
    - 3) \$2,785,000 is reported as assigned fund balance, indicating the city's intention to use the financial resource for a particular purpose in the future, as follows:
      - Buildings, equipment and infrastructure, \$685,000;
      - Equipment, vehicle and technology replacement, \$1,100,000; and,
      - Pension and other post-employment liabilities rate stabilization, \$1,000,000.

- 4) \$3,669,000 is unassigned fund balance, which represents the residual of total fund balance less other categories. It is available for consideration in the budget process.
- Proprietary funds, in which the city reports two enterprise funds, water and wastewater, reported a combined net position of \$9,074,000 at June 30, 2017; with \$3,782,000 reported as net position of the water fund; and \$5,292,000 reported in the wastewater fund. The city also reports an internal service fund for insurance benefits and benefits, and that fund has a balance of one thousand dollars.

**Financial Considerations**

The audit report provides reasonable assurance that the financial statements are free of any material misstatements and found no material weaknesses and is therefore an indication that City funds are being spent appropriately and as intended by the City Council, grantor agencies, and federal and State laws.

This report, with no material misstatements and weaknesses, signals the City's quality of accounting and financial reporting and are an indication that City funds are being spent appropriately and as intended by the City Council, grantor agencies, and federal and State laws. They also help maintain the City's favorable bond ratings.

**RECOMMENDATION:**

That the City Council adopt a motion to receive and file the Fiscal Year 2016-2017 audited Comprehensive Annual Financial Report (CAFR).

Attachments:

Audited Comprehensive Annual Financial Report (CAFR) as of June 30, 2017 – City of Sebastopol