

## AGENDA ITEM REPORT

**DATE OF MEETING:**

June 26, 2017

**ITEM:**

Presentation of 2016 Comprehensive Annual Financial Report (CAFR)

**STRATEGIC PLAN GOAL:**

Goal #7: *"Financial Stewardship and Sustainability"*

**BACKGROUND:**

The City made a decision to switch auditors in 2016 to Hochschild, Bloom and Company, LLP. This is the first year that they have completed an audit and provided that report (the CAFR) to the City. Specifically, Hochschild, Bloom and Company, LLP has given the City of Collinsville's financial statements for the year ended December 31, 2016 an unqualified audit opinion, which means that they are presented fairly and conform to accounting principles generally accepted in the United States of America. These financial statements are contained within the Comprehensive Annual Financial Report (CAFR.)

The annual audit is required by City policy and State law. The financial statement audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. There were no audit findings to report to the governing body. The general financial highlights include the following:

1. In the government-wide financial statements, the assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources for the most recent fiscal year by \$21,413,197 (net position).
2. The City's total net position increased by \$971,360.
3. At the end of 2016, unassigned fund balance for the General Fund was \$6,860,900 or 32.5% of total General Fund expenditures for the year.
4. Net position of the City's business-type activities decreased by \$394,417.
5. The City's total bonded debt decreased by \$1,800,000.

Further, specific general highlights (summary) include the following (the full narrative summary known as Management's Discussion and Analysis can be found on pages 4-12 of the CAFR):

### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

The net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$21,413,197 at December 31, 2016.

By far the largest portion of the City's net position (253.1%) reflects its investment in capital assets (e.g., land, buildings and improvements, equipment, vehicles, and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequentially, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay

this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A portion of the City's net position (24.1%) represents resources that are subject to external restrictions on how it may be used. Unrestricted net position may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in two of the three categories of net position for its governmental activities and all three categories of net position for its business-type activities. The negative amount of unrestricted net position in governmental activities is due to outstanding long-term debt not used for capital assets.

**GOVERNMENTAL ACTIVITIES.** Governmental activities increased the City's net position by \$1,365,777. Revenues increased by \$690,783 from 2015 to 2016 while expenditures decreased by \$3,847,000. The increase in revenue is attributed to the City's utility tax rate change from 1.25% to 4% during 2016. The decrease in expenditures primarily reflects the different TIF projects that took place during 2016 compared to the prior year.

**BUSINESS-TYPE ACTIVITIES.** Business-type activities decreased the City's net position by \$394,417. Water and sewer fees are adjusted each year to insure that revenues keep up with inflation as expenses do.

## **FUNDS FINANCIAL ANALYSIS**

The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**GOVERNMENTAL FUNDS.** The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of 2016, the City's governmental funds reported combined ending fund balances of \$16,194,279, an increase of \$1,697,589 in comparison with the prior year. Approximately 8.3% of this total amount (\$1,344,505) constitutes non-spendable fund balance, which is inventory, deposits, and prepaid items. Approximately 30.9% of this total amount (\$4,998,902) constitutes restricted fund balance, which is restricted primarily for economic development, motor fuel tax, or police purposes. Approximately 14.3% of this total amount (\$2,310,347) constitutes committed fund balance, which is earmarked by the City Council for future capital projects in various special revenue and capital projects funds. Approximately 4.2% of this total amount (\$679,625) constitutes assigned fund balance, which has been authorized by the City Council to be spent during the subsequent fiscal year. Approximately 42.4% of this total amount (\$6,860,900) constitutes unassigned fund balance, which is available for spending at the City's discretion.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the unassigned fund balance of the General Fund was \$6,860,900 while total fund balance was \$8,344,538. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 32.5% of total General Fund expenditures, while total fund balance represents 39.5% of that same amount.

The fund balance of the City's General Fund increased by \$982,217 during the current fiscal year. Vacant positions provided short-term savings during 2016; management has taken the opportunity to evaluate the need for each of those, which should also result in long-term savings. Additionally, the home rule sales tax

was allocated entirely to the General Fund during 2016. It has previously been partially allocated to the Capital Projects Fund (\$600,000 per year).

The Tax Increment Financing (TIF) Fund is a major special revenue fund of the City. Its resources are to be used entirely for leveraging development within the boundaries of the City's three tax increment financing districts. At the end of the current fiscal year, the fund balance of the TIF Fund was \$1,663,996, which is a decrease of \$182,165 compared to 2015. Significant capital projects funded by the TIF during 2016 included: Uptown Streetscape, Main Street Water and Sewer Main Replacement, Clay Street Water and Sewer Main Replacement, and Collins House Relocation.

The Collinsville Crossings Fund is a major special revenue fund of the City. Its resources are to be used for debt service payments on the 2014 general obligation bonds (originally Series 2007A) related to the Collinsville Crossings development and the debt service payments on the 2007 revenue bonds related to the Collinsville Crossings development. At the end of the current fiscal year, the fund balance of the Collinsville Crossings Fund was \$2,419,207.

**PROPRIETARY FUND.** The City's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the Water and Sewer Fund at the end of the year amounted to \$4,161,641, a decrease of \$166,393 or 3.8%. Factors concerning the finances of this fund have already been addressed in the discussion of the City's business-type activities.

## **GENERAL FUND BUDGETARY HIGHLIGHTS**

The 2016 expenditure budget for the City's General Fund represents an original budget of \$20,214,940 increased by \$239,000 to \$20,453,940, an adjustment of approximately 1.2%. Actual, cash basis expenditures in the General Fund were \$19,077,647 which is \$1,376,293 less than the final, amended budgeted. The changes during the year were as follows:

1. Increase of \$15,000 in the Operations Program of the Administration Department for extensive HVAC maintenance at City Hall.
2. Increase of \$26,000 in the Human Resources Program of the Administration Department for additional legal services related to union contracts and personnel issues.
3. Increase of \$198,000 in the Fire Operations Program of the Fire Department for unforeseen workers compensation benefits to employees.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

The City's investment in capital assets for its governmental and business-type activities as of December 31, 2016, amounts to \$66,672,711, net of accumulated depreciation. This investment in capital assets includes land, buildings and improvements, equipment, vehicles, and infrastructure. The total increase in capital assets for the current year was \$316,625 or 0.5% (a \$1,560,911 or 5.0% increase for governmental activities and a \$1,244,286 or 3.5% decrease for business-type activities.)

For government-wide financial presentation, all depreciable capital assets were depreciated from acquisition date to the end of 2016. Fund financial statements record capital asset purchases as expenditures.

### **Long-term Debt**

At the end of 2016, the City had total long-term debt obligations for governmental and business-type activities in the amount of \$44,620,075 compared to \$45,579,558 at the end of 2015. During 2016, the City made scheduled debt service payments and initiated a new capital lease for the acquisition of a fire truck.

The general obligation bonds included on the following schedule are covered by insurance policies insuring the payment of principal and interest when due. Consequently, they have been assigned a rating of "Aaa" by Moody's Investor Services, Inc. General obligation bonds are backed by the full faith and credit of the City.

Michael Williams, Partner in Hochschild, Bloom and Company, LLP, will present, discuss and review the 2016 CAFR and answer questions at the June 26<sup>th</sup> City Council meeting.

**RECOMMENDATION:**

No formal action is required.

**ITEM SUBMITTED BY:** Tamara Ammann, Director of Finance

**ATTACHMENTS:** 2016 Comprehensive Annual Financial Report (CAFR)