

FY 2016 CAFR Overview: Fiscal Year from July 1, 2015 – June 30, 2016

Presentation to Petersburg City Council

The Robert Bobb Group, LLC

June 20, 2017

Agenda

- **FY 2016 CAFR Overview**
 1. Presentation from Nelsie Birch, Interim Deputy City Manager/Finance Director
 2. Presentation from Robinson, Farmer, Cox & Associates

FY 2016 CAFR Overview:

Fiscal Year from July 1, 2015 – June 30,
2016

The FY 2016 Financial Data we will
present is based on the City's
Financial data for the fiscal year
ending June 30, 2016.

We Need to do 3 Things for Financial Stability

The City Will Not Survive With “Business As Usual” (even with better management)

a. Tonight’s presentation of the FY16 CAFR shows the status quo is not working

1. **Liquidity Event of \$7.7 Million:** Brings the Undesignated Fund Balance to \$0
2. **Fund Balance of \$12.1 Million:** Allows the City to operate with fiscal stability.
3. **Gain Access to the Credit Markets:** this pays for School Improvements, to pay for Water Utility Improvements and to pay for road improvements

If Business as Usual: It Will Take 19 Years to Build a Fund Balance assuming we save \$1 million a year because Revenues exceeds Expenditures

What is a CAFR?

- CAFR = Comprehensive Annual Financial Report
 - Comprehensive report of financial activity that actually occurred at a point in time
 - Differs from a Budget which plans the financial activity
 - Auditor of Public Accounts requires submission by Nov. 30 (after Fiscal Year End)
- Represents the financial position activity for a specific period of time, not day-to-day operations of government
- Management prepares the CAFR annually, which is audited by the City's external independent auditor
- Auditor's management findings and procedural weaknesses are also disclosed in the CAFR
 - These items must be addressed by the City
 - Not addressing them increases the City's risks and liability in these areas

Who Prepares the CAFR?

- Financial and disclosure information is provided by the Department of Finance, with help from the other City departments (introduce VML-VACO Finance team)
 - Historically, the City outsourced this function, referred to as “Pre-audit”
 - City changed the Pre-audit firm for the FY 16 audit
 - FY18 CAFR information is expected to be prepared and provided by the Department of Finance
 - **Cost of Pre-audit Services: \$162,605**
- The financial and disclosure information provided by the City is audited by an independent audit firm (introduce D. Foley)
 - The City’s auditor is Robinson, Farmer, Cox Associates (RFCA).
 - RFCA has been the City’s auditor since FY 2009
 - **Cost of Audit Services: \$62,500**

Reminder: FY15 Auditor Report

Key Points from the FY 2015 Auditor's Report:

1. “Within the general fund under the liabilities is what is called a reconciled overdraft. **That is a negative cash of \$7 million dollars which is not a good thing.** I want you all to pay attention to that. That’s a huge number.” – Auditor
2. “The reason that I am pointing these things out is that it is an area of concern that we have and **I don’t think you all can stand another year like this.** This is very, very important that you understand these numbers and look at them and try to improve where you can. This is going to take years to get your financial condition back up to where it should be.” – Auditor
3. “**It will take several years to get back in good solid financial conditions.** I am sorry that this is all bad stuff but I think it is very important that you understand where you are.” – Auditor

What are key takeaways to the FY 2016 CAFR? (1 of 2)

- Auditor issued a **Qualified Opinion** on 3 parts of the CAFR:
 1. Auditor was unable to obtain sufficient audit evidence to support the Receivables and Revenues reported in the Public Utility Fund and Stormwater Fund
 2. These amounts are not necessarily incorrect but could not be sufficiently supported
 3. Except for these specific items, the Auditor issued an Unmodified Opinion (clean opinion)
- **Budget projections for revenue were unrealistic.**
 - Budget performance drives the figures in the CAFR.
- **The 25 audit findings were determined 11 months into FY 17 therefore many of the FY 16 CAFR findings will exist in FY 17**

What are key takeaways to the FY 2016 CAFR? (2 of 2)

- General Fund (as well as other significant City funds) had NO CASH
 - General Fund “borrowed” \$7.2M in cash from other City funds for the year ending June 30, 2016 (called a “Reconciled Overdraft”)
 - “Borrowing” cash in this way also hinders the funds that should have cash (primarily the Capital Project Fund and Non-major Funds)
 - Having no cash hinders the General Fund’s ability to operate on a day-to-day basis (daily cash flow management is imperative)
- We need ~\$7.7M to get the General Fund to \$0, and another ~\$12.1M to be at appropriate fund balance level*

*Note: different calculations were used to calculate the \$7.2M Reconciled Overdraft and the \$7.7M Undesignated Fund Balance 9

What is our Target Fund Balance Level?

- **We need to restate this because this point is very important: We need ~\$7.7M to get the General Fund to \$0, and another ~\$12.1M to be at appropriate fund balance level**
- Based on the “Financial Policies for Unassigned Fund Balances” in the FY18 Operating Budget that Council approved:
 - “The City shall adopt a plan to increase the Unassigned Fund Balance to a balance that is not less than **10%** of the combined budgeted expenditures of the City General Fund and the City of Petersburg Public Schools Operating Fund, net of the City’s local contribution (the “Policy Goal”).”
 - Since Schools is \$42.9M (excludes transfer from City) + \$78.2M General Fund = \$121.1M, resulting in a **\$12.1M fund balance level**.

Where should elected officials focus when receiving a CAFR?

- Fund Financial Statements that begins on page 22 and 23.
 - General Fund and other Governmental Funds. Page 22 shows how the City ended the year; Page 23 shows performance during the year. Page 23 drives what is reported on page 22.
 - Proprietary Funds are found on 25 and 26.
- Budget to Actuals (final analysis) that begins on page 108.
- Findings from the Single Audit (requirement for Federal grants) that begins on page 160.
- Management Letter that is provided to management by the auditor (separate document).

Fund Financial Statements

General Fund – Page 22

- Balance Sheet (Assets = Liabilities + Fund Balance)
 - No Cash in General Fund
 - Restricted Cash is set aside for Debt Service
 - Receivables for Taxes total \$6.99M and includes \$5.05M of “Unavailable Revenue”
 - \$5.05M Deferred Inflows of Resources - “Unavailable Revenue” - represents the amount of property taxes not collected by the City in accordance with the 60-day accrual rule for FY16
 - Not collecting these taxes has the following affects on the General Fund
 - FY16 Operating Results: \$5.05M in assessed property taxes are not recognized as Revenue for FY16
 - Fund Balance – Unassigned deficit is greater due to uncollection
 - Cash does not include this uncollected amount

Fund Financial Statements

General Fund – Page 22

- Balance Sheet (Assets = Liabilities + Fund Balance)
 - Inventory and land held for sale = \$5.1M
 - City is holding over \$5.1M in assets that can be sold now (see note 5, page 49)
 - 324 Commercial/Residential Lots in City
 - 8 Commercial Buildings in Dinwiddie County
 - These properties are held by the City for resale and Do Not include Capital Assets such as roads, bridges, parks, and City government buildings
 - Fund Balance – Unassigned shows \$7.7M deficit
 - Unassigned (deficit) is **NOT NORMAL** for municipalities
 - Basic formula for Unassigned Fund Balance = Receivables + Due from other Governmental Units – Liabilities – Unavailable Revenue

Fund Financial Statements

General Fund – Page 23

- Statement of Revenues, Expenditures, and Changes in Fund Balance
 - This statement shows the actual budgetary performance for the year
 - Total expenditures and transfers out to other funds exceed total revenues and other financing sources
 - Results in a negative change (or decrease) to fund balance
 - This underperformance directly impacts the City's fund balance and what is recorded on the Balance Sheet
 - Better actual financial performance, better balance sheet

Fund Financial

Statements (Utility Fund) – Page 25 & 100

- Qualified Opinion issued for Public Utility and Stormwater Funds for their Receivables and Revenues
- Qualification of Receivables and Revenues for both Funds due to the following
 - Uncertainty with the billing system
 - Errors and adjustments that were made and unexplained
 - Lack of reconciliation between the Utility Fund and the General Ledger on a regular basis.
- **Qualified Opinion is NOT NORMAL!**
- Unmodified Opinion (clean opinion) issued for all other aspects of Public Utility and Stormwater Funds

Budget to Actual starts on page 108

- Every major General Fund revenue category **did not meet** budgeted revenue.
 - General Fund revenue came in \$4.2M below budget. – page 110
- Federal and State projects (grants) were \$7.4M below budget. – page 111
- All funds together were **\$12.5M below budget!** – page 112
- Revenues should be conservatively budgeted to perform at or above the original budget, not below!

The Financial Trends are Frightening

FY	Cash	Receivables – TAXES	Reconciled Overdraft	Fund Balance (Unreserved/Unassigned)
2007	\$1,335,272	\$3,074,799	0	\$10,227,794
2008	\$2,764,547	\$3,617,648	0	\$11,935,086
2009	\$4,623,797	\$4,388,452	0	\$14,837,698
2010	\$3,034,728	\$5,345,664	0	\$15,403,526
2011	\$2,792,940	\$6,024,028	0	\$6,522,487
2012	\$649,102	\$7,612,273	0	\$4,615,214
2013	\$0	\$7,748,843	1,737,655	\$1,725,979
2014	\$0	\$7,923,154	1,182,980	\$174,507
2015	\$0	\$9,830,975	7,049,166	(\$5,011,152)
2016	\$0	\$6,989,277	7,217,403	(\$7,728,395)

Zero Cash in the Bank since 2013

Negative Fund balances indicates hardship to pay current year bills

The City's Path Forward = \$19.8 Million

The City's Path Forward Depends on a \$19.8 Million Fund Balance:

1. Collect Receivables to increase Cash (\$5.05M)

- Increase collections and improve timeliness of collections

2. Repay Reconciled Overdraft (borrowing from other funds \$7.2M)

- Need One-Time Cash Revenue (aka Liquidity Event)
- Need Continued Budget Surpluses
- By eliminating this, you will help Unassigned Fund Balance by an equivalent amount

3. Eliminate deficit Unassigned Fund Balance (\$7.7M)

- Need One-Time Cash Revenue (aka Liquidity Event)
- Need Continued Budget Surpluses

4. Require \$7.7M just to get to \$0

- The City needs an additional \$12.1M to meet financial policy requirements, eliminate need for the annual RAN, provide adequate working capital, & regain access to credit markets

**\$7.7 Million + \$12.1 Million
=
\$19.8 Million**

Findings of Internal Controls – Single Audit

- No findings reported in the FY 15 CAFR
- **FY 16 CAFR Single Audit had 25 findings**
 - Norm for Virginia is 1-5
- Norm for Virginia is “unmodified,” not “qualified”
- RFCA will provide more detail on each of the findings

Management Letter

- Not as prevalent or significant to be in the CAFR but needs to be addressed
- 15 specific recommendations were provided to improve internal controls or result in operating efficiencies
- RFCA will go into these in more detail

Our Next Steps

- In working with the new Director of Finance, a plan for implementation to address all findings will be developed prior to September 30, 2017 (end of RBG contract).
 - Will be filed with Federal Clearinghouse for Grants.
- The external Internal Auditor will review to ensure progress is being made on the findings.
- The FY 17 CAFR is planned to be completed by the state deadline of November 30, 2017.