Legislation Details (With Text)

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Attachments:	1. 14-4644_Final CAFR 15, 2. 14-4644_Pension Accounting Standards		

Date	Ver.	Action By	Action	Result

City of Alexandria, Virginia

MEMORANDUM

DATE: DECEMBER 2, 2015

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: MARK B. JINKS, CITY MANAGER /s/

DOCKET TITLE:
Consideration of the Fiscal Year 2015 Comprehensive Annual Financial Report (CAFR).

ISSUE: Council consideration is requested of the Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2015.

RECOMMENDATION: That City Council receive the Fiscal Year 2015 Comprehensive Annual Financial Report (Attachment 1).

DISCUSSION: Code of Virginia §15.2-2511 requires all local governments to have their books and records audited by an independent certified public accountant as of June 30 of each year. The Code further requires that the independent certified public accountant present a written report to the local governing body at a public session by the following December 31.

The City's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2015 can be found on the

City's website at <alexandriava.gov/financialreports>. This report, which follows a format prescribed by the Governmental Accounting Standards Board (GASB), includes a description of the significant financial events of the fiscal year, the City's audited financial statements, and selected financial and demographic information.

The following are highlights of the report:

The City once again received a positive "clean opinion" from its independent certified public accountant, CliftonLarsonAllen, LLP, of its financial statements for the fiscal year ended June 30, 2015 (CAFR, page 23). The auditors found that the City's financial statements "present fairly" the City's financial position and results of operations and that the City has complied with applicable laws and regulations related to federal grants.

The CAFR includes a Management's Discussion and Analysis section that provides an overview of the City's financial performance (CAFR, page 25).
The FY 2015 CAFR includes a new reporting requirement for pension benefits required by Governmental Accounting Standards Board Statement No. 68 (GASB 68). Prior accounting standards did not require employers to report the total overfunded or underfunded status of their retirement benefits in the government-wide financial statements. Previously, those liabilities were disclosed in the footnotes with only the portion of the yearly contributions not funded was recorded in the government-wide statements. In addition, GASB 68 requires sponsors or multi employer pension plans to provide separate liabilities to their participating organizations. The City received liability information for our VRS liability for the first time this year. In prior years, we received information on the total VRS liabilities for all participating Virginia localities.

Net Position

On this entity-wide basis, the City government has recorded by the end of FY 2015 a net investment in capital assets of $364.4 million (CAFR, Exhibit I, page 35). The new pension requirement reduced the unrestricted assets to a liability to $36 million. In total, the City government has recorded $344.8 million in total net assets, which reflects an increase of $44.0 million compared to the total net assets of $300.8 million, as restated at June 30, 2014 (CAFR, Exhibit II**,** page 36). Note 19 on page 138 provides a crosswalk of the restatement of the net position of government activities as of June 30, 2014, to enable the CAFR to reflect comparable financial exhibits.

New Pension Accounting Standard

The most significant impact of the new accounting standard GASB 68 is the inclusion of a long-term liability, called Net Pension Liability, to the City’s balance sheet. Council will be receiving a separate presentation on this important change. Prior to the implementation of GASB 68, the long term liability related to the City’s pension obligations, including the total VRS obligation was disclosed in the footnotes of the financial statements. It is important to note that the liability has always existed and the City’s liability has been disclosed in the CAFR and to stakeholders. The change that results from the implementation GASB 68 is to shift the information about pensions from the footnotes and into the entity-wide balance sheet and to add the City’s portion of our VRS liability.

The balance sheet for any organization includes total assets and total liabilities. The difference between assets and liabilities for local government is known as the “net position” for the entity. Prior to the implementation of GASB 68 the City’s total assets were not offset by pension liabilities. GASB 68 requires the City to reduce its total assets by the long term liability associated with pension to be included in our liabilities.

The following table shows the impact of GASB 68 on the City's net position if GASB 68 had been implemented in FY 2014 with a comparison to our net position for FY 2015:

Net Position FY 2014	
Prior to Pension changes	$462.1 million
Less: Pension changes	($138.8 million)
Restated Net Position FY 2014	$300.9 million
Net Position FY 2015	$344.8 million

So, while the pension change caused overall assets to decrease in order to move the liability from the footnotes to the financial statements, the City's overall position increased by almost $44 million FY 2015 if this pension liability had always been included in our financial statements.

The Alexandria City Public Schools are reflected as a Component Unit of the City and are subject to the same new financial reporting requirement. The impact for ACPS is a reduction in Net Assets reflected on the balance sheet of $199.9 million.

Revenues and Expenditures

General Fund revenues in FY 2015 totaled $630.4 million (CAFR, Exhibit IV, page 38). Final General Fund expenditures and transfers totaled $627.0 million, with expenditures totaling $552.5 million and transfers to other City funds totaling $74.5 million (CAFR, Exhibit IV, page 38. Including Other Financing Sources (Sale of Land) and Transfers to the General Fund from other funds, the net result is an increase in General Fund Balance of $12.1 million, primarily represents the results of careful monitoring of departmental expenditures as we monitored potential revenue shortfalls, not revenue surplus or ongoing expenditure savings. This increase in General Fund balance was previously reported to Council, in a prior Monthly Financial Report.

General Fund Fund Balance

General Fund Fund Balance, which includes all General Fund spendable and nonspendable resources, was $77.8 million at the end of FY 2015 (CAFR, Exhibit III, page 37). This compares to the Total General Fund Balance of $65.3 million at the end of FY 2014. Total Fund Balance is increasing by $12.5 million, primarily from departmental fiscal management of expenditures. This amount enables the City to begin to stabilize one of our Financial Policy ratios that receives significant scrutiny by the bond rating agencies each year. The floor for the ratio of General Fund Balance as a percentage of General Fund Revenues is 10 percent and for the past several years the City has hovered at or only slightly above this ratio. This $12 million in Fund Balance allows the City to replenish fund balance that has been used in recent years to offset lackluster revenue performance to a higher 11.7 percent ratio. This level provides evidence of prudent financial management to the bond rating agencies and provide some increased ability to manage extreme events, from hurricanes to sequestration.

The Spendable Fund Balance of $74.4 million at the conclusion of FY 2015 represents 11.7 percent of General Fund revenues (unassigned fund of balance $51.6 million plus Commitments of $10.4 million and Assignments of $12.4 million (page 54). Spendable Fund Balance is the portion of accumulated total of all prior years' actual General Fund revenues in excess of expenditures that is available for appropriation by City Council. The most significant change in the Commitments and Assignments is the increase in the Assignment for Subsequent Capital Improvement Program costs, which is increasing from $4.4 million to $7.0 million, which will either minimize the need for additional cash capital in a future operating budget or provide flexibility in the amount the City borrows to fund the CIP.

The Unassigned General Fund Balance of $51.6 million at the conclusion of FY 2015 (CAFR, page 54) represents 8.1 percent of General Fund revenues. Unassigned General Fund Balance is the accumulated total of all prior years' actual General Fund revenues in excess of expenditures, less nonspendable balances (such as inventory), and amounts committed or assigned for specific uses (such as operating and capital budgets, self-insurance, other post-employment benefits, ongoing projects, and extraordinary events such as natural disasters or other emergencies). In order to maintain a total fund balance of more than ten percent of revenues, this percentage is higher than the percentage at the end of FY 2014 and exceeds the City's financial policy target of 5.5 percent (and above the floor of 4.0 percent). Staff will recommend in the future that this floor and target be changed. Such a target may no longer be prudent as it allows (in effect almost mandates) for spending of fund balance each year in amounts that can no longer be supported in a low revenue growth environment.

City debt ratios which improved in FY 2015 were:

- Debt per capita decreased from 4.5 percent to 4.4 percent (CAFR page 10).
- Debt per capita as a percentage of real estate decreased from 1.53 percent to 1.46 percent (CAFR page 10).

Separate financial information for the Potomac Yard Metrorail Station Fund and the Northern Virginia Transportation Authority (NVTA) Fund are provided in the CAFR. The Potomac Yard Fund ended FY 2015 with a $8.9 million fund balance (CAFR, page 135), while the NVTA Fund had a fund balance of $9.5 million. The balances in these funds will be used for Potomac Yard Metrorail and other transportation projects.

The City continues to comply with all debt and fund balance-related financial targets and limits (CAFR, page 10).

Federal grant expenditures of $38.2 million are a reduction of approximately $6.3 million compared to FY 2014. There are modest fluctuations across all categories of federal grant expenditures, but the significant driver is the absence of ARRA (Stimulus Funds) expenditures in FY 2015. All federal expenditures are subject to very stringent audit and accounting requirements.

Independent Audit

The City contracts with CliftonLarsonAllen to provide an independent audit of the City's Financial Report. The comprehensive review examines internal controls and grant management and ensures the public and investors that City is managing its resources and recognizing its liabilities under Generally Accepted Accounting Principles. The independent audit also provides a risk assessment that enables staff to focus education and improvements on areas in which the City is vulnerable. Areas of potential risk or vulnerability are described by the auditors as "significant deficiencies."

In order to conduct the audit, evidence is gathered in the form of invoices, payments, grant agreements and compared with the general ledger and other accounts to verify that our financial statements are free of any material misstatements. **The City has once again received a clean opinion and there were no 'material weaknesses.'** The auditors did note several issues that they felt warranted a heightened awareness by also issuing a schedule of findings to draw attention to specific concerns. The Schedule of Findings and Questioned Costs is located on Page 200 of the CAFR and summarized below, as well as the corrective action to minimize the risk that this happens in the future.

City Accounting for Capital Projects

Condition: Two authorized transactions totaling $1.2 million were posted to FY 2016 for work that was completed/goods received in FY 2015.

Cause: The yearend close procedures identified a cutoff date for posting transactions to the current fiscal year. If invoices are not received or under dispute it is necessary for departments to alert Accounting so that a "payable" or placeholder can be established in the current year. Once the actual invoice is received, the payment is made and the "payable" is removed. In the case of both of these transactions, the invoice was received at the end of June and fiscal staff in City departments were disputing the amount that the City was proposed to be charged. By the time this process was complete the cutoff date had passed without the "payable" being established.

Corrective Action: Both transactions were corrected and identified in FY 2015. Going forward, yearend close procedures will be modified to ensure that individuals across the organization more clearly understand how to handle invoices that are under dispute from an accounts payable standpoint. We do not want to discourage our fiscal staff from protecting city resources and ensuring that the invoices we receive and pay accurately reflect the work that has been completed, but we will need to ensure that expenditures are recorded in the period which they are incurred.

CAFR

The CAFR cover has traditionally depicted a major completed capital project. This year the cover offers a symbol of the City's history as an 18th century port city. Revenue from tourism provides resources for General Fund expenditures related to core functions of the City government and the component units. The replica of General Marquis de Lafayette's 18th century ship is the largest and most authentically built Tall Ship in the last 150 years. Following a 27 day transatlantic voyage of 3,819 miles, the Hermione landed in Yorktown for the first of 11 port visits on the east coast, including three days in the City of Alexandria, from June 10 to the 12, 2015.

Staff is confident that the City's FY 2015 CAFR will be awarded the Government Finance Officers Association's Certificate of Achievement for Excellence in Financial Reporting. The City has received this award for each of the last 37 consecutive years.

FISCAL IMPACT: None.

ATTACHMENTS:
Attachment 1: FY 2015 Comprehensive Annual Financial Report (CAFR)
Attachment 2: Staff presentation on Pension Accounting Standards

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