



**FINANCE DEPARTMENT  
MEMORANDUM 17-62**

Date: March 16, 2017

To: Mayor and City Commissioners

Via: Greg Harrison, City Manager

From: Andrew Jean-pierre, Finance Director *AS*

**Subject: Presentation of Comprehensive Annual Financial Report  
Single Audit Report and Management Letter for the Fiscal Year  
Ended September 30, 2016**

I would like to take this opportunity to provide you with a draft of the Comprehensive Annual Financial Report (CAFR), Single Audit Reports and Management Letter for the City of Pompano Beach (the City) for the fiscal year ended September 30, 2016 for your reference. The City's external auditors are required to formally communicate the results of their audit to you as required by generally accepted auditing standards and will be doing so at the March 28, 2017 City Commission Meeting to be followed up with a written communication via a "Report to the Governing Board".

The CAFR, prepared by the City's Finance Department, is presented in conformity with accounting principles generally accepted in the United States of America (GAAP) and audited by an independent firm of certified public accountants, Marcum LLP, as mandated by Florida Statutes, Chapter 218.39, *Annual Financial Audit Reports*. The audit was conducted in accordance with the rules of the Auditor General of the State of Florida, promulgated pursuant to Florida Statute, Chapter 11.45. The independent auditor plans on issuing an **unmodified opinion** that the CAFR fairly presents the financial position and results of operations of the City and complies with applicable reporting standards. This is the highest level of audit opinion (clean opinion) that may be granted by an audit firm.

**Compliance Reports**

**1. Management Letter**

The auditor is also required to issue a Management Letter, in accordance with Florida Statute, Chapter 10.550, *Rules of the Florida Auditor General*. Among other things, the management letter is supposed to identify any deficiencies or material weaknesses in the City's financial reporting framework which may impact the fair representation of the City's financial position or results of operation, or report any recommendations for improvements (in accordance with best practices), as well as noncompliance with

contracts, grants etc. As the attached management letter indicates, the City did not have any findings for the fiscal year ended September 30, 2016. In addition, the Auditor General does require that the auditor perform such procedures necessary to assess the financial condition of the City and indicate in the Management Letter if there may be any indications of deteriorating financial condition. The Management Letter for the fiscal year ended September 30, 2016 indicates that the financial condition assessment procedures performed by the auditor did not indicate that City met any of the conditions described in Section 218.503(1) Florida Statutes, which might indicate that the City is in state of deteriorating financial condition.

## **2. Single Audit Reports**

As a recipient of federal and state grant funds, the City is responsible for ensuring that an adequate internal control structure is in place to ensure compliance with applicable laws and regulations related to those programs. In this respect, the City is required to undergo an annual single audit performed under the provisions of auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the Audit Requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and Chapter 10.550, *Rules of the Auditor General, State of Florida*. Information related to the Single Audit, including the schedule of expenditure of federal awards and state financial assistance, findings and recommendations, and auditors' reports on the internal control and compliance with applicable laws and regulations are included in the attached "Compliance Reports".

## **General Fund**

The General Fund serves as the main operating fund for the City and accounts for all City resources that are not required to be maintained in another fund. The balance sheet, operating statement and budget to actual statement for the General Fund are located on pages 24, 27 and 119 of the CAFR, respectively. However, a summary of the financial position and the operations of the General Fund are as follows:

- The General Fund met its budget objectives for the fiscal year, with revenues coming in above budget and expenditures coming in below budget.
- The General Fund reported a fund balance of \$55.1 million at September 30, 2016. Of this amount, \$2.6 million represents encumbrances (funds committed for a particular purpose via the City's purchase order system) or amounts which have been assigned for a particular purpose by the City Commission, as part of the fiscal year 2016 adopted budget.
- The remainder of the Fund Balance is reported as "unassigned" in the amount of \$49.7 million. This amount includes amounts designated as follows:
  1. The City's desire to continue to maintain an operating contingency in the amount of \$20.8 million (the City has formally adopted the Government Finance Officer's Associations (GFOA) best practice recommendation (via Resolution) that the City maintain an amount at least equal to two months of budgeted operating expenditures to cushion against unanticipated fluctuations in revenues and expenditures during the course of a fiscal year). However, the City also maintains this reserve balance for two additional reasons:

- To afford liquidity during the first quarter of its fiscal year as the bulk of the City's largest revenue source (ad valorem) is not received until sometime in December; and
  - To allow for the advance funding of the City's numerous cost reimbursement grants (i.e. Home, CDBG, NSP etc.).
2. A disaster recovery reserve in the amount of \$19.7 million. A few years after its experience with Hurricane Wilma, the City adopted a practice of maintaining a reserve fund for disasters to ensure that we will be able to return services to normal capacity and assist our residents without relying on any external resources. The reserve amount is calculated by the City's Finance Department based on the initial outlay for Hurricane Wilma and adjusted annually by the change in the municipal cost index.
  3. The remainder of the "unassigned" fund balance amount (approximately \$9.2 million) is currently "undesignated" and is available for one-time outlays, such as capital improvement projects.
- The overall fund balance for the City's General Fund decreased by \$6.7 million during the current fiscal year. This was primarily the result of the reclass of building permit function activity from the General Fund to a new special revenue fund effective October 1, 2015.
  - The unassigned fund balance for the City's General Fund remained relatively constant from the prior fiscal year end, with only an \$82,000 decrease. The decrease noted is primarily attributable to the transfer of funds to the Capital Projects Fund (various projects) from the General Fund's unassigned fund balance. Ignoring these planned expenditures from the unassigned fund balance, the General Fund actually would have reported an increase from the prior fiscal year, primarily attributable to greater than anticipated receipts for the electric utility taxes, electric franchise fees and half cent sales tax revenues; lower than anticipated expenditures for various City functions (see budget to actual on page 119 of the CAFR).

Applying standards established by the GFOA and various nationally recognized rating agencies, the City's reserves at September 30, 2016 are indicative of a fiscally healthy City, at a point in time, positioned to weather any unanticipated needs. The City's local economy continues to show steady signs of improvement, but the City is always susceptible to economic downturns and legislative mandates, which could threaten to erode local revenue sources. The City remains vigilant in its efforts to oppose legislative mandates in this respect via its lobbyist relationships.

### **Other Funds**

All Other City Funds (i.e. , East CRA District, Building Permit, Affordable Housing, Cemetery, Utility, Parking Sanitation and Stormwater), with the exception of the NW CRA District, EMS Fund, Capital Projects, Special Purpose, Other Grants, Cultural Arts Foundation, Pier, Airpark and Golf funds experienced an increase in fund balance over the prior fiscal year. Decreases noted in the other funds, with the exception of the Golf Fund, were the result of planned expenditures/expenses from accumulated resources in

those funds for various capital initiatives. The decrease noted in the Golf fund was due to lower than anticipated revenues experienced in that fund for the fiscal year.

Please refer to the Management Discussion and Analysis section of the CAFR (pages 4-19) for additional information on the financial position and results of the operations of the City for the fiscal year ended September 30, 2016, as well as a comparison to prior fiscal year results for select funds.