

# FISCAL YEAR 2022

2<sup>ND</sup> QUARTER 2022 FINANCIAL REPORT  
HALF YEAR ENDED: JULY - DECEMBER

Including an Audit 2021 Update

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February 15, 2022



All figures as of  
February 11, 2022;  
unaudited

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## 2022 QUARTER 2 FINANCIAL REPORT

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The format of this presentation is intended to serve as both a work session presentation and Quarterly Report Document.

All data may not be addressed during the presentation. Inquiries are welcomed during and after the work session.

## New Arizona Revised Statutes (A.R.S.):

- § 38-863 Public Safety Personnel Retirement System (PSPRS) Annual Funding Policy
- § 9-481 Independent Auditor Communication
- § 9-481 Demonstrate Compliance with § 41-1494

February's work session is intended as an introduction to the topics. Further details will be available and presented in the proceeding months.

## Effective FY2019

- State law requires a PSPRS funding policy to be adopted annually
- The AZ League of Cities and Towns has a template available
- Even though in FY2022 the City has fully funded the PSPRS liability and established a PSPRS reserve to maintain a 100% funded ratio, the City is still required to adopt the PSPRS funding policy

Note: the City's FY2023 contribution rate for the Unfunded Actuarial Accrued Liability (UAAL) is 0%

## Recommendation

- Use the AZ League template and include adopting this policy with the annual budget process will ensure meeting compliance
- Amortize the UAAL contribution rate over the maximum years allowed to not over commit the City and allow for flexibility in the event of an economic downturn and the resurgence of an UAAL
- Include a section to highlight and document prior Council actions to fully fund the PSPRS liability in February 2021

# Auditor Presents Results (ARS §9-481)

## Effective FY2021

- State law requires that within 90 days from the completion of the City's audit, the independent auditor present the audit results, in a regular meeting without the use of a consent agenda

Note: Further information on the audit and process will be provided as it becomes available

## Recommendation

- This is a good practice and not uncommon
- City Finance Director is accustomed to this practice and had prepared to proposed as an initiative starting with the FY2022 audit, but this state law has moved up the timeframe
- Further information may be presented at the March and / or April Council work sessions
- The anticipated regular City Council meeting for the auditor to present results is April 20<sup>th</sup>.

## Effective FY2021

- State law requires governing bodies demonstrate compliance with section 41-1494
- This is stated in the same paragraph that requires the City's independent financial auditor presents the audit results, in a regular meeting without the use of a consent agenda

Note: How this is demonstrated is under review. Staff will report back with samples from other Cities

## A.R.S. § 41-1491

- States the City may not require an employee to engage in training, orientation or therapy that presents any form of blame judgment on the basis of race, ethnicity or sex
- This section does not preclude any training on sexual harassment

## Recommendation

- Include this demonstration of compliance with the annual audit package that also includes:
  - Financial Statements,
  - Federal Single Audit,
  - Expenditure Limitation Report, and
  - Auditor's Communication Letter

## Focused Deadlines

- GFOA -> 12/31/31 (extended)
- Federal and State -> 03/31/22

## Audit Findings

- Typically, do not highlight the great things that occurred in the year under audit
- Focus on what needs to or could be improved
- 2021 findings will be available upon audit completion

## Success of Audit

- Not just Finance Department
- Organization-wide Responsibility
- Proper function of systems:
  - Financial Suite (technology)
  - Procedures (staff)
- Proper and adequate training and execution of duties of all staff involved

*Themes:*

*Communication*

*Cash*

*Continuity*



## When a Finding is Known

- Fix before the audit is complete
- Contact department's directors
- Develop a Correction Action Plan (CAP)
- Train all applicable staff
- Define expectations and importance of CAP
- Communicate CAP:
  - After audit is complete and
  - Progress until CAP is completed
- Monitor CAP to make sure finding does not recur
- Discipline per HR Policy if warranted

*This approach applies to any discovery of a weak control or process, not just during an audit*

## Understand Importance of

- Clarity and Transparency
- Gaining and Maintaining Trust
- Timely and accurate reporting

## Financial Reporting

- Quarterly Reports from Finance
  - At Public Council meetings
  - Revenue and spending
  - Other Financial Topics
- PAFR (pending audit completion)
  - Popular Financial Report
  - Pulls form the ACFR, but in and easier to read format
- Annual Budget
  - Including long-range forecasts
  - Aligns with Council's strategic plan
- Foundation: Audited ACFR
  - Annual Comprehensive Financial Report



## Controls

- Cash is a highly liquid assets
- Design controls to minimize opportunity for losing cash (by accident or deliberate)

## Various Cash Points

- Customer Service counter
- Police Department, Courts
- Community development
- Park & recreation sites, such as:
  - Golf, PAAC, YCC, Art Center
- iCloud, new Kiosk, Permits
- Purposes include:
  - Cash drawers, change funds and petty cash funds

*ACH = Automated Clearing House*

## Actions November 2021

- Met with all department directors
- Met with all managers with cash in their operations
- Reinforced procedure (AR16)
- Tightened and strengthen internal controls
- Provided training for all cash handling staff

## Improvements Q3 2021

- Eliminating all petty cash
- Reducing the number of cash drawers and change funds
- Moving to ACH (direct deposit)
  - Now: Vendors & service providers can opt in for direct deposit
  - Soon: Employees expense reimbursements, like payroll

## Challenges

- Turnover in finance positions including those that performed complex accounting duties
- Many monthly tasks were completed at year end, not monthly (undone with turnover)
- Limited training or resource materials for remaining staff

## August 2021

- New Director started
- Major reconciliations were 13 months behind (since July 2020)
- Reconciliations were extremely labor intensive with no guide
- Many other transactions were not recorded and dysfunctional ERP
- Timely & accurate completion of the June 30, 2021 audit was at-risk

## Audit Ready

- Entire Acct. Division called upon:
  - Catch up reconciliations, close the year, and **now stay** current each month (not after the year ends)
  - Learn new processes and accounting techniques, conduct research and add automation
- This new confidence and knowledge transfer is ensuring future continuity and building a sustainable system
- Thank you to all staff who exhibited dedication, effort and excellence in ways that aren't reflected in audit reports; this team is making completion of the June 30, 2021 possible

# REVENUE MODEL



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The revenue model for Q2 FY2022 is being expanded with two new analysis graphs:

1. Annual growth by quarter compares the percentage change for each quarter
2. A comparison of actual revenues with the budgeted (goal) by fiscal year. This was a City Councilmember's request during the Q1 FY2022 presentation.

Another new feature is an periodical look back on prior estimates came to fruition.

- A. The look back is a tool to help identify a *tremor in the expected*; help determine if evasive actions are warranted; or bring improvements to the model
- B. This revenue model projections generally are set at a 2% expected deviation.

## Key:

Q1 = July-September

Q2 = October-December

Q3 = January – March

Q4 = April – June

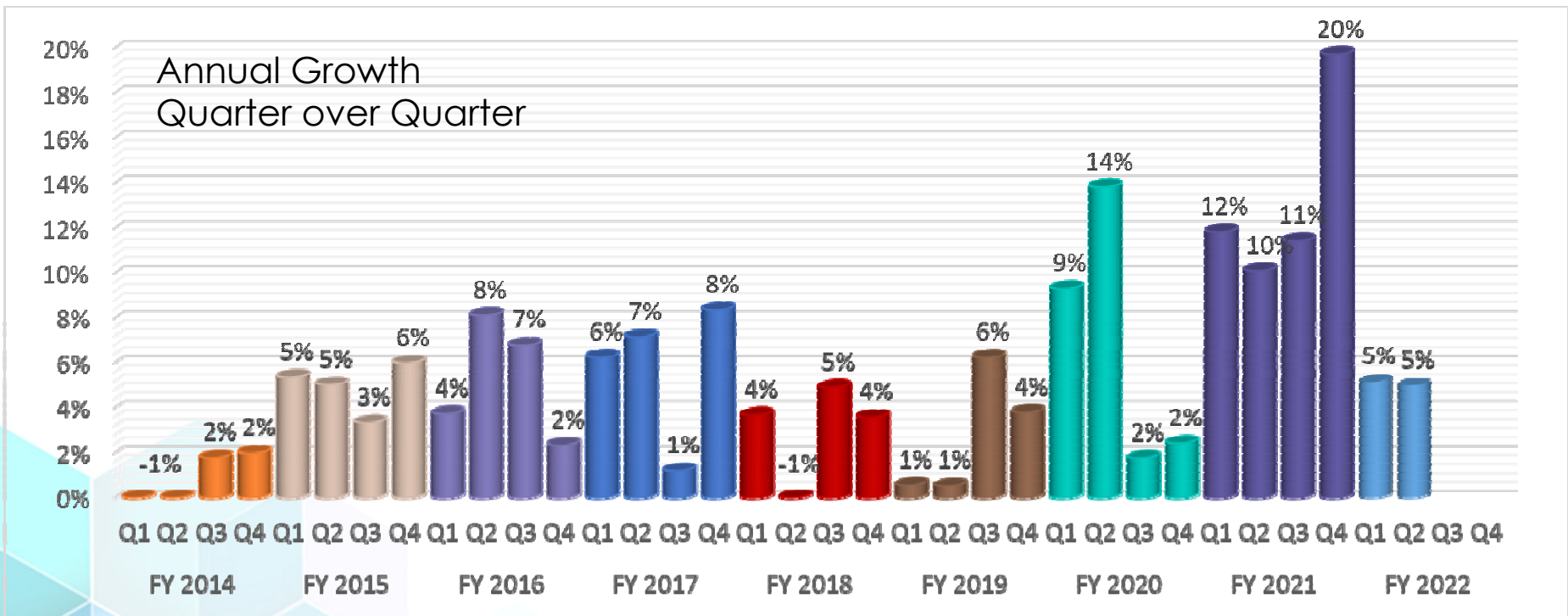
FY = Fiscal Year

At the end of Q1, the revenue model projected major governmental revenues for Q2. Actual revenues came in stronger than projected by 0.5%.

Major General Fund Revenues include:

- Local General Sales Tax
- City Property Tax
- State Shared Sales Tax
- State Shared Income Tax
- Vehicle License Tax

# Revenue Analysis – General Fund



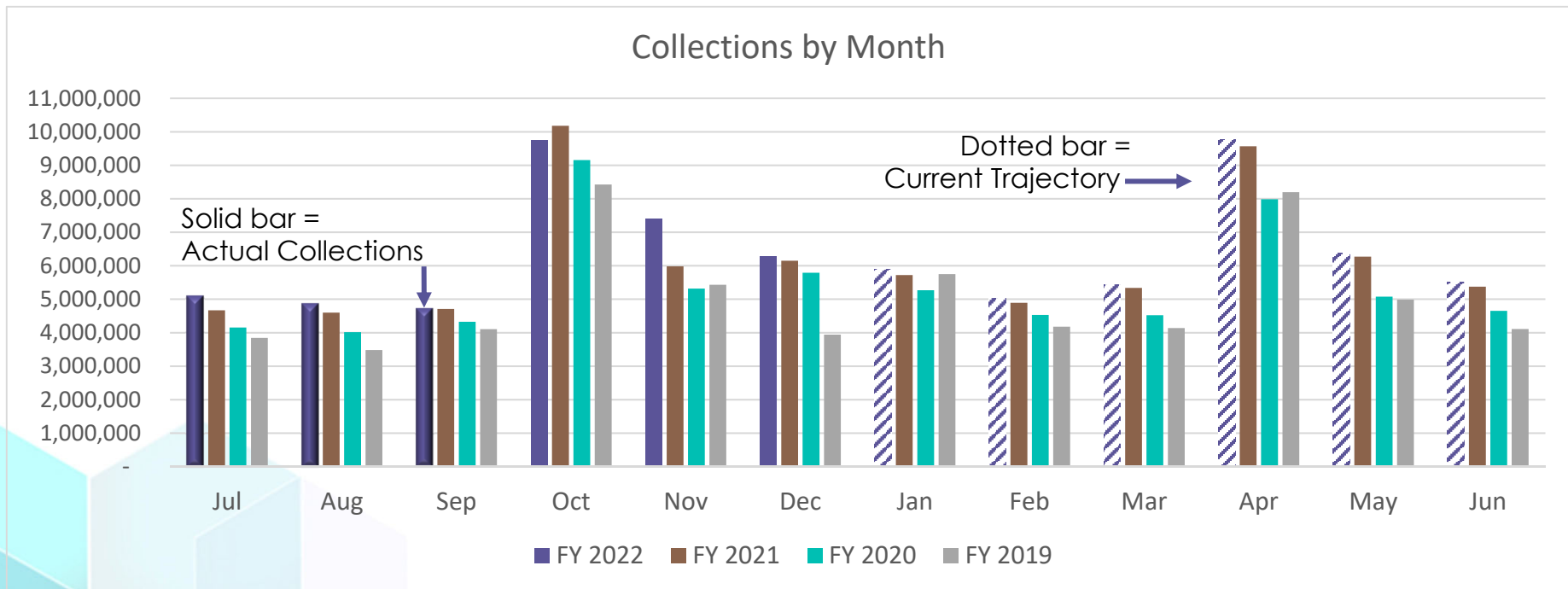
**Key:**

- Q1 = July-September
- Q2 = October-December
- Q3 = January – March
- Q4 = April – June
- FY = Fiscal Year

This graph shows the % change for Q1 over Q1, Q2 over Q2, and so forth.

This information is useful in detecting a potential tremor of an potential economic factor that could be a signal for future adverse to the City's financial conditions.

# Revenue Analysis – General Fund



## Primary Factors in general revenues:

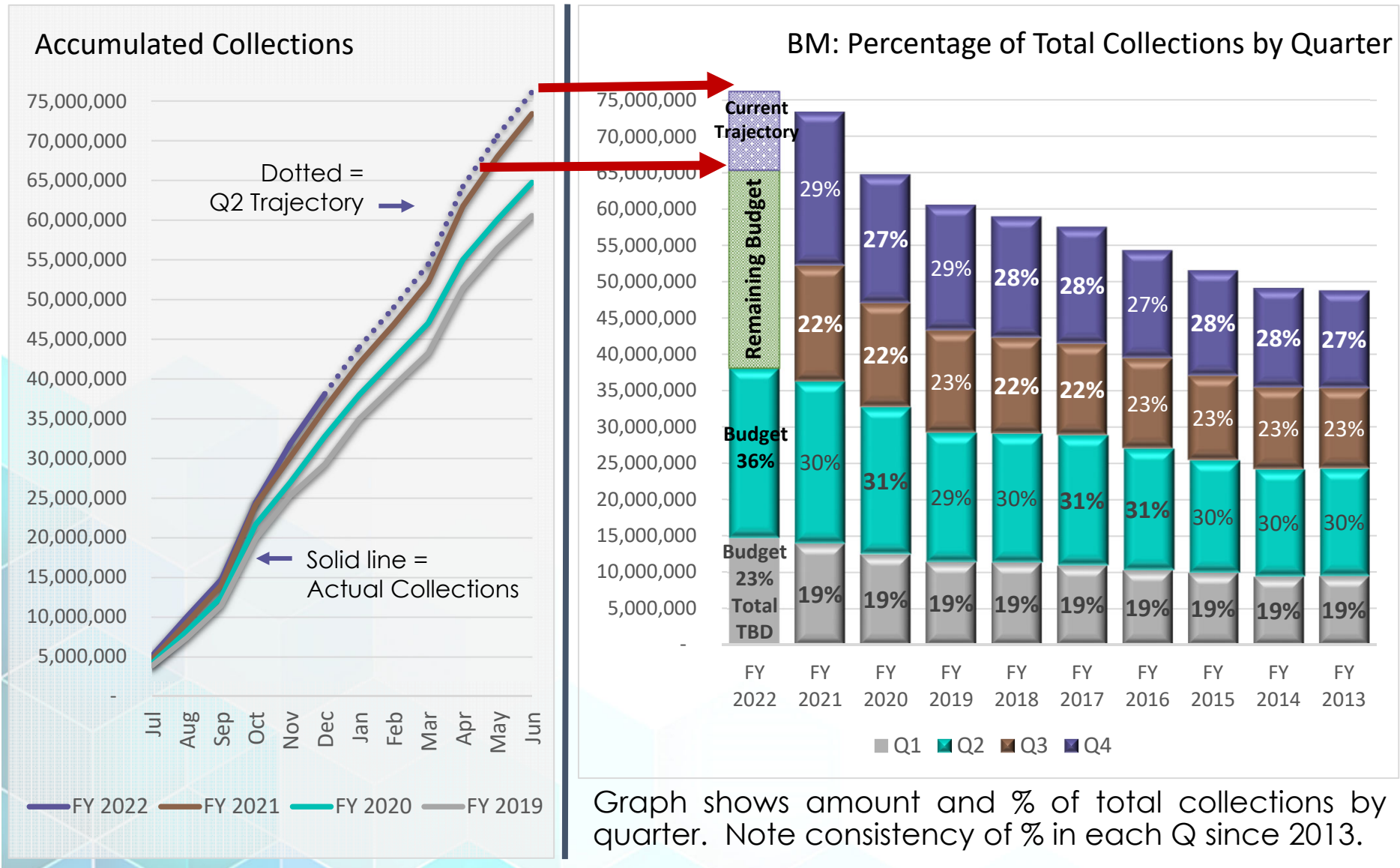
- Consumer confidence and demand
- Population: Yuma compared to AZ
- Tourism: local and AZ state-wide
- Local and State ballot measures
- State and Federal Legislative actions
- Changes in CPI (inflation/deflation)

## Though December 6 months into FY2022:

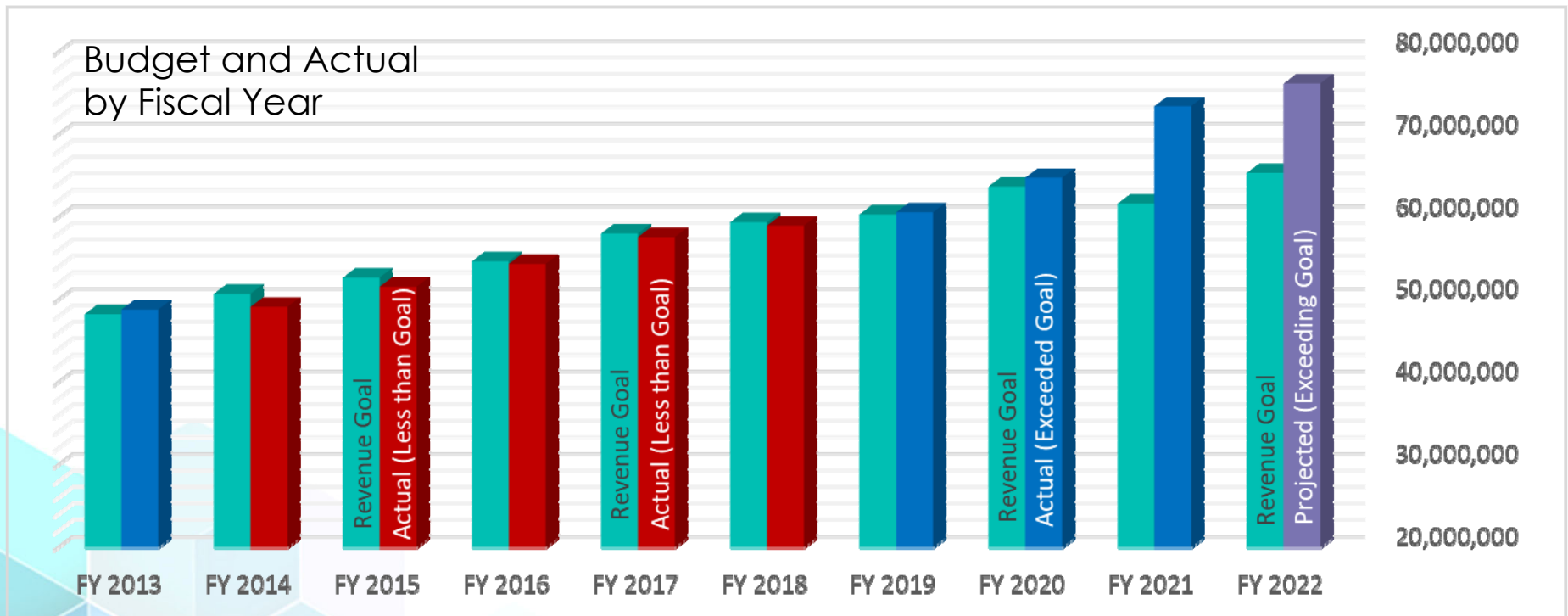
- Month-to-month annual growth;
- Traditional 2<sup>nd</sup> quarter benchmark is 49% of total year-end revenues, FY2022 has collected 56% of the budget goal
- October was less than the Q1 Model projected, but November was more



# Revenue Analysis – General Fund



# Revenue Analysis – General Fund



Revenue goals are set lower, expected to be exceeded, within reason:

- If goal is exceeded, the revenue can be used the next FY;
- However, if goal is too low, it can cause delays in projects or leave important City Initiatives unfunded or held back

When revenue goals are set too high or not met, risk of overextended (stress test):

- Determine the extent of the amount and duration until revenues rebound
- If reduced expenditures are warranted
- Possible re-prioritization of programs



# Revenue Analysis – Major Revenues



MAJOR OPERATING REVENUE		BENCHMARK (BM) TO BUDGET (BUD)					YEAR OVER YEAR		
(A) Source	(B) Fund	(C) FY 2022 July-Dec	(D) FY 2022 Total Budget	(E) % of Budget	(F) Bench Mark	(G) BM Variance	(G) FY 2021 July-Dec	(H) Amount Change	(I) % Change
(1) City Sales Tax (1.0%)	General	\$ 38,118,502	\$ 65,350,387	58%	47%	11.8%	\$36,280,737	\$ 1,837,765	5.1%
(2) Property Tax	"	8,488,218	15,008,556	57%	57%	-0.7%	8,266,759	221,459	2.7%
(3) State Sales Tax	"	6,405,404	10,918,000	59%	48%	10.8%	5,410,667	994,737	18.4%
(4) State Income Tax	"	6,337,706	8,623,831	73%	49%	24.4%	7,023,150	(685,444)	-9.8%
(5) Vehicle License Tax	"	2,210,440	4,300,000	51%	48%	3.3%	2,551,478	(341,038)	-13.4%
(6) Gasoline Tax (0.5%)	HURF	4,632,385	8,300,000	56%	47%	8.8%	4,280,694	351,691	8.2%
(7) Road Tax (0.5%)	Road Tax	7,337,120	13,811,000	53%	47%	6.6%	6,513,235	823,885	12.6%
(8) Public Safety Tax (0.2%)	Public Safety	2,933,849	5,500,000	53%	47%	6.8%	2,604,408	329,441	12.6%
(9) Two Percent Tax	Two Percent	3,997,090	6,241,800	64%	45%	18.8%	3,111,261	885,829	28.5%
(10) Water Sales	Water	12,172,215	24,670,000	49%	51%	-1.4%	12,171,181	1,034	0.0%
(11) Wastewater Sales	Wastewater	8,513,439	18,360,000	46%	49%	-2.7%	8,431,873	81,566	1.0%
(12) Solid Waste Fees	Solid Waste	2,385,099	5,087,000	47%	49%	-2.2%	2,254,758	130,341	5.8%
<b>(13) TOTAL QUARTER 1 (JULY-SEPT)</b>		<b>\$ 103,531,467</b>	<b>\$ 186,170,574</b>	<b>56%</b>	<b>48%</b>	<b>7.7%</b>	<b>\$98,900,201</b>	<b>\$ 4,631,266</b>	<b>4.7%</b>

Sound revenue monitoring includes comparing historical trends with current collections and future expectations; and monitoring factors that drive each revenue including identifying risk indicators.

Column "F" is the percentage of total revenue typically collected in the first Quarter of the fiscal year. All factors consistent, this helps measure the likelihood of a revenue meeting the budget goal at year-end.

Column "G" compares the benchmark "F" with the current percentage of collections in column "E". The higher the % in "G", the greater the chance of making the budget goal.

This chart complements previous revenue analysis for the General fund and includes other major revenue sources.

# SPENDING LEVELS



Reporting for Q2 spending levels is the same as in Q1. Enhancements to Spending Level reporting are planned after the Revenue model is completed or by ad hoc suggestions.

## Governmental funds include:

- General Fund
- Highway User Revenue Fund
- City Road Tax Fund
- Public Safety Tax Fund
- Two Percent Tax Fund

## Enterprise funds include:

- Water
- Wastewater
- Solid Waste

# Governmental Funds

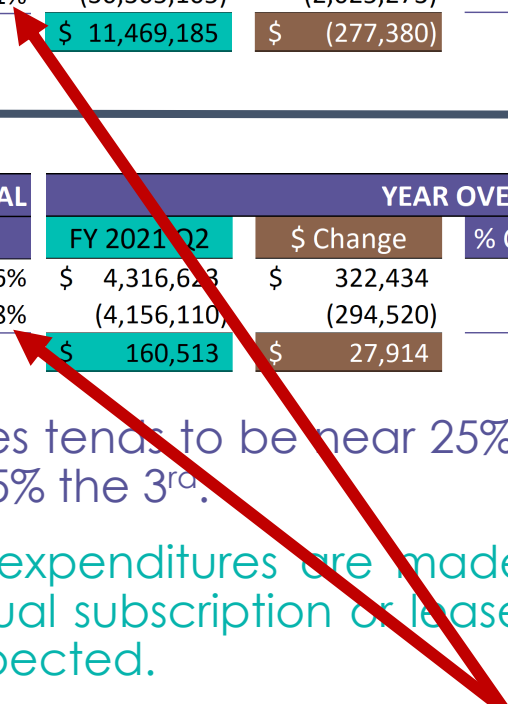
01 GENERAL FUND	BUDGET AND ACTUAL				YEAR OVER YEAR		
	FY 2022 Q2	Total Budget	\$ Remaining	% Bud	FY 2021 Q2	\$ Change	% Change
Total Revenue	\$ 43,522,183	\$ 78,389,789	\$ 34,867,606	56%	\$ 41,774,290	\$ 1,747,893	4%
Total Expenditures (Operating)	(32,330,378)	(79,117,374)	(46,786,996)	41%	(30,305,105)	(2,025,273)	7%
Revenue Over (Under) Expenditures	\$ 11,191,805	\$ (727,585)			\$ 11,469,185	\$ (277,380)	

02 HURF (HIGHWAY USER REVENUE FUND)	BUDGET AND ACTUAL				YEAR OVER YEAR		
	FY 2022 Q2	Total Budget	\$ Remaining	% Bud	FY 2021 Q2	\$ Change	% Change
Total Revenue	\$ 4,639,057	\$ 8,330,200	\$ 3,691,143	56%	\$ 4,316,628	\$ 322,434	7%
Total Expenditures and Projects	(4,450,630)	(9,304,560)	(4,853,930)	48%	(4,156,110)	(294,520)	7%
Revenue Over (Under) Expenditures	\$ 188,427	\$ (974,360)			\$ 160,513	\$ 27,914	

Monitoring operating expenditures tends to be near 25% for the 1<sup>st</sup> quarter, 50% the 2<sup>nd</sup> and 75% the 3<sup>rd</sup>.

However, if a large quantity of expenditures are made in single payments such as an annual subscription or lease, a quarter could run higher than expected.

All presented governmental operating funds are showing second quarter revenues exceeding 50% of the revenue goal and second quarter spending is less than 50% of budgeted spending authority.



# Governmental Funds



03 CITY ROAD TAX (.05%) FUND			BUDGET AND ACTUAL			YEAR OVER YEAR		
	FY 2022 Q2	Total Budget	\$ Remaining	% Bud	FY 2021 Q2	\$ Change	% Change	
Total Revenue	\$ 7,380,044	\$ 13,910,956	\$ 6,530,912	53%	\$ 6,574,695	\$ 805,349	12%	
Total Expenditures and Projects	(2,984,442)	(15,118,777)	(12,134,335)	20%	(2,257,440)	(727,002)	32%	
Revenue Over (Under) Expenditures	\$ 4,395,602	\$ (1,207,821)			\$ 4,317,255	\$ 78,347		

04 PUBLIC SAFETY TAX (0.2%) FUND			BUDGET AND ACTUAL			YEAR OVER YEAR		
	FY 2022 Q2	Total Budget	\$ Remaining	% Bud	FY 2021 Q2	\$ Change	% Change	
Total Revenue	\$ 2,939,749	\$ 5,518,000	\$ 2,578,251	53%	\$ 2,610,338	\$ 329,411	13%	
Total Expenditures (Operating)	(2,154,003)	(5,241,902)	(3,087,899)	41%	(1,341,450)	(812,553)	61%	
Revenue Over (Under) Expenditures	\$ 785,746	\$ 276,098			\$ 1,268,888	\$ (483,142)		

05 TWO PERCENT TAX FUND			BUDGET AND ACTUAL			YEAR OVER YEAR		
	FY 2022 Q2	Total Budget	\$ Remaining	% Bud	FY 2021 Q2	\$ Change	% Change	
Total Revenue	\$ 4,436,108	\$ 6,944,300	\$ 2,508,192	64%	\$ 3,225,937	\$ 1,210,171	38%	
Total Expenditures (Operating)	(2,729,145)	(7,611,407)	(4,882,262)	36%	(2,746,563)	17,418	-1%	
Revenue Over (Under) Expenditures	\$ 1,706,963	\$ (667,107)			\$ 479,374	\$ 1,227,589		

Similar to many Arizona cities, Yuma's year-over-year spending is appearing higher in FY2022 than last fiscal year due to reduced and deferred spending in FY2021 related to COVID-19 caution.

# Enterprise Funds

06 WATER ENTERPRISE		BUDGET AND ACTUAL			YEAR OVER YEAR		
	FY 2022 Q2	Total Budget	\$ Remaining	% Bud	FY 2021 Q2	\$ Change	% Change
Total Income	\$ 13,062,206	\$ 26,636,650	\$ 13,574,444	49%	\$ 12,611,300	\$ 450,906	4%
Total Expenses (Operating)	(6,489,981)	(21,360,401)	(14,870,420)	30%	(6,977,174)	487,193	-7%
Income Over (Under) Expenses	\$ 6,572,225	\$ 5,276,249			\$ 5,634,126	\$ 938,099	

07 WASTEWATER ENTERPRISE		BUDGET AND ACTUAL			YEAR OVER YEAR		
	FY 2022 Q2	Total Budget	\$ Remaining	% Bud	FY 2021 Q2	\$ Change	% Change
Total Income	\$ 8,566,670	\$ 19,172,500	\$ 10,605,830	45%	\$ 8,580,860	\$ (14,190)	0%
Total Expenses (Operating)	(5,332,143)	(14,299,584)	(8,967,441)	37%	(5,080,368)	(251,775)	5%
Income Over (Under) Expenses	\$ 3,234,527	\$ 4,872,916			\$ 3,500,492	\$ (265,965)	

08 SOLID WASTE ENTERPRISE		BUDGET AND ACTUAL			YEAR OVER YEAR		
	FY 2022 Q2	Total Budget	\$ Remaining	% Bud	FY 2021 Q2	\$ Change	% Change
Total Income	\$ 2,423,409	\$ 5,209,500	\$ 2,786,091	47%	\$ 2,324,937	\$ 98,472	4%
Total Expenses (Operating)	(1,964,030)	(5,169,268)	(3,205,238)	38%	(1,962,003)	(2,027)	0%
Income Over (Under) Expenses	\$ 459,379	\$ 40,232			\$ 362,934	\$ 96,445	

Like the City's governmental funds, the enterprise funds spending levels are under 50%; while they are slightly under 50% of the revenue goals, the enterprise funds continue consistent revenue growth compared to last year.



# CONCLUSION (Q2=Q1)



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Under current conditions there are no immediate indications in revenue or spending trends to warrant mitigating action to reduce or restrict expenditure budgets or City's operations and services.

Like the rest of the nation, there is on-going concern for disruptions in consumer consumption related to the supply and raising costs of materials and labor.

Staying flexible and adaptable should assist the City in navigating these concerns; especially with the City's capital improvement program and use of ARPA funds

Management will continue expanding and tuning the revenue model, monitoring revenues and economic factors. Should any revenue trend or risk indicator signal an onset of materially adverse conditions that could be detrimental to the City's financial condition, mitigating actions will be identified.