

# City of Calistoga

## Staff Report

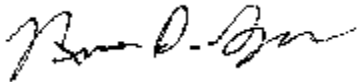
**TO:** Honorable Mayor and City Council  
**FROM:** Gloria Leon, Administrative Services Director  
**DATE:** April 17, 2012  
**SUBJECT:** Presentation on the Audited Comprehensive Annual Financial Report (CAFR) for the Fiscal Year Ended June 30, 2011 and to receive and file report.

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APPROVAL FOR FORWARDING:




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Richard D. Spitler, City Manager

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2 **ISSUE:** To hear a presentation by Terry E. Krieg, CPA, on the Fiscal Year 2010/2011  
3 audited Comprehensive Annual Financial Report (CAFR) and to receive and file report.  
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5 **RECOMMENDATION:** By motion, to receive and file report.  
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7 **BACKGROUND AND DISCUSSION:** The Comprehensive Annual Financial Report  
8 (CAFR) is an audited summary report of the financial transactions of the City for the  
9 Fiscal Year 2010/2011, ending June 30, 2011. The report is presented to the City Council  
10 and designed to provide summary financial information for citizens, other government  
11 agencies, municipal lenders and other interested parties. The format of this report  
12 complies with the generally accepted accounting principals (GAAP) and reporting  
13 requirements of the national Governmental Accounting Standards Board (GASB).  
14  
15 Terry E. Krieg CPA, a licensed certified public accounting firm, has audited the City of  
16 Calistoga's financial statements. The goal of the independent audit was to provide  
17 reasonable assurance that the financial statements of the City of Calistoga for the fiscal  
18 year ended June 30, 2011, are free of material misstatement. The independent audit  
19 involved examining, on a test basis, evidence supporting amounts and disclosures in the  
20 financial statements; assessing the accounting principles used and significant estimates  
21 made by management; and evaluating the overall financial statement presentation.

22  
23 Mr. Krieg has issued the accompanying financial statements under the assumption that  
24 the City's General Fund, and its Water and Wastewater Enterprise Funds will continue as  
25 going concerns. In the financial statements under Notes to the Basic Financial  
26 Statements Item 5-J the City's General Fund and its Water and Wastewater Enterprise  
27 Funds have suffered recurring losses from operations and the General Fund has reported  
28 a zero available fund balance at year end while the water and wastewater operations  
29 have reported minimal year end cash balances, all of which collectively raise substantial  
30 doubt about their ability to continue as a going concern.

31  
32 The City's general fund has suffered recurring net decreases in its net assets over the  
33 last three fiscal years. The City has taken on major capital asset improvement related  
34 costs and long-term financings, public contributions and government grants have  
35 financed most of these capital related costs. General fund spending has exceeded  
36 general fund revenues and other inflows over the past three years.

37  
38 Water and Wastewater rates studies were adopted in Fall 2010 and on January 1, 2011,  
39 the first of five years of rate increases were applied. These increases were based on  
40 conservative assumptions of costs, usage and development. The Water working capital  
41 projections ranged from 6% to 33% of operating revenues due to usage reductions and  
42 costs to complete a major water tank improvement project. The Wastewater working  
43 capital started in a deficit position primarily due to several prior years of operating costs  
44 increases and usage reductions. The Wastewater study projected a positive working  
45 capital of 20% of operating revenues in FY 12-13 due to conservative development  
46 projections.

47  
48 Due to the need for significant improvements in both the Water and Wastewater systems  
49 to maintain the systems existing and expanded capacity for past and projected  
50 development, the debt burden for both systems ranges from 27% to 33% of operating  
51 costs. The connection fees for new development were significantly increased in 2004 to  
52 fund costs relating to the expanded capacity that benefits new development. There is a  
53 significant reliance on development to provide one time revenues to fund portions of debt  
54 service payments and retire outstanding debt early.

55  
56 Even the conservative projections of development in the 2010 rate studied have not  
57 occurred primarily due to the economic conditions beyond the City's control. However,  
58 several major projects have been approved or are in the approval process and are likely  
59 to develop over the next 24 to 36 months.

60  
61 The City's General fund had a transfer out of \$.4 million to the Wastewater for operations  
62 since it had a deficit balance with no cash available at June 30, 2011. The General fund  
63 also had a transfer out of a little less than \$.5 million to the water fund for litigation and  
64 consulting costs.

65  
66 The City will complete a comprehensive review of the adopted Water and Wastewater  
67 rate studies to determine why the various assumptions in the rate studies have not  
68 generated the working capital projected.

69  
70 The City will need to develop a comprehensive capital improvement plan (CIP) that  
71 identifies needed public improvements to support the community needs and projected  
72 growth identified in the adopted General Plan. To fund current and future capital  
73 improvements, the City will need to develop additional funding sources from grants, long  
74 term debt financing and development impact fees.

75  
76 Mr. Krieg has concluded, based upon the audit, that there was a reasonable basis for  
77 rendering an unqualified opinion that the City of Calistoga's financial statements for the  
78 fiscal year ended June 30, 2011, are fairly presented in conformity with U.S. generally  
79 accepted accounting principles. The independent auditor's report is presented as the first  
80 component of the financial section of the audit report.

81  
82 **GASB Statement No. 34 and No. 44 Reporting Requirements**

83  
84 In the June 30, 2004 CAFR, the City was required, for the first time, to implement GASB  
85 Statement No. 34 *“Basic Financial Statements – and Management’s Discussion and*  
86 *Analysis – for State and Local Governments.”* GASB established new financial reporting  
87 requirements for all state and local governments. These requirements go beyond just  
88 reformatting the different financial statements to;

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90
- 91 • Changing the accounting measurement focus, scope of reporting different funds  
92 and types of inflows and outflows of funds
  - 93 • Additional statements of net assets and activities and more detailed budgetary  
94 comparisons
  - 95 • Recording types of asset and liability information

96  
97 In addition, for this CAFR, the City is required to implement GASB Statement No. 44  
98 *“Economic Condition reporting: the Statistical Section”* requirements which requires  
99 specific formatted schedules of information going back ten years or to the implementation  
100 of GASB 34 requirements. We have included these schedules with information as of  
101 June 30, 2004, the implementation of GASB 34 requirements and to the extent the  
102 information is available. In future years, the schedules will be supplemented with  
103 additional information as it becomes available.

104  
105 The June 30, 2011 CAFR continues to comply with the GASB reporting standards.  
106 Below is a listing of the different sections in the report:

- 107
- Transmittal letter by the City Manager and Administrative Services Director

- 108 • Auditor's Report
- 109 • Management's Discussion and Analysis
- 110 • Government-wide financial statements, prepared using the economic resources
- 111 measurement focus and the accrual basis of accounting
- 112 • Fund financial statements, consisting of a series of statements that focus on a
- 113 government's major governmental funds and water/wastewater enterprise funds
- 114 • Notes to financial statements
- 115 • Required supplementary information, which requires budgetary comparison
- 116 schedules to be presented
- 117 • Supplemental statements
- 118 • New Statistical schedules

119  
120 As required by Governmental Accounting Standards Board Statement No. 54 (GASB 54),  
121 titled "*Fund Balance Reporting and Governmental Type Definitions*", the City in fiscal  
122 2011, implemented the provisions of the standard that requires the classification of  
123 governmental fund type fund balances into various categories based primarily upon the  
124 constraints governing the use of the resources within such funds. Implementation of this  
125 standard has no impact upon beginning of year net assets or fund balances of the City's  
126 governmental fund types.

127  
128 In fiscal year 2010 current fund balance was classified as "reserved" or "unreserved."  
129 Unreserved fund balance may be further allocated into designated and undesignated.  
130 GASB 54 changes how fund balance is to be reported. For purposes of this audit as  
131 stated above the City in fiscal 2011 implemented the new requirements for reporting fund  
132 balance. Fund balances for governmental funds are reported in classifications based  
133 primarily on the extent to which the City is bound to honor constraints about the specific  
134 purposes for which amounts in those funds can be spent. These classifications include:

- 135
- 136 • Non-spendable Fund Balance
- 137 • Restricted Fund Balance
- 138 • Committed Fund Balance
- 139 • Assigned Fund Balance
- 140 • Unassigned Fund Balance

141  
142 Under the auditing professional standards, the auditor is required to provide a separate  
143 communication to the City Council on specific issues regarding the conduct of the audit  
144 and other information relating to the financial statements and financial policies and  
145 practices of the City. The communication indicates that there were no issues or  
146 difficulties in conducting the audit. Attached is the communication for the June 30, 2011  
147 Comprehensive Annual Financial Report.

148

149 **Completion of CAFR was delayed**

150 City staff completed the process of “closing the City books” during September of last  
151 year. This involves reviewing and reconciling all of the 45 funds and over 1,000 separate  
152 accounts. During that process, the receivables, outstanding debt, assets and liability  
153 accounts are updated, revenue and expenditure accounts are reviewed and correcting  
154 journal entries made. Staff also sends out over two dozen confirmation letters and  
155 collects other financial and administrative information for the auditor to review.

156  
157 The audit field work was completed in December; however, the completion of the audit  
158 and a draft report was delayed primarily because of employee turnover in the City’s  
159 Finance Department and the time delays associated with the City’s recruitment of  
160 temporary and permanent personnel to manage the year end closeout of its financial  
161 management. The final report was reviewed and completed over the last several weeks  
162 for presentation by the auditor to the City Council at this meeting.

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164 **FISCAL IMPACT:** None  
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166 **ATTACHMENTS**

- 167  
168 1. Communication to Those Charged with Governance Letter from Auditor  
169 2. Audited Comprehensive Annual Financial Report (CAFR) as of June 30, 2011