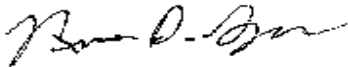


City of Calistoga

Staff Report

TO: Honorable Mayor and City Council
FROM: Gloria Leon, Administrative Services Director
DATE: January 15, 2013
SUBJECT: Presentation on the Audited Comprehensive Annual Financial Report (CAFR) for the Fiscal Year Ended June 30, 2012 and to receive and file report.

APPROVAL FOR FORWARDING:



Richard D. Spitler, City Manager

1
2 **ISSUE:** To hear a presentation by Terry E. Krieg, CPA, on the Fiscal Year 2011/2012
3 audited Comprehensive Annual Financial Report (CAFR) and to receive and file report.
4

5 **RECOMMENDATION:** By motion, to receive and file report.
6

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 2011/2012, ending June 30, 2012. 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, 2012, 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 with no significant or
24 unusual transactions in the City's statement of net assets and fund statements.
25 However, the Water and Wastewater funds had \$213,539 and \$33,729 respectively in
26 cash balances at June 30, 2012 as a result of the current revenue rate structure not
27 generating enough cash to cover operating expenses, debt payments, and capital costs.
28 Both the Water and Wastewater had positive cash inflows only because of one-time
29 receipts; the \$2.5 million in contributions for capital in the Water fund and an inter-fund
30 advance of \$206,000 in the Wastewater fund. Without these one-time receipts, both
31 enterprises would have reported negative cash flows for the fiscal year.

32
33 Both the Water and Wastewater funds had negative current ratios with the current
34 liabilities exceeding current assets; a \$33,814 deficit in the water enterprise and a
35 \$419,680 deficit in the wastewater enterprise. In addition the enterprise funds did not
36 meet debt service coverage ratios in fiscal 2012 from net system revenues excluding
37 one-time grants and contributions.

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

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

56
57 The City obtained a \$3,750,000 USDA loan for the purpose of financing the Mount
58 Washington Tank Capital project. At June 30, 2012 the City had drawn down \$95,411 of
59 the loan proceeds.

60
61 Even the conservative projections of development in the 2010 rate study have not
62 occurred primarily due to the economic conditions beyond the City's control. However,
63 several major projects have been approved or are in the approval process and are likely
64 to develop over the next 24 to 36 months.

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. This is tentatively scheduled for a City Council
69 workshop on January 22, 2013.

70
71 The City's general fund has suffered recurring net decreases in its net assets over the
72 last three fiscal years. The City has taken on major capital asset improvement related
73 costs and long-term financings, public contributions and government grants have
74 financed most of these capital related costs. General fund spending has exceeded
75 general fund revenues and other inflows over the past three years.

76
77 The City's General fund ended the fiscal year with about \$958,000 in fund balance
78 compared to about \$16,911 in fiscal year 2011. General Fund expenditures were \$1.35
79 million less than general fund revenues in fiscal year 2012 before transfers out. This was
80 due to a combination of employee concessions, employees paying a portion of their
81 benefits, restructuring of departments and in general operating expenses were leaner.
82 There was an increase in sales tax and transient occupancy tax from the prior year.

83
84 Of the \$958,000 fund balance about \$311,000 is not spendable as it is represented by
85 prepayments and advances to the wastewater fund. The 2012 general fund ending
86 balance is a significant improvement and financial turn-around compared to the fund
87 balance at the end of fiscal 2011. However, decisions need to be made as to whether
88 the general fund should continue to subsidize the enterprise funds.

89
90 The City will need to develop a comprehensive capital improvement plan (CIP) that
91 identifies needed public improvements to support the community needs and projected
92 growth identified in the adopted General Plan. To fund current and future capital
93 improvements, the City will need to develop additional funding sources from grants, long
94 term debt financing and development impact fees.

95
96 Mr. Krieg has concluded, based upon the audit, that there was a reasonable basis for
97 rendering an unqualified opinion that the City of Calistoga's financial statements for the
98 fiscal year ended June 30, 2012, are fairly presented in conformity with U.S. generally
99 accepted accounting principles. The independent auditor's report is presented as the first
100 component of the financial section of the audit report.

101
102 **GASB Statement No. 34 and No. 44 Reporting Requirements**

103
104 In the June 30, 2004 CAFR, the City was required, for the first time, to implement GASB
105 Statement No. 34 *"Basic Financial Statements – and Management's Discussion and*
106 *Analysis – for State and Local Governments."* GASB established new financial reporting
107 requirements for all state and local governments. These requirements go beyond just
108 reformatting the different financial statements to;

- 109 • Changing the accounting measurement focus, scope of reporting different funds
- 110 and types of inflows and outflows of funds
- 111 • Additional statements of net assets and activities and more detailed budgetary
- 112 comparisons
- 113 • Recording types of asset and liability information
- 114

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

122
123 The June 30, 2012 CAFR continues to comply with the GASB reporting standards.
124 Below is a listing of the different sections in the report:

- 125
- 126 • Transmittal letter by the City Manager and Administrative Services Director
- 127 • Auditor’s Report
- 128 • Management’s Discussion and Analysis
- 129 • Government-wide financial statements, prepared using the economic resources
- 130 measurement focus and the accrual basis of accounting
- 131 • Fund financial statements, consisting of a series of statements that focus on a
- 132 government’s major governmental funds and water/wastewater enterprise funds
- 133 • Notes to financial statements
- 134 • Required supplementary information, which requires budgetary comparison
- 135 schedules to be presented
- 136 • Supplemental statements
- 137 • New Statistical schedules
- 138

139 As required by Governmental Accounting Standards Board Statement No. 54 (GASB 54),
140 titled *“Fund Balance Reporting and Governmental Type Definitions”*, the City in fiscal
141 2011, implemented the provisions of the standard that requires the classification of
142 governmental fund type fund balances into various categories based primarily upon the
143 constraints governing the use of the resources within such funds. Implementation of this
144 standard has no impact upon beginning of year net assets or fund balances of the City’s
145 governmental fund types.

146
147 GASB 54 changes how fund balance is to be reported. For purposes of this audit as
148 stated above the City in fiscal 2011 implemented the new requirements for reporting fund
149 balance. Fund balances for governmental funds are reported in classifications based
150 primarily on the extent to which the City is bound to honor constraints about the specific
151 purposes for which amounts in those funds can be spent. These classifications include:

- 152
- 153 • Non-spendable Fund Balance
- 154 • Restricted Fund Balance
- 155 • Committed Fund Balance
- 156 • Assigned Fund Balance
- 157 • Unassigned Fund Balance
- 158

159 Under the auditing professional standards, the auditor is required to provide a separate
160 communication to the City Council on specific issues regarding the conduct of the audit
161 and other information relating to the financial statements and financial policies and
162 practices of the City. The communication indicates that there were no issues or
163 difficulties in conducting the audit. Attached is the communication and additional reports
164 for the June 30, 2012 Comprehensive Annual Financial Report.

165
166 **FISCAL IMPACT:** None

167
168 **ATTACHMENTS**

- 169
- 170 1. Communication to Those Charged with Governance Letter from Auditor
- 171 2. Report on Internal Control over Financial Reporting
- 172 3. Report on Agreed-Upon Procedures Applied to Appropriations Limit
- 173 Worksheets
- 174 4. Audited Comprehensive Annual Financial Report (CAFR) as of June 30, 2012