

# City of Calistoga

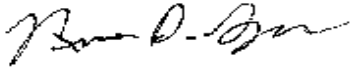
## Staff Report

**TO:** Honorable Mayor and City Council  
**FROM:** Gloria Leon, Administrative Services Director  
**DATE:** January 20, 2015  
**SUBJECT:** Presentation on the Audited Comprehensive Annual Financial Report (CAFR) for the Fiscal Year Ended June 30, 2014 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 Michael O'Connor, CPA, from R.J. Ricciardi, Inc., on
- 3 the Fiscal Year 2013/2014 audited Comprehensive Annual Financial Report (CAFR) and
- 4 to receive and file report.
- 5
- 6 **RECOMMENDATION:** By motion, to receive and file report.
- 7
- 8 **BACKGROUND AND DISCUSSION:** The Comprehensive Annual Financial Report
- 9 (CAFR) is an audited summary report of the financial transactions of the City for the
- 10 Fiscal Year 2013/2014, ending June 30, 2014. The report is presented to the City Council
- 11 and designed to provide summary financial information for citizens, other government
- 12 agencies, municipal lenders and other interested parties. The format of this report
- 13 complies with the generally accepted accounting principles (GAAP) and reporting
- 14 requirements of the national Governmental Accounting Standards Board (GASB).
- 15
- 16 Michael O'Connor, CPA from R.J. Ricciardi, Inc., a licensed certified public accounting
- 17 firm, has audited the City of Calistoga's financial statements. The goal of the independent
- 18 audit was to provide reasonable assurance that the financial statements of the City of
- 19 Calistoga for the fiscal year ended June 30, 2014, are free of material misstatement. The
- 20 independent audit involved examining, on a test basis, evidence supporting amounts and
- 21 disclosures in the financial statements; assessing the accounting principles used and
- 22 significant estimates made by management; and evaluating the overall financial

23 statement presentation.

24 Mr. O'Connor has issued the accompanying financial statements with no significant or  
25 unusual transactions in the City's statement of net assets and fund statements.

26

27 **General Fund**

28

29 The City's General Fund ended the fiscal year (June 30, 2014) with about \$4,855,620 in  
30 fund balance compared to about \$2,465,431 in fiscal year 2013. The primary reason for  
31 the increase in fund balance was the General Fund expenditures were \$2.1 million less  
32 than General fund revenues in fiscal year 2014 before transfers out. There was also an  
33 increase in property tax (2%), charges for services (5%) and an increase in transient  
34 occupancy tax, (13%) from the prior year.

35

36 Over the course of the year, the City Council made various revisions to the City budget.  
37 The budget amendments fall into two categories: changes made during the year for  
38 unanticipated appropriations and at the year-end review for adjustments in revenues and  
39 costs and increases in appropriations to better reflect operations and improvements  
40 during the year.

41

42 Excluding budgeted transfers in Fiscal 2014 General Fund revenues came in at about \$.2  
43 million more than the revised budget as a result of stronger transient occupancy tax,  
44 sales tax, charges for services and reimbursement from risk management insurance  
45 premiums. Actual General Fund expenditures were \$.7 million less than the final  
46 amended budget. The primary changes in the expenditure budget were safety services,  
47 capital outlay and non-departmental costs. The detailed budgetary comparison schedule  
48 for the general fund can be found on page 49 of the CAFR. .

49

50 Of the \$4,855,620 fund balance about \$613,509 is non-spendable as it is represented by  
51 prepayments to vendors and advances to the Wastewater Fund and \$200,000 is  
52 earmarked for increases in CalPERS retirement rates and the unfunded CalPERS side  
53 fund. This leaves \$4,042,111 as unassigned fund balance available for spending at the  
54 City Council's discretion, but it is also subject to Council-established policies for reserve  
55 funds. The 2014 General Fund ending balance is a significant improvement compared to  
56 the fund balance at the end of Fiscal Year 2013.

57

58 The City's General Fund at June 30, 2014 has \$3.1 million in cash and investments as  
59 compared to \$1.0 million cash available in Fiscal Year 2013. The City Council will need  
60 to determine if the Wastewater Fund should repay the \$553,437 to the General Fund that  
61 was advanced. This determination should be made during the upcoming budget  
62 adoption process.

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66 **Enterprise Funds**

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68 The Water and Wastewater funds had \$1,536,469 and \$1,735,131 respectively in cash  
69 and cash equivalent balances at June 30, 2014. Both the Water and Wastewater Funds  
70 had positive cash inflows only because of one-time developer connection fee payments  
71 (receipts); the \$1.7 million in contributions for capital in the Water Fund and \$.2 million in  
72 the Wastewater Fund. Without these one-time receipts, both the Water and Wastewater  
73 Fund would have reported negative cash flow from capital and related financing activities  
74 for the fiscal year.

75  
76 The Water Fund had a positive current ratio with the current assets exceeding current  
77 liabilities by \$1,293,737. The Wastewater Fund had a positive current ratio with the  
78 current assets exceeding current liabilities by \$1,418,503. In comparison to Fiscal Year  
79 2013 the Water Fund had a \$527,375 deficit and the wastewater fund had a positive  
80 \$1,500,778 balance. In addition the enterprise funds did not meet debt service coverage  
81 ratios in Fiscal Year 2014 from net system revenues excluding one-time grants and  
82 contributions. Debt coverage ratio for the Water fund was .82 and the debt coverage ratio  
83 for the Wastewater fund was .78. Several of the outstanding loans require 1.20 debt  
84 coverage ratios.

85  
86 The Water fund ended June 30, 2014 with a net position of unrestricted funds of  
87 \$1,557,737 and the Wastewater fund ended June 30, 2014 with a net position of  
88 unrestricted funds of \$1,814,072.

89  
90 The City Council adopted water and wastewater rate increases effective January 1, 2014  
91 to assist with covering the deficit working capital balance in the Water Fund. By  
92 approving the new rate changes the General Fund subsidy would be approximately  
93 \$317,600 over a four year time period. The water rate increases are approximately 4.5%  
94 plus a 2% inflationary adjustment. There is no increase in wastewater fees, except for  
95 the 2% inflationary adjustment as approved by the City Council.

96  
97 The City obtained a \$3,750,000 USDA loan for the purpose of financing the Mount  
98 Washington Tank Capital project. At June 30, 2014 the City had drawn down \$3.2 million  
99 of the loan proceeds. The project was completed in Fiscal Year 13-14.

100  
101 **Home Grant Fund**

102  
103 A prior period adjustment of \$3.4 million has been included in the statement of revenues,  
104 expenditures, and changes in fund balance to reflect the Palisades Apartment project that  
105 was presented incorrectly in the FY 2013 financial statements. The balances were  
106 originally recorded as unearned revenues and are now classified as non-spendable fund  
107 balances since the proceeds will not become available until future periods.

108

109 **CDBG Open Grant Fund**

110  
111 A prior period adjustment of \$2.2 million has been included in the statement of revenues,  
112 expenditures, and changes in fund balance to reflect first time homebuyer loans for the  
113 Palisades and Saratoga Manor projects that were presented incorrectly in the FY 2013  
114 financial statements. The balances were originally recorded as unearned revenues and  
115 are now classified as non-spendable fund balances since the proceeds will not become  
116 available until future periods.

117  
118 **Special Revenue Funds**

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120 The Special Revenue Funds ended the fiscal year with about \$1,596,411 in cash and  
121 investments and a net change in fund balance of \$392,632 for a combined total fund  
122 balance of \$2,324,136 as compared to \$1,298,280 in FY 12-13. The increase was due to  
123 one-time impact fees for affordable housing and public safety.

124  
125 **Equipment Replacement Fund**

126  
127 The total net position for this fund on June 30, 2014 was \$867,854 of which \$416,003 is  
128 unrestricted when compared to FY 12-13 total net position was \$595,287 of which  
129 \$170,079 was unrestricted.

130  
131 Mr. O'Connor has concluded, based upon the audit, that there was a reasonable basis for  
132 rendering an unmodified audit opinion that the City of Calistoga's financial statements for  
133 the fiscal year ended June 30, 2014, are fairly presented in conformity with U.S. generally  
134 accepted accounting principles. The independent auditor's report is presented as the first  
135 component of the financial section of the audit report.

136  
137 **GASB Statement No. 34 and No. 54 Reporting Requirements**

138  
139 In the June 30, 2004 CAFR, the City was required, for the first time, to implement the  
140 Governmental Accounting Standards Board (GASB) Statement No. 34 "*Basic Financial*  
141 *Statements – and Management's Discussion and Analysis – for State and Local*  
142 *Governments.*" GASB established new financial reporting requirements for all state and  
143 local governments. These requirements go beyond just reformatting the different  
144 financial statements to;

- 145  
146
  - Changing the accounting measurement focus, scope of reporting different funds  
147 and types of inflows and outflows of funds
  - Additional statements of net assets and activities and more detailed budgetary  
148 comparisons
  - Recording types of asset and liability information

151

152 The June 30, 2014 CAFR continues to comply with the GASB reporting standards.  
153 Below is a listing of the different sections in the report:

- 154
- 155 • Transmittal letter by the City Manager and Administrative Services Director
  - 156 • Auditor's Report
  - 157 • Management's Discussion and Analysis
  - 158 • Government-wide financial statements, prepared using the economic resources
  - 159 measurement focus and the accrual basis of accounting
  - 160 • Fund financial statements, consisting of a series of statements that focus on a
  - 161 government's major governmental funds and water/wastewater enterprise funds
  - 162 • Notes to financial statements
  - 163 • Required supplementary information, which requires budgetary comparison
  - 164 schedules to be presented
  - 165 • Supplemental statements
  - 166 • Statistical schedules
- 167

168 As required by GASB No. 54, titled "*Fund Balance Reporting and Governmental Type*  
169 *Definitions*", the City in Fiscal Year 2011, implemented the provisions of the standard that  
170 requires the classification of governmental fund type fund balances into various  
171 categories based primarily upon the constraints governing the use of the resources within  
172 such funds. Implementation of this standard has no impact upon beginning of year net  
173 position or fund balances of the City's governmental fund types.

174

175 GASB 54 changes how fund balance is to be reported. For purposes of this audit as  
176 stated above the City in Fiscal Year 2011 implemented the new requirements for  
177 reporting fund balance. Fund balances for governmental funds are reported in  
178 classifications based primarily on the extent to which the City is bound to honor  
179 constraints about the specific purposes for which amounts in those funds can be spent.  
180 These classifications include:

- 181
- 182 • Non-spendable Fund Balance
  - 183 • Restricted Fund Balance
  - 184 • Committed Fund Balance
  - 185 • Assigned Fund Balance
  - 186 • Unassigned Fund Balance
- 187

188 Fund balances for the governmental funds at June 30, 2014 were as follows: Non-  
189 spendable for Governmental funds \$6,862,648 (includes \$613,509 for general fund;  
190 \$3,396,165 Home Grant fund; \$2,219,750 for CDBG Open Grant fund and \$633,224 for  
191 other governmental funds); Restricted for capital improvements \$233,858; Restricted for  
192 affordable housing \$741,581; Restricted for streets, \$410,084; Restricted for facilities  
193 \$14,135; Restricted for public safety \$543,524; Restricted for parks \$1,578 and

194 Unassigned in General Fund \$4,242,111. Non-spendable funds are proceeds that will  
195 become available sometime in future periods.

196  
197 Under the auditing professional standards, the auditor is required to provide a separate  
198 communication to the City Council on specific issues regarding the conduct of the audit  
199 and other information relating to the financial statements and financial policies and  
200 practices of the City. The communication indicates that there were no issues or  
201 difficulties in conducting the audit. Attached is the communication and additional reports  
202 for the June 30, 2014 Comprehensive Annual Financial Report.

203

204 **FISCAL IMPACT:** None

205

206 **ATTACHMENTS**

- 207 1. Communication to Those Charged with Governance Letter from Auditor  
208 2. Report on Internal Control over Financial Reporting  
209 3. Report on Agreed-Upon Procedures Applied to Appropriations Limit Worksheets  
210 4. Audited Comprehensive Annual Financial Report (CAFR) as of June 30, 2014