

# City of Calistoga

## Staff Report

**TO:** Honorable Mayor and City Council  
**FROM:** Gloria Leon, Administrative Services Director  
**DATE:** January 19, 2016  
**SUBJECT:** Presentation on the Audited Comprehensive Annual Financial Report (CAFR) for the Fiscal Year Ended June 30, 2015 and to receive and file report.

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APPROVAL FOR FORWARDING:



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Michael Kirn, Interim 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 2014/2015 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 2014/2015, ending June 30, 2015. 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, 2015, 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.

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27 **General Fund**

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29 The City's General Fund ended the fiscal year (June 30, 2015) with about \$7,195,044 in  
30 fund balance compared to about \$4,855,620 in fiscal year 2014 and \$2,465,431 in fiscal  
31 year 2013. The primary reason for the increase in fund balance was the General Fund  
32 expenditures were \$2.3 million less than General fund revenues in fiscal year 2015  
33 before transfers out. There was an increase in property tax (2.4%) and an increase in  
34 transient occupancy tax, (13%) from the prior year.

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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 2015 General Fund revenues came in at about \$.1  
43 million more than the revised budget as a result of stronger transient occupancy tax,  
44 sales tax, and reimbursement from risk management insurance premiums. Actual  
45 General Fund expenditures were \$.5 million less than the final amended budget. The  
46 primary changes in the expenditure budget were legal services, risk management, capital  
47 outlay and non-departmental costs. The detailed budgetary comparison schedule for the  
48 general fund can be found on page 56 of the CAFR. .

49

50 Of the \$7,195,044 fund balance about \$614,207 is non-spendable as it is represented by  
51 prepayments to vendors and advances to the Wastewater Fund and \$852,000 is  
52 earmarked for increases in CalPERS retirement rates and the unfunded CalPERS side  
53 fund. This leaves \$5,728,837 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 2015 General Fund ending balance is a significant improvement compared to  
56 the fund balance at the end of Fiscal Year 2014 and 2013.

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58 The City's General Fund at June 30, 2015 has \$5.7 million in cash and investments as  
59 compared to \$3.1 in Fiscal Year 2014 and \$1.0 million cash available in Fiscal Year  
60 2013. The City Council will need to determine if the Wastewater Fund should repay the  
61 \$553,437 to the General Fund that was advanced. This determination should be made  
62 during the upcoming budget adoption process.

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**Enterprise Funds**

The Water and Wastewater funds had \$1,179,295 and \$1,321,128 respectively in cash and cash equivalent balances at June 30, 2015.

The Water Fund had a positive current ratio with the current assets exceeding current liabilities by \$795,906. The Wastewater Fund had a positive current ratio with the current assets exceeding current liabilities by \$652,853. The Water fund had an operating income loss of \$393,276 and the Wastewater fund had an operating income of \$11,416. Due to water conservation efforts, revenues were less than anticipated and additional expenditures were required in the conservation program to bring awareness to the community on the impact of the drought.

Total expenses for the enterprise funds for fiscal year 2014-15 were \$5.7 million, a decrease of \$.1 million or 2%, from the prior year. Expenses were reduced due to the implementation of GASB 68 which changed the methodology by which current period pension expenses are reported.

In addition the enterprise funds did not meet debt service coverage ratios in Fiscal Year 2015 from net system revenues excluding one-time grants and contributions. Debt coverage ratio for the Water fund was .28 and the debt coverage ratio for the Wastewater fund was .92. Several of the outstanding loans require 1.20 debt coverage ratios.

The Water fund ended June 30, 2015 with a net position of unrestricted funds of \$126,692 and the Wastewater fund ended June 30, 2015 with a net position of unrestricted funds of \$(522,274).

**Home Grant Fund**

This fund was established to account for a HOME loan between the City and Palisades Investors, L.P. in the amount of \$3,197,184 bearing interest at 3% per annum. Payments of principal and interest are due annually from excess/distributable cash with the entire principal and interest due in 2064. The City received \$0 in excess cash for FY 14-15. The objectives and intent of the HOME program is provide decent affordable housing to lower-income household, strengthen the ability of state and local governments to provide housing; expand the capacity of non-profit housing providers; and leverage private sector participation. The City at June 30, 2015 had \$3.5 in notes receivables in the HOME grant fund.

**CDBG Open Grant Fund**

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109 This fund was established to provide “silent” second mortgages to eligible families for  
110 assistance in purchasing their first house. The City currently holds 37 first time  
111 homebuyer notes with a fund balance of \$2.2 million at June 30, 2015. Maximum loan  
112 amounts for second mortgages were set at \$250,000 by the California Department of  
113 Housing and Community Development. The City mortgages are financed as a deferred  
114 payment loan. Loans are due upon sale or transfer of title or when the borrower no  
115 longer occupies the home as his/her principal residence.

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117 **Special Revenue Funds**

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119 The Special Revenue Funds ended the fiscal year with about \$1,663,613 in cash and  
120 investments and a net change in fund balance of \$(46,485) for a combined total fund  
121 balance of \$2,277,651 as compared to \$2,324,136 in FY 13-14. The decrease was due  
122 to less one-time impact fees.

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124 **Equipment Replacement Fund**

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126 The total net position for this fund on June 30, 2015 was \$886,579 of which \$426,482 is  
127 unrestricted when compared to FY 13-14 total net position was \$867,854 of which  
128 \$416,003 was unrestricted.

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130 **Summary**

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132 When all operations were concluded, the governmental activities function reported a  
133 change of \$3.5 million in net position before a prior period adjustment for 2014 of \$7.0  
134 million for net pension liability as required by GASB 68. When compared to fiscal year  
135 2014 overall expenses for fiscal year 2015 were \$.6 million less. The decrease in  
136 expenditures was due to the implementation of GASB 68, which changed the  
137 methodology by which current period pension expenses are reported.

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139 Net position of business type-activities decreased by \$2.8 million due to water  
140 conservation efforts by the community, less grants available for projects and the prior  
141 period adjustment for 2014 of \$2.4 million for net pension liability as required by GASB  
142 68.

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144 Additional information about the City’s pension plan can be found in Pages 47 through 53  
145 of the Comprehensive Annual Financial Report shown as Attachment 4.

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147 Mr. O’Connor has concluded, based upon the audit, that there was a reasonable basis for  
148 rendering an unmodified audit opinion that the City of Calistoga's financial statements for  
149 the fiscal year ended June 30, 2015, are fairly presented in conformity with U.S. generally  
150 accepted accounting principles. The independent auditor's report is presented as the first

151 component of the financial section of the audit report.

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153 **GASB Statement No. 34 and No. 54 Reporting Requirements**

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155 In the June 30, 2004 CAFR, the City was required, for the first time, to implement the  
156 Governmental Accounting Standards Board (GASB) Statement No. 34 "*Basic Financial*  
157 *Statements – and Management’s Discussion and Analysis – for State and Local*  
158 *Governments.*" GASB established new financial reporting requirements for all state and  
159 local governments. These requirements go beyond just reformatting the different  
160 financial statements to;

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- 162 • Changing the accounting measurement focus, scope of reporting different funds  
163 and types of inflows and outflows of funds
- 164 • Additional statements of net assets and activities and more detailed budgetary  
165 comparisons
- 166 • Recording types of asset and liability information

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168 The June 30, 2015 CAFR continues to comply with the GASB reporting standards.  
169 Below is a listing of the different sections in the report:

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- 171 • Transmittal letter by the City Manager and Administrative Services Director
- 172 • Auditor’s Report
- 173 • Management’s Discussion and Analysis
- 174 • Government-wide financial statements, prepared using the economic resources  
175 measurement focus and the accrual basis of accounting
- 176 • Fund financial statements, consisting of a series of statements that focus on a  
177 government’s major governmental funds and water/wastewater enterprise funds
- 178 • Notes to financial statements
- 179 • Required supplementary information, which requires budgetary comparison  
180 schedules to be presented
- 181 • Supplemental statements
- 182 • Statistical schedules
- 183 •

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

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192 GASB 54 changes how fund balance is to be reported. For purposes of this audit as  
193 stated above the City in Fiscal Year 2011 implemented the new requirements for  
reporting fund balance. Fund balances for governmental funds are reported in

194 classifications based primarily on the extent to which the City is bound to honor  
195 constraints about the specific purposes for which amounts in those funds can be spent.  
196 These classifications include:

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- 198 • Non-spendable Fund Balance
- 199 • Restricted Fund Balance
- 200 • Committed Fund Balance
- 201 • Assigned Fund Balance
- 202 • Unassigned Fund Balance

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204 Fund balances for the governmental funds at June 30, 2015 were as follows: Non-  
205 spendable for Governmental funds \$6,865,370 (includes \$614,207 for general fund;  
206 \$3,487,101 Home Grant fund; \$2,219,750 for CDBG Open Grant fund and \$544,312 for  
207 other governmental funds); Restricted for capital improvements \$210,716; Restricted for  
208 affordable housing \$823,486; Restricted for streets, \$486,462; Restricted for facilities  
209 \$23,311; Restricted for public safety \$396,777; Restricted for parks \$3,303 and  
210 Unassigned in General Fund \$6,560,772. Non-spendable funds are proceeds that will  
211 become available sometime in future periods.

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213 Under the auditing professional standards, the auditor is required to provide a separate  
214 communication to the City Council on specific issues regarding the conduct of the audit  
215 and other information relating to the financial statements and financial policies and  
216 practices of the City. The communication indicates that there were no issues or  
217 difficulties in conducting the audit. Attached is the communication and additional reports  
218 for the June 30, 2015 Comprehensive Annual Financial Report.

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220 **FISCAL IMPACT:** None

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222 **ATTACHMENTS**

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- 224 1. Communication to Those Charged with Governance Letter from Auditor
- 225 2. Report on Internal Control over Financial Reporting
- 226 3. Report on Agreed-Upon Procedures Applied to Appropriations Limit  
227 Worksheets
- 228 4. Audited Comprehensive Annual Financial Report (CAFR) as of June 30, 2015