



CITY OF CALISTOGA

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STAFF REPORT

TO: Honorable Mayor and City Council
FROM: Gloria Leon
DATE: January 15, 2019
SUBJECT: Presentation on the Audited Comprehensive Annual Financial Report (CAFR) for the Fiscal Year Ended June 30, 2018

SIGNATURE:

DYLAN FEIK, City Manager

DESCRIPTION: Presentation on the Audited Comprehensive Annual Financial Report (CAFR) for the Fiscal Year Ended June 30, 2018.

RECOMMENDATION: By motion, to receive and file report.

SUMMARY:

The Comprehensive Annual Financial Report (CAFR) is an audited summary report of the financial transactions of the City for the Fiscal Year 2017/18, ending June 30, 2018. The report is presented to the City Council and designed to provide summary financial information for citizens, other government agencies, municipal lenders and other interested parties. The format of this report complies with the generally accepted accounting principles (GAAP) and reporting requirements of the national Governmental Accounting Standards Board (GASB).

Michael O'Connor, CPA from R.J. Ricciardi, Inc., a licensed certified public accounting firm, has audited the City of Calistoga's financial statements. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Calistoga for the fiscal year ended June 30, 2018, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting amounts and disclosures in the financial statements; assessing the

accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation.

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

General Fund

The City's General Fund ended Fiscal Year 2017/18 with \$8,275,721 in fund balance compared to \$8,455,573 in Fiscal Year 2016/17 and \$8,342,624 in Fiscal Year 2015/16. The primary reason for the decrease in fund balance was expenditures were \$603,671 more than revenues before transfers out. Total revenues increased by \$396,135 before transfers in from Fiscal Year 2016/17 which were used to offset the increase in expenditures. Fund balance reserves were used to cover the remaining shortfall between revenues and expenditures.

During the fiscal year, City Council made various revisions to the City budget. The budget amendments fall into two categories: changes made during the year for unanticipated appropriations and at the year-end review for adjustments in revenues and costs and increases in appropriations to better reflect operations and improvements during the year.

Excluding budgeted transfers, General Fund revenues came in at about \$1.2 million more than the revised budget as a result of one-time ERAF property tax payment, Tubbs fire FEMA reimbursements and interest earnings. Actual expenditures were \$1.2 million more than the final amended budget. The primary changes in the expenditure budget were safety services, capital outlay and the \$1.0 million contribution to CalPERS for the unfunded pension liability for both the miscellaneous and safety groups for future retirement benefits. The detailed budgetary comparison schedule for the general fund can be found on page 59 of the CAFR, shown as Attachment # 5.

Of the \$8,275,721 fund balance about \$1,318,738 is non-spendable as it is represented by prepayments to vendors (\$633,468) and advances to the Wastewater Fund (\$685,270). The remaining \$6,956,983 unassigned fund balance is available for spending at the City Council's discretion, which is subject to Council-established policies for reserve funds.

The City's General Fund at June 30, 2018 has \$5.5 million in cash and investments as compared to \$6.0 million in Fiscal Year 2016/17 and \$6.4 million cash available in Fiscal Year 2015/16.

Enterprise Funds

The Water and Wastewater funds had \$0 and \$3,140,732 respectively in cash at June 30, 2018 as compared to \$1,930,013 and \$2,715,390 respectively in cash and cash equivalent balances at June 30, 2017. The reason for the change in cash was additional use of funds for maintenance, operations and employee services.

The Water Fund had an operating income loss of \$525,955 and the Wastewater Fund had an operating income loss of \$326,614. Total expenses for the enterprise funds for Fiscal Year 2017/18 were \$6.5 million when compared to Fiscal Year 2016/17 of \$5.9 million, an increase of nearly \$668,555 or 11%. This is due to increases in purchasing of water, contracted services, vacancies being filled and the reporting of GASB 68 which changed the methodology by which current period pension expenses are reported.

Total revenue for the enterprise funds in Fiscal Year 2017/18 was \$6.0 million comprised of \$0.8 million in capital grants and contributions and \$5.2 million in charges for services. In Fiscal Year 2016/17 total revenue was \$10 million, comprised of \$5.1 million in charges for services and \$4.9 million in capital grants and contributions.

At the end of Fiscal year 2017-18, the City had \$17.0 million in long-term debt and capital lease obligations outstanding. Of the \$17.0 million, approximately 81% relates to the City's business-type activities, mainly the water and wastewater systems, and the remaining 19% is applicable to governmental type financing activities.

In May 2018 the Board of Directors of the Calistoga Public Facilities Corporation authorized the issuance and sale of water and wastewater revenue certificates in the principal amount not to exceed \$10.0 million to refund certain obligations of the City of Calistoga. Through the 2018 issuance the City refunded a 2001B wastewater revenue bond, 2005 wastewater certificates of participation, 2005D water revenue bonds and a 2008 water certificates of participation. The refinancing of the bonds reduced the debt service interest payments by approximately \$0.06 million per year through 2045 and total debt service savings by \$1.5 million. This translates into a net present value of \$0.8 million and 9.1% net present savings as a percentage of refunded principal.

In the business-type activities the City made all required payments of principal and interest on its obligations despite the City's strained financial conditions. Additional information about the City's long-term obligations can be found under Long-Term Debt Section F on Pages 40 through Pages 46 under the notes to the financial statements.

The enterprise funds did not meet debt service coverage ratios in Fiscal Year 2017/18 from net system revenues excluding one-time grants and contributions. Debt coverage ratio for the Water Fund was (15.1%) and the debt coverage ratio for the Wastewater Fund was 55.7%. Several of the outstanding loans require 120% debt coverage ratios.

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 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. At the end of the fiscal year, the City had \$3.8 million in notes receivables in the HOME Grant Fund.

CDBG Open Grant Fund

This fund was established to provide “silent” second mortgages to eligible families for assistance in purchasing their first house. The City currently holds 17 first time homebuyer notes with a fund balance of \$1.2 million at June 30, 2016. Maximum loan amounts for second mortgages were set at \$250,000 by the California Department of Housing and Community Development. The City mortgages are financed as a deferred payment loan. Loans are due upon sale or transfer of title or when the borrower no longer occupies the home as his/her principal residence.

Special Revenue Funds

The Special Revenue Funds ended the fiscal year with about \$1,742,397 in cash and investments and a net change in fund balance of (\$384,704) for a combined total fund balance of \$4,183,346 as compared to \$4,410,409 in Fiscal Year 2016/17. The decrease was due to less one-time impact fees.

Equipment Replacement Fund

The total net position for this fund on June 30, 2018 was \$1,021,809 of which \$621,240 is unrestricted. When compared to Fiscal Year 2016/17, total net position was \$936,830 of which \$536,318 was unrestricted.

PURPOSE: To hear a presentation by Michael O'Connor, CPA, from R.J. Ricciardi, Inc., on the Fiscal Year 2017/18 audited Comprehensive Annual Financial Report (CAFR) and to receive and file report.

ANALYSIS:

When all operations were concluded, the governmental activities function reported a change of \$6.4 million in net position. Revenues from all governmental activities increased over the previous fiscal year from \$24.5 million to \$31.2 million (\$6.7 million increase). Overall the increases in revenues are attributed to capital grants and contributions (\$3.2 million), property taxes (\$0.3 million), and interest earnings (\$0.06 million). Decreases in revenues are attributed to charges for services (\$0.5 million) and transient occupancy taxes (\$0.1 million).

When compared to the previous fiscal year citywide expenses increased \$2.4 million. This was due in large part to the reporting of GASB 68 and recording of current period pension expenses, increases in contracted services and increase of \$4.0 million in capital projects. A prior period adjustment in the amount of \$1.2 million was included to account for GASB 75, other post-employment benefits. Additional information about the

City's expenses can be found in Page 7 of the Comprehensive Annual Financial Statement Report shown as Attachment 5.

Net position of business type-activities decreased by (\$0.4) million due to one-time impact fees from capital projects. In Fiscal Year 2017/18 the City received \$.8 million and in Fiscal Year 2016/17 the City received \$4.9 million in one-time impact fees

Public Works staff continues to be successful in applying, receiving and administering grants for projects. Capital grants and contributions for Fiscal Year 2017/18 totaled \$6.1 million. Grants include Measure A funds for the Kimball Dam Tower capital project/debt service in the amount of \$.5 million; Caltrans funds for the Berry Street Bridge Project in the amount of \$4.7 million; Office of Emergency Service funds for Feige Tank, January Storms, Riverside Pond Project and Tubbs Fire in the amount of \$.8 million and \$.1 million from the Metropolitan Transportation Commission for AT&T Pathway, Petrified Forest, and Logvy Pedestrian Sidewalk.

Mr. O'Connor has concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified audit opinion that the City of Calistoga's financial statements for the fiscal year ended June 30, 2018, are fairly presented in conformity with U.S. generally accepted accounting principles. The independent auditor's report is presented as the first component of the financial section of the audit report.

GASB Statement No. 34 Reporting Requirements

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

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

The June 30, 2018 CAFR continues to comply with the GASB reporting standards. Below is a listing of the different sections in the report:

- Transmittal letter by the City Manager and Administrative Services Director
- Auditor's Report
- Management's Discussion and Analysis
- Government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting
- Fund financial statements, consisting of a series of statements that focus on a

- government's major governmental funds and water/wastewater enterprise funds
- Notes to financial statements
- Required supplementary information, which requires budgetary comparison schedules to be presented
- Supplemental statements
- Statistical schedules

Fund balances for the governmental funds at June 30, 2018 were as follows: Non-spendable for Governmental funds \$1,318,738; Restricted for capital improvements \$84,726; Restricted for affordable housing \$6,359,135 (\$3,756,308 for Home Grant Fund; \$1,218,250 for CDBG Open Grant Fund and \$1,384,577 for Other Governmental Funds); Restricted for streets, \$1,041,883; Restricted for facilities \$284,673; Restricted for public safety \$636,680; Restricted for parks \$6,817 and Unassigned General Fund balance \$6,956,983. Non-spendable funds are proceeds that will become available sometime in future periods.

Under the auditing professional standards, the auditor is required to provide a separate communication to the City Council on specific issues regarding the conduct of the audit and other information relating to the financial statements and financial policies and practices of the City. The communication indicates that there were no issues or difficulties in conducting the audit. Attached is the communication and additional reports for the June 30, 2018 Comprehensive Annual Financial Report.

FINANCIAL IMPACT: None

ATTACHMENTS:

1. Communication to Those Charged with Governance Letter from Auditor
2. Report on Internal Control over Financial Reporting
3. Report on Agreed-Upon Procedures Applied to Appropriations Limit Worksheets
4. City Council and Management Report
5. Audited Comprehensive Annual Financial Report (CAFR) as of June 30, 2018