



# REPORT TO COUNCIL

## City of Sacramento

# 13

915 I Street, Sacramento, CA 95814-2604  
www.CityofSacramento.org

Staff Report  
January 22, 2008

Honorable Mayor and  
Members of the City Council

**Title:** Fiscal Year 2007 Comprehensive Annual Financial Report

**Location/Council District:** Citywide

**Recommendation:** Adopt a **Resolution** 1) accepting the June 30, 2007 Comprehensive Annual Financial Report, 2) accepting the June 30, 2007 Single Audit Reports, 3) accepting the June 30, 2007 Child Development Program Audit Reports, 4) accepting the Report to Management, 5) authorizing the designation of fund balance for the Fiscal Year 2008 balanced budget, 6) authorizing the designation of fund balance for high priority capital needs, and 7) amending the 2008 budget to reflect actual beginning available fund balances.

**Contact:** Russell Fehr, Director of Finance, 808-5832; Dennis Kauffman, Accounting Manager, 808-5843

**Presenters:** Dennis Kauffman, Accounting Manager

**Department:** Finance

**Division:** Accounting

**Organization No:** 1131

**Description/Analysis**

**Issue:** The City's Fiscal Year 2007 Comprehensive Annual Financial Report (CAFR) has been prepared to present the City's financial condition and the results of its activities for the fiscal year ended June 30, 2007. An independent public accounting firm has audited the CAFR financial statements, as required by the City Charter.

**Policy Considerations:** This report is consistent with the City's sustainable budget policy and reflects the fiscal condition of the City.

**Environmental Considerations:** Not Applicable

**Commission/Committee Action:** Not Applicable



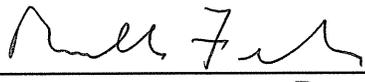
**Rationale for Recommendation:** It is in the best interest of the City to accept the June 30, 2007 Comprehensive Annual Financial Report, Single Audit Reports, and Child Development Program Audit Reports for the following reasons:

- The public accounting firm of Macias, Gini & O'Connell, LLP has audited the City's 2007 fiscal year financial statements and has rendered its unqualified opinion that the financial statements are fairly presented in accordance with generally accepted accounting principles.
- The auditors have completed the City's Single Audit for the 2007 fiscal year and have rendered their opinion that the City's Schedule of Expenditures of Federal Awards is fairly stated, in relation to the basic financial statements taken as a whole.
- The auditors have completed the Child Development Program Audit for the City's 4<sup>th</sup> R program for the 2007 fiscal year. This audit, required by the California Department of Education, includes the auditor's unqualified opinion that the financial statements are fairly presented in accordance with generally accepted accounting principles. The Child Development Audit includes two findings of noncompliance and recommendations for corrective action. The findings were clerical and mathematical errors identified at one school site.
- The Report to Management reflects no audit adjustments or disagreements with management in connection with this year's audit. The Report to Management includes two recommendations for management consideration. The auditors are recommending City management perform a comprehensive risk assessment analysis of the City's internal controls, in response to new audit standards. The second recommendation addresses deficient controls over physical inventory.
- The City's Internal Audit Manager participated in the independent audit process by meeting with the auditors during their fieldwork.

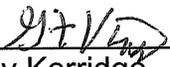
**Financial Considerations:** The attached resolution designates \$29.2 million of General Fund ending fund balance for the Fiscal Year 2008 balanced budget. This designation is a consolidation of various reserves and includes \$2.8 million from the Fiscal Year 2007 results. The resolution also designates \$5.4 million in the General Fund for high priority capital needs. The FY2007/08 Midyear Budget Report incorporates the Fiscal Year 2007 results into the City's long-term financial plan.

**Emerging Small Business Development (ESBD):** No goods or services are being purchased under this report.

Respectfully Submitted by:   
Dennis Kauffman  
Accounting Manager

Approved by:   
Russell Fehr  
Director of Finance

Recommendation Approved:

*for*   
Ray Kerridge  
City Manager

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**Background Information:****OVERVIEW OF REPORT**

- The City has prepared the CAFR to present financial information in a standard format prescribed by the Government Finance Officers Association.
- The CAFR is organized into the following sections:
  - An **Introductory Section** with a transmittal letter summarizing economic conditions, major initiatives, and other information.

A **Financial Section**, which begins with Management's Discussion and Analysis (MD&A), a narrative overview, analysis of the financial statements, and comments on the City's financial outlook. The basic financial statements follow the MD&A and report the financial position and the results of the operations of the City as a whole and the financial performance of the City's major funds. Footnotes to the financial statements are included to provide additional information. Finally, combining fund financial statements are presented to provide additional financial details of the City's activities.

- A **Statistical Section** with selected financial, demographic, and operating trend information.

**FISCAL YEAR 2007 FINANCIAL RESULTS**General Fund

- Revenue

Tax revenue and net department revenue fell short of the 2007 budget plan. Tax revenue was \$ 4.5 million lower than budget projections. The tax revenue shortfall is primarily attributable to the slowdown in the residential real estate market. Sales tax and utility user tax revenue ended the year lower than projected, while property tax and real estate transfer tax beat budget projections.

Revenue accruals were closely monitored at year-end and included the final Fiscal Year 2007 sales tax true up and real estate transfer taxes for transactions which took place up to June 30, 2007.

- Expenditures

While several departments exceeded their appropriation authority, most City departments ended Fiscal Year 2007 with positive budget results. Department deficit spending combined with unfavorable tax revenue results prompted management to analyze excess contributions being transferred to the City's Risk

Fund. At year-end, excess Risk fund premiums were returned to departments for unbudgeted workers compensation premiums on overtime pay and to the non-department budget to balance the General Fund budget.

- Net Results

The following schedule reconciles the midyear estimate of the General Fund undesignated fund balance to the June 30, 2007 actual balance (in millions):

Ending Balance, 2007 Midyear projection	\$ <u>1.0</u>
Budget to actual results:	
Tax revenue	(4.5)
Department results	(7.7)
Return of excess Risk Fund contributions	7.8
Funding for high priority capital needs	5.4
Closure of prior year purchase orders	4.3
Other revenue/expenditure results	3.9
Establish/increase designations:	
Fiscal Year 2008 balanced budget	(2.8)
High priority capital needs	<u>(5.4)</u>
Net increase in undesignated fund balance	<u>1.0</u>
Ending balance, June 30, 2007	<u>\$ 2.0</u>

The Fiscal Year 2008 Approved Budget included an estimated beginning undesignated fund balance of \$ 2.0 million. Mayor and City Council approval of the fund balance designations will result in an ending undesignated fund balance of \$2.0 million.

- Operating Department Results

Most City departments realized positive budget results during Fiscal Year 2007; there were, however, some significant exceptions.

Departmental Budget Results  
(in thousands):

Mayor/City Council	\$ 50
City Manager	34
City Attorney	415
City Clerk	40
City Treasurer	94
Finance	227
Information Technology	768

Human Resources	354
Labor Relations	79
Police	(3,575)
Fire	(2,669)
General Services	232
Transportation	86
Neighborhood Services	270
Convention, Culture & Leisure	339
Economic Development	301
Parks and Recreation	132
Code Enforcement	(442)
Development Services	(4,540)
Planning	<u>130</u>
Total	<u><u>\$(7,675)</u></u>

- In recent years the Mayor and City Council have approved a series of fund balance designations, in addition to the Reserve for Economic Uncertainty, in the General Fund. These designations were consolidated in the Fiscal Year 2007 CAFR and called out as the designation for the Fiscal Year 2008 balanced budget. This designation was then used to balance the Fiscal Year 2008 budget. Net positive results from Fiscal Year 2007 of \$2.8 million were used to augment this designation in preparation for closing the budget gap at Fiscal Year 2008 year-end. The following list of reserves were consolidated into the Fiscal Year 2008 balanced budget designation of fund balance:

Future labor costs	\$ 3,300
Future PERS costs	7,800
Growth initiatives	4,169
Disaster recovery	6,000
Economic development	882
Fiscal Year 2006 department carryover	4,142
Fiscal Year 2007 net results	<u>2,893</u>
	<u><u>\$29,186</u></u>

- The City has high priority capital needs. Resources accumulated in a capital projects fund from the Cal EPA project and in a debt service fund from excess transfers and interest earnings totaling \$5.4 million were returned to the General Fund and have been designated for high priority capital needs.

Proprietary Funds – Year-end results for the enterprise and internal service funds are included on page 8 of this report. Following are highlights of those results:

- Water – The Water Fund exceeded its budget plan by \$6.1 million primarily attributable to revenue from wheeling agreements and interest income.
- Sewer – The City’s Sewer Fund missed its budget target by \$430 thousand due to overspending on services and supplies, partially offset by labor savings.
- Storm Drainage – The Storm Drainage Fund exceeded its budget plan by \$1.7 million primarily attributable to labor and services and supplies savings.
- Solid Waste – The Solid Waste Fund overspent its expenditure budget by \$3.6 million due primarily to increasing fleet costs and tipping fees. The fund ended Fiscal Year 2007 with a deficit budgetary fund balance of \$2.5 million.
- Community Center – The Community Center Fund ended Fiscal Year 2007 with a budgetary surplus of \$3.6 million primarily attributable to transient occupancy tax and user fee revenue in excess of budget.
- Fleet – The Fleet Fund improved its deficit fund balance by \$2.1 million to end Fiscal Year 2007 with a deficit of \$2.7 million. The year-end deficit in the Fleet Fund partially reflects a timing difference between payments made by Fleet for vehicles ordered and reimbursements received by Fleet when vehicles are delivered to operating departments. Resources have been reserved in the General Fund and enterprise funds to close this deficit.

**Proprietary Funds Year-End Results**

See Attachment #2

**Report to Management**

See Separate Booklet - Attachment #3

**Comprehensive Annual Financial Report**

See Separate Booklet - Attachment #4

**Single Audit Report**

See Separate Booklet - Attachment #5

**Child Development Program Audit Report**

See Separate Booklet - Attachment #6

**Instructions on Locating the Attachments Online**

*Attachment #7*

To review the **Proprietary Funds Year-End Results**, the **Report to Management**, the **Single Audit Report**, and the **Child Development Program Audit Report**, please go to:

[www.cityofsacramento.org](http://www.cityofsacramento.org)

Click on Departments and Services

Under Finance Department, click on Accounting Division

Under Accounting Division, look for the section titled Documents

To review the **Comprehensive Annual Financial Report**, please go to:

[www.cityofsacramento.org](http://www.cityofsacramento.org)

Click on Departments and Services

Under Finance Department, click on Accounting Division

Under Accounting Division, look for the section titled Documents where the link for the Comprehensive Annual Financial Report is located near the bottom of the section

## **RESOLUTION NO.**

Adopted by the Sacramento City Council

### **FISCAL YEAR 2007 COMPREHENSIVE ANNUAL FINANCIAL REPORT**

#### **BACKGROUND**

- A. The City's Fiscal Year 2007 Comprehensive Annual Financial Report (CAFR) was prepared to present the City's financial conditions and the results of its activities for the fiscal year ended June 30, 2007. The CAFR financial statements were audited, as required by the City Charter, by an independent public accounting firm.
- B. The public accounting firm of Macias, Gini & O'Connell, LLP audited the City's 2007 fiscal year financial statements and rendered its unqualified opinion that the financial statements are fairly presented in accordance with generally accepted accounting principles.
- C. The auditors have also completed the City's Single Audit for the 2007 fiscal year and have rendered their opinion that the City's Schedule of Expenditures of Federal Awards is fairly stated, in relation to the basic financial statements taken as a whole.
- D. The auditors have completed the Child Development Program Audit for the City's 4<sup>th</sup> R program for the 2007 fiscal year. This audit, required by the California Department of Education, includes the auditor's unqualified opinion that the financial statements are fairly presented in accordance with generally accepted accounting principles. The Child Development Audit includes two findings of noncompliance and recommendations for corrective action. The findings were clerical and mathematical errors identified at one school site.
- E. The Report to Management reflects no audit adjustments or disagreements with management in connection with this year's audit. The Report to Management includes two recommendations for management consideration. The auditors are recommending City management perform a comprehensive risk assessment analysis of the City's internal controls, in response to new audit standards. The second recommendation addresses deficient controls over physical inventory.
- F. The City's Internal Audit Manager participated in the independent audit process by meeting with the auditors during their fieldwork.

**BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE CITY COUNCIL RESOLVES AS FOLLOWS:**

- Section 1. The City Council accepts the June 30, 2007 Comprehensive Annual Financial Report.
- Section 2. The City Council accepts the June 30, 2007 Single Audit Report.
- Section 3. The City Council accepts the June 30, 2007 Child Development Program Audit Report.
- Section 4. The City Council accepts the June 30, 2007 Report to Management.
- Section 5. The City Council authorizes the consolidation of various General Fund designations of fund balance and the establishment of a \$29.2 million designation of fund balance in the General Fund for the Fiscal Year 2008 balanced budget.
- Section 6. The City Council authorizes the establishment of a \$5.4 million designation of fund balance in the General Fund for high priority capital needs.
- Section 7. The City Council amends the 2008 budget to reflect actual beginning available fund balances.

**Table of Contents:**

- Exhibit A Comprehensive Annual Financial Report
- Exhibit B Single Audit Report
- Exhibit C Child Development Program Audit Report
- Exhibit D Report to Management