

# Item No. 22

## **“To Be Delivered” Material**

For

### **City of Sacramento**

City Council

Financing Authority

Housing Authority

Redevelopment Agency

### **Agenda Packet**

**For the Meeting of:** April 30, 2009

The attached materials were not available at the time the Agenda Packet was prepared.

**Title:** Fiscal Year 2007/08 Comprehensive Annual Financial Report

**Contact Information:** Leyne Milstein, Director of Finance, 808-8491  
Dennis Kauffman, Accounting Manager, 808-5843

Please include this “To Be Delivered” material in your agenda packet. This material will also be published to the City’s Internet. For additional information, contact the City Clerk Department at Historic City Hall, 915 I Street, First Floor, Sacramento, CA 95814-2604, (916) 808-7200.



# REPORT TO COUNCIL

## City of Sacramento

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

Staff Report  
**April 30, 2009**

**Honorable Mayor and  
Members of the City Council**

**Title: Fiscal Year 2007/08 Comprehensive Annual Financial Report**

**Location/Council District: Citywide**

**Recommendation:** Adopt a **Resolution** 1) accepting the June 30, 2008 Comprehensive Annual Financial Report (CAFR); 2) accepting the June 30, 2008 Single Audit Reports; 3) accepting the Auditor's Report to City Council, 4) authorizing the write off of \$1.05 million in shortfalls from private development projects; 5) authorizing the designation of \$492,000 in General Funds from Fiscal Year (FY) 2007/08 year end results to close FY2008/09; and 6) authorizing the release of the \$492,000 FY2007/08 year end designation as needed to close FY2008/09.

**Contact:** Leyne Milstein, Director of Finance, 808-8491; Dennis Kauffman, Accounting Manager, 808-5843

**Presenters:** Dennis Kauffman, Accounting Manager

**Department:** Finance

**Division:** Accounting

**Organization No:** 06001311

### **Description/Analysis**

**Issues:** The City's FY2007/08 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 that ended June 30, 2008. An independent public accounting firm has audited the CAFR financial statements, as required by the City Charter.

The City's Fiscal Year 2007/08 Single Audit Reports have been prepared to comply with federal grant requirements.

Additionally, there are two operational recommendations addressed in the FY2007/08 close. The first is the identification of resources, as directed by the City Council during the FY2008/09 Midyear Budget report, to offset the suspension of the second fire company brownout. The second recommendation is related to the final write off of uncollectable accounts in the City's Private Development Fund. Over prior fiscal years, the City has accumulated shortfalls in 476 private development projects. These shortfalls have been judged unrecoverable and should be formally written off the books of the City.

**Policy Considerations:** This report is required by the City Charter and federal grant requirements and is consistent with the City's fiscal transparency and accountability principles.

**Environmental Considerations:** Not Applicable

**California Environmental Quality Act (CEQA):** This recommendation does not constitute a "project" and is therefore exempt from the California Environmental Quality Act according to CEQA guidelines Section 15061 (b)(1) and 15378(b)(3).

**Sustainability Considerations:** There are no sustainability considerations associated with this report.

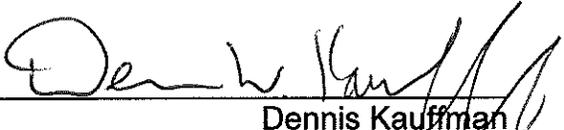
**Commission/Committee Action:** None

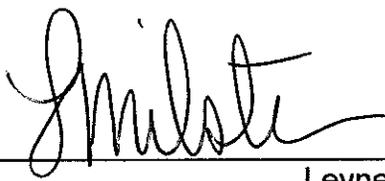
**Rationale for Recommendation:** It is in the best interest of the City to accept the June 30, 2008 Comprehensive Annual Financial Report, Single Audit Reports, and the auditor's Report to City Council for the following reasons:

- The annual audit is required by the City Charter, federal grant requirements, and bond covenants.
- The public accounting firm of Macias, Gini & O'Connell, LLP has audited the City's 2007/08 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 2007/08 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 Single Audit report includes four findings and recommendations for the Summer Food Program for Children. One of the findings is considered to be a material weakness in internal controls. Implementation of the auditors' recommendations will result in improved internal controls over program compliance.
- The auditor's Report to City Council reflects no significant audit adjustments or disagreements with management in connection with this year's audit. The Report to City Council includes four recommendations for consideration. The auditors recommended that the City form an audit committee. The other three recommendations address internal controls and compliance with City policies.
- The City's Internal Audit Manager participated in the independent audit process by meeting with the auditors during their fieldwork.

**Financial Considerations:** The FY2007/08 year end results provided sufficient resources to fund the \$1.0 million General Fund beginning fund balance included in the FY2008/09 Approved Budget and \$492,000 in resources to offset the suspension of the second fire company brownout. Additionally, this report recommends the final write off of \$1.05 million in private development project shortfalls that have been determined to be uncollectable. The recommended write off will not require any additional general fund resources. The FY2009/010 Proposed Budget incorporates the Fiscal Year 2007/08 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:   
Leyne Milstein  
Director of Finance

Recommendation Approved:

  
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 2007/08 FINANCIAL RESULTS

#### General Fund

- Revenue  
Tax revenue and net department revenue fell short of the 2008 budget plan. Tax revenue was \$9.5 million lower than budget projections. The tax revenue shortfall is primarily attributable to the slowdown in the residential real estate market. Property, sales and utility user tax revenue ended the year lower than projected.
- Expenditures  
Although several departments exceeded their appropriation authority, most City departments ended Fiscal Year 2008 with positive budget results.
- Net Results  
The following schedule reconciles the midyear estimate of the General Fund undesignated fund balance to the June 30, 2008 actual balance (in millions):

Ending Balance, 2008 Midyear projection      \$ 1.0

Budget to actual results:

Tax revenue	(9.5)
Department results	(2.2)
Other revenue/expenditure results	4.5

Draw on FY2007/08 balanced budget designation	7.7
Establish designation for FY 2008/09 results	<u>(0.5)</u>
Net increase in undesignated fund balance	<u>0.0</u>

Ending balance, June 30, 2008      \$ 1.0

Approval of the fund balance designations identified above will provide the \$1.0 million beginning fund balance included in the Approved FY2008/09 Budget.

- Operating Department Results

Most City departments realized positive budget results during Fiscal Year 2008; there were, however, some significant exceptions.

Departmental Budget Results

(in 000's):

Mayor/City Council	\$ 147
City Manager	251
City Attorney	336
City Clerk	105
City Treasurer	276
Finance	327
Information Technology	652
Human Resources	187
Labor Relations	36
Police	(1,135)
Fire	(2,334)
General Services	956
Transportation	(208)
Neighborhood Services	59
Convention, Culture & Leisure	143
Economic Development	405
Parks and Recreation	203
Code Enforcement	(328)
Development Services	(3,144)
Planning	840
<b>Total</b>	<b><u>\$(2,226)</u></b>

## **Private Development Fund**

### Private Development Projects

The City has identified uncollectible shortfalls in 476 private development projects over past fiscal years totaling \$1.05 million. Shortfalls occur when costs allocable to the projects are not reimbursed by developers. Shortfalls have accumulated over multiple years. New accounting and tracking practices will significantly reduce or eliminate this in the future. The City funds private development project shortfalls with General Fund department resources. As a result, the recommended write off will not require additional General Fund resources.

**Report to City Council**

See Separate Booklet - Attachment #2

**Comprehensive Annual Financial Report**

See Separate Booklet - Attachment #3

**Single Audit Report**

See Separate Booklet - Attachment #4

**Instructions on Locating the Attachments Online**

**Attachment #5**

To review the **Report to City Council** and the **Single 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 2007/08 COMPREHENSIVE ANNUAL FINANCIAL REPORT****BACKGROUND**

- A. The City's Fiscal Year (FY) 2007/08 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, 2008. 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 FY2007/08 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 FY2007/08 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 Single Audit report includes four findings and recommendations for the Summer Food Program for Children. One of the findings is considered to be a material weakness in internal controls. Implementation of the recommendations will result in improved internal controls over program compliance.
- D. The auditors' Report to City Council reflects no significant audit adjustments or disagreements with management in connection with this year's audit. The Report to City Council includes four recommendations for management consideration. The auditors are recommending that the City consider forming an audit committee. Implementation of the other three recommendations will result in improved internal controls and compliance with City policies.
- E. The City's Internal Audit Manager participated in the independent audit process by meeting with the auditors during their fieldwork.
- F. The City has identified uncollectible shortfalls in 476 of its private development projects over the last several fiscal years totaling \$1.05 million. The City temporarily funds shortfalls in its private development projects with General Fund department resources each fiscal year end. As a result, the recommended write off will not require additional General Fund resources.
- G. During the FY2008/09 Midyear Budget report presented on February 10, 2009 the City Council directed the City Manager to delay the implementation of a second fire company brown out and to report back on funding options to address the projected shortfall in the Fire Department's FY2008/09 operating budget

(Resolution 2009-078). This report recommends that \$492,000 in resources identified through the FY2007/08 year end close be set aside and used to address this shortfall.

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

- Section 1. The City Council accepts the June 30, 2008 Comprehensive Annual Financial Report.
- Section 2. The City Council accepts the June 30, 2008 Single Audit Reports.
- Section 3. The City Council accepts the June 30, 2008 Report to City Council.
- Section 4. The City Council authorizes the write off of \$1.05 million in shortfalls from private development projects
- Section 5. The City Council authorizes the designation of \$492,000 in the General Fund from FY2007/08 year end results to close FY2008/09.
- Section 6. The City Council authorizes the release of the \$492,000 FY2007/08 year end designation as needed to close FY2008/09.

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- Exhibit A Comprehensive Annual Financial Report
- Exhibit B Single Audit Report
- Exhibit C Report to City Council