



# REPORT TO COUNCIL

## City of Sacramento

# 20

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

Staff Report  
January 30, 2007

Honorable Mayor and  
Members of the City Council

**Title:** Fiscal Year 2006 Comprehensive Annual Financial Report

**Location/Council District:** Citywide

**Recommendation:** Adopt a **Resolution** 1) accepting the June 30, 2006 Comprehensive Annual Financial Report, 2) accepting the June 30, 2006 Single Audit Reports, 3) authorizing the designation of fund balance for General Fund department carryover, 4) authorizing the designation of fund balance for City Council discretionary account carryover, 5) authorizing the designation of fund balance for an SB90 Reserve; and 6) amending the 2007 budget to reflect actual beginning available fund balances.

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

**Presenters:** Dennis Kauffman, Accounting Division Manager

**Department:** Finance

**Division:** Accounting

**Organization No:** 1131

### **Description/Analysis**

**Issue:** The City's Fiscal Year 2006 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, 2006. The CAFR financial statements have been audited, as required by the City Charter, by an independent public accounting firm.

**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

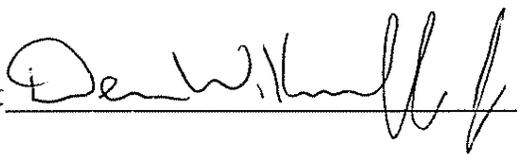


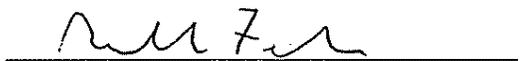
**Rationale for Recommendation:** It is in the best interest of the City to accept the June 30, 2006 Comprehensive Annual Financial Report and Single Audit Reports for the following reasons:

- The public accounting firm of Macias, Gini & O'Connell, LLP has audited the City's 2006 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 2006 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 Report to Management reflects no audit adjustments, disagreements, comments or recommendations for management consideration in connection with this year's audit.
- 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 fund balance for the General Fund department carryover, City Council discretionary account carryover, and an SB90 reserve. The FY2006/07 Midyear Budget Report and the FY2007/08 budget will incorporate the fiscal year 2006 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: 

Approved by: 

Recommendation Approved:

  
for Ray Kerridge  
City Manager

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

- The City's CAFR has been prepared to summarize a variety of financial information in a format prescribed by the Government Finance Officers Association. The City implemented two new accounting and financial reporting standards for the fiscal year 2006 CAFR that were mandated by the Governmental Accounting Standards Board (GASB). GASB Statement No. 44 improves the understandability and usefulness of information presented in the Statistical Section of the CAFR. GASB Statement No. 46 clarifies accounting and financial reporting requirements when restrictions are placed on the financial resources of the City by City Council legislation.
- The City also reassessed the financial relationship between the City and the Sacramento Housing and Redevelopment Agency (SHRA). Previous CAFRs have combined the financial activity of SHRA with the financial activity of the City. Based on provisions of GASB Statement No. 14, the City now presents only the financial activity of the City in its CAFR. We believe this change improves the usefulness of the CAFR.
- The CAFR is summarized 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 and analysis of the financial statements.

The Financial Section next presents basic financial statements that show 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 2006 FINANCIAL RESULTS**General Fund

Tax revenue and department revenue growth, along with prudent department expenditure control, allowed the City to meet and exceed the overall 2006 General Fund financial plan. Both revenue and expenditure results were favorable to budget.

Excess tax revenue offset a \$ 3.8 million shortfall in Development Services fees. The revenue shortfall experienced by the Development Services Department was attributed to the slowdown in the residential real estate development market. The Development Services Department projects it will achieve its revenue budget expectations in fiscal year 2007.

- Revenue

The favorable budget to actual revenue results were significantly lower than was the case for both FY2004 and FY2005. The primary reason is that the actual revenue results were closer to the overall revenue estimates than in the previous two years. In FY2006, tax revenue and other discretionary revenue results were favorable to budget by \$7.0 million. Of this amount, \$7.8 million was from property taxes, \$3.3 million from sales taxes, and \$3.1 million from real property transfer taxes. Other revenues were under collected by \$7.2 million, including \$4.9 million due to misclassification of VLF backfill revenue and assumed revenue improvement.

- Operating Department Carryover

Nearly all City departments also realized positive budget results during the year (in thousands):

Mayor/City Council	\$ 118
City Manager	104
City Attorney	318
City Clerk	2
City Treasurer	137
Finance	623
Information Technology	206
Labor Relations	363
Police	1,459
General Services	47
Transportation	341
Neighborhood Services	65
Convention, Culture & Leisure	186
Economic Development	130
Parks and Recreation	<u>43</u>
Total	<u>\$ 4,142</u>

- The City's operating department carryover of \$ 4,142,000 is approximately 1.3% of the General Fund departmental expenditure budget.
- The City Council discretionary account positive budget results to be carried over total \$376,000.
- The Advanced Life Support program, operated by the Fire Department, had positive budget results of approximately \$ 3.0 million. Approximately \$ 2.0 million was

absorbed by Fire Department expenditures in excess of appropriations in other divisions, leaving a net increase to the Advanced Life Support carryover of \$ 1.0 million.

- The City collected approximately \$ 1.0 million from the State of California through the Senate Bill 90 (SB 90) program for mandated cost reimbursements attributable to animal care programs. A consultant engaged to prepare mandated cost reimbursement claims on behalf of the City recommends reserving a significant portion of the \$ 1.0 million collected pending a State audit of the claims. General Services Department staff will bring forward a report to City Council to provide more information and specific recommendations for this reserve upon completion of the State audit.

- Net Results

The following schedule reconciles the midyear estimate of the General Fund undesignated fund balance to the June 30, 2006 actual balance (in millions):

Ending Balance, 2006 Midyear projection	<u>\$ 0.2</u>
Budget to actual results:	
Tax revenue	7.0
Other revenue/expenditure results	(1.3)
Department results	4.1
SB 90 revenue	1.0
Establish/increase reserves:	
Department carryover	(4.1)
SB 90 reserve	(1.0)
Development Services fee shortfall	<u>(3.8)</u>
Net increase in undesignated fund balance	<u>1.9</u>
Ending balance, June 30, 2006	<u><u>\$ 2.1</u></u>

A beginning undesignated fund balance of \$ 2.9 million was estimated for the fiscal year 2007 approved budget. Staff recommends amending the 2007 budget to establish the beginning available fund balance at \$ 2.1 million.

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:

- The Community Center fund experienced revenue growth in user fees and transient occupancy tax, providing resources to begin repayment of its loan to the Risk Management Fund and to this fund's share of the eCAPS project.

- The Solid Waste Fund year-end deficit has been narrowed in fiscal year 2007 by the closure of fiscal year 2006 purchase orders totaling \$ 1.5 million. The outlook for the Solid Waste Fund, along with the other enterprise funds, will be reevaluated for the midyear 2007 report.
- The year-end deficit in the Fleet Fund 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. The Fleet Fund, as well as the Risk Management internal service fund, will also be reevaluated for the midyear 2007 report.

**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

**Power Point Presentation**

See Attachment #6

**RESOLUTION NO.**

Adopted by the Sacramento City Council

**FISCAL YEAR 2006 COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**BACKGROUND**

- A. The City's Fiscal Year 2006 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, 2006. 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 2006 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 2006 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 independent auditor's Report to Management includes no audit adjustments, disagreements, comments or recommendations for management consideration for this year's audit.
- E. 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. Accepts the June 30, 2006 Comprehensive Annual Financial Report.
- Section 2. Accepts the June 30, 2006 Single Audit Report.
- Section 3. Authorizes the \$4.1 million designation of fund balance in the General Fund for department carryover.
- Section 4. Authorizes the establishment of a \$376,000 designation of fund balance in the General Fund for City Council discretionary account carryover.
- Section 5. Authorizes the establishment of a \$1 million designation of fund balance in the General Fund for an SB90 reserve.

Section 6. Amends the 2007 budget to reflect actual beginning available fund balances.

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Exhibit A Comprehensive Annual Financial Report  
Exhibit B Single Audit Report

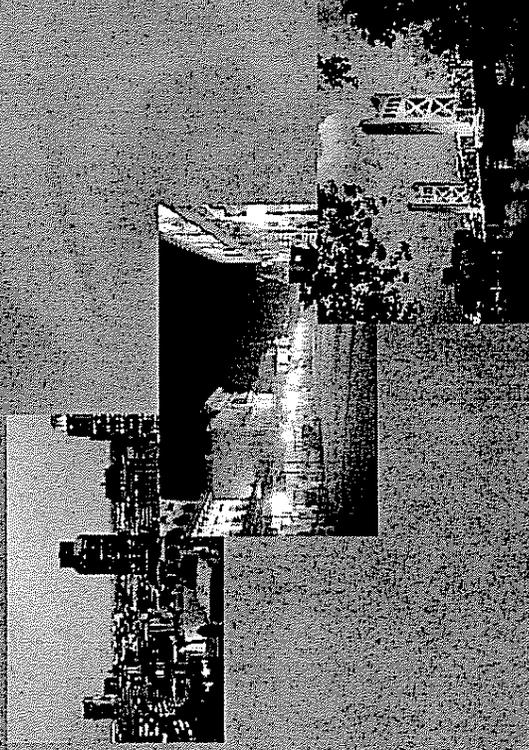
ATTACHMENT 2

CITY OF SACRAMENTO  
 Net Assets Available For Appropriation - Proprietary Funds  
 June 30, 2006  
 (in thousands)

	Water	Sewer	Storm Drainage	Solid Waste	Parking	Community Center	Manna	4th R	Fleet Management	Risk Management
<b>Beginning of year</b>	6,139	5,370	15,717	(791)	640	921	591	910	(2,877)	-
<b>Revenue</b>										
User fees	52,812	17,269	31,361	43,000	17,443	6,743	1,780	5,829	25,504	32,234
Transient Occupancy Tax	-	-	-	-	-	15,419	-	-	-	-
Contributions	26,578	2,166	-	-	-	-	-	-	1,710	-
Interest	1,945	530	1,178	58	791	640	42	47	-	2,160
Other	668	737	39	406	-	1,542	109	65	217	203
<b>Total revenue</b>	82,003	20,702	32,578	43,464	18,234	24,344	1,931	5,941	27,431	34,597
<b>Expenses</b>										
Employee services	18,921	6,673	17,633	13,039	3,161	5,364	383	4,806	6,217	2,790
Services and supplies	22,046	5,809	11,866	28,031	7,035	6,359	772	1,049	17,270	24,694
Equipment	304	195	171	1,608	(7)	1	-	-	6,160	-
Debt service	12,621	859	3,576	1,877	2,822	10,428	466	60	453	-
Other/Transfers	(2,171)	(2,556)	(3,716)	1,439	1,502	76	(4)	(9)	(380)	1,720
<b>Total expenses</b>	51,721	10,980	29,530	45,994	14,513	22,228	1,617	5,906	29,720	29,204
<b>Capital improvements</b>	13,158	8,314	5,477	(56)	2,788	400	42	376	193	-
<b>Other sources (uses)</b>	(3)	(699)	1,125	1,053	546	(1,023)	9	39	501	(5,393)
<b>End of year</b>	23,260	6,079	14,413	(2,212)	2,119	1,614	872	608	(4,858)	-

City of  
Sacramento, California

# Comprehensive Annual Financial Report



Fiscal Year Ended June 30, 2006



# General Fund Revenue Results

- Discretionary Revenue Results    \$ 5.7 M
- Development Services  
    Revenue Shortfall                    (3.8 M)
- Net increase in undesignated  
    fund balance                        \$ 1.9 M

# General Fund

## Recommendations in the CAFR

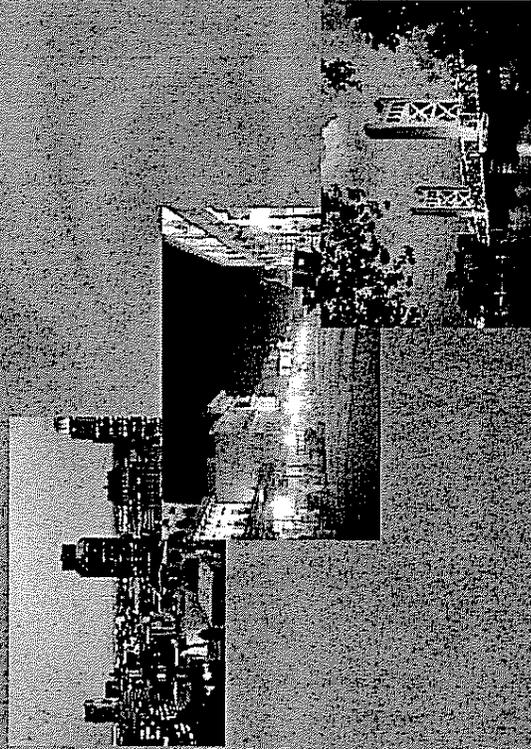
- Designate department carryover \$4.1 M
- Designate Council discretionary account carryover 0.4 M
- Designate SB 90 reserve 1.0 M

# Enterprise Funds Highlights

- Solid Waste Fund ended FY 2006 with a \$2M deficit; the deficit has already been substantially closed in FY 2007
- All other enterprise funds performed better than their budget plan.
- Community Center Fund experienced positive revenue growth and began repayment of Risk Fund loan

City of  
Sacramento, California

# Comprehensive Annual Financial Report



Fiscal Year Ended June 30, 2006



