



# REPORT TO COUNCIL

## City of Sacramento

915 I Street, Sacramento, CA 95814-2604  
[www.CityofSacramento.org](http://www.CityofSacramento.org)

STAFF REPORT  
 February 7, 2006

Honorable Mayor and  
 Members of the City Council

**Subject:** Fiscal Year 2005 Comprehensive Annual Financial Report

**Location/Council District:** Citywide

**Recommendation:** Adopt a Resolution that 1) Accepts the June 30, 2005 Comprehensive Annual Financial Report, 2) Accepts the June 30, 2005 Single Audit Reports, 3) Authorizes the designation of fund balance for General Fund department carryover, 4) Authorizes increases in the designations for economic uncertainties and disaster recovery, 5) Authorizes the establishment of designations for future labor costs, growth initiatives, and state impacts, 6) Authorizes the establishment of designations for department priorities, economic development, and community projects, and 7) Amends the 2006 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

**Summary:** The City's Fiscal Year 2005 Comprehensive Annual Financial Report (CAFR) was prepared to present the City's financial condition and the results of its activities for the fiscal year ended June 30, 2005. The CAFR financial statements were audited, as required by the City Charter, by an independent public accounting firm. Staff recommends the City Council accept the audit reports and authorize the budget actions outlined in this report.

**Committee/Commission Action:** None.

## **Background Information:**

### **I. ANNUAL AUDIT**

#### Auditor's Opinions

The public accounting firm of Macias, Gini & Company has completed its independent audit of the City's 2005 fiscal year financial statements and has rendered its unqualified opinion that the financial statements are presented in accordance with generally accepted accounting principles. Their opinion is included in the City's CAFR.

The auditors have also completed the City's Single Audit for the 2005 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. Their opinion is included in the City's Single Audit Reports.

#### Other Communications from Auditors

The Report to Management, which accompanies this report, includes the following:

- Communications required by professional auditing standards regarding any significant audit adjustments, disagreements with management, or other audit issues. There were no such audit adjustments or disagreements during this year's audit.
- Recommendations for management consideration. There were no comments or recommendations made for management consideration during this year's audit.

The City Internal Audit Manager's participation in the independent audit process included his attendance at the entrance conference, an interview with the auditors during the audit, and his attendance at the exit conference.

### **II. 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. Because the CAFR incorporates City funds as well as other entities for which the City Council has financial accountability, such as the Sacramento Housing and Redevelopment Agency (SHRA), the Sacramento Hotel Corporation, and the City's financing authority, the audited financial statements include a greater scope than the City's annual budget.

The City's Fiscal Year 2005 CAFR includes new footnote disclosures related to deposit and investment risks required by Government Accounting Standards Board (GASB) Statement No. 40. The GASB is the rule-setting body for state and local government accounting and financial reporting.

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 the independent auditor's opinion, followed by 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 demonstrate 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 and demographic trend information.

### III. FISCAL YEAR 2005 FINANCIAL RESULTS

#### General Fund

The City's financial condition improved during Fiscal Year 2005. Tax revenue and department revenue growth, along with prudent department expenditure control, allowed the City to meet and exceed the overall 2005 General Fund financial plan. Both revenue and expenditure results were favorable to budget. Additional available resources have been designated to help the City meet its current and future economic obligations. The 2006 General Fund financial plan to address these obligations will be reevaluated during the 2006 midyear review.

- Revenue  
Tax revenue results were favorable to budget by \$19.5 million. Of this amount, \$9 million relates to property taxes and \$7.4 million represents repayment by the State of the City's Motor Vehicle License Fee loan.
- Operating Department Carryover  
Many City departments also realized positive budget results during the year as follows (in thousands):

Mayor/City Council	\$ 125
City Manager	190
City Attorney	354
City Clerk	2
City Treasurer	166
Finance	1,238
Information Technology	684
Labor Relations	12
Police	1,661
Fire	1,718
General Services	885
Transportation	602
Convention, Culture & Leisure	180

Parks and Recreation	43
Neighborhood Services	<u>240</u>
Total	<u>\$ 8,151</u>

- The City's operating department carryover of \$8,151,000 is approximately 3% of the General Fund departmental expenditure budget.
- The Advanced Life Support program, operated by the Fire Department, had positive budget results of approximately \$2.4 million.

- Net Results

The following schedule reconciles the midyear estimate of the General Fund undesignated fund balance to the June 30, 2005 actual balance (in millions):

Ending Balance, 2005 Midyear projection	<u>\$ 12.6</u>
Budget to actual results:	
Tax revenue	19.5
Department results	8.2
Other revenue/expenditure results	6.6
Establish/increase reserves:	
Department carryover	(8.2)
Economic uncertainty	(0.9)
Future labor costs	(12.0)
Disaster recovery	(2.0)
Growth initiatives	(7.5)
State impacts	<u>(2.9)</u>
Net increase in undesignated fund balance	<u>0.8</u>
Ending balance, June 30, 2005	<u>\$ 13.4</u>

A beginning undesignated fund balance of \$3.8 million was assumed in the fiscal year 2006 approved budget. Of the additional \$9.6 million, staff recommends designating \$3.0 million for department priorities, \$3.0 million for economic development, and \$3.6 million for community projects.

#### Proprietary Funds – Year-end results

Year-end results for the enterprise and internal service funds are included in **Attachment A**.

- The Solid Waste Fund year-end deficit will be partially closed by \$400,000 of previously approved CIP defunding. The outlook for the Solid Waste Fund, along with the other enterprise funds, will be reevaluated in the midyear 2006 report.
- The Fleet Fund year-end deficit is a result of vehicles ordered but not yet reimbursed by operating departments. Resources have been reserved in the General Fund and enterprise funds to close this deficit.



CITY OF SACRAMENTO  
 Net Assets Available For Appropriation - Proprietary Funds  
 June 30, 2005  
 (in thousands)

	Water	Sewer	Storm Drainage	Solid Waste	Golf	Parking	Community Center	Marina	4th R	Fleet Management	Risk Management
<b>Beginning of year</b>	11,156	6,526	15,627	-	-	1,111	500	357	531	-	-
<b>Revenue</b>											
User fees	47,116	15,506	30,939	41,900	6,208	16,530	6,488	1,672	5,306	20,066	33,576
Transient Occupancy Tax	-	-	-	-	-	-	14,398	-	-	-	-
Contributions	5,897	348	-	-	-	-	-	-	-	248	-
Interest	1,399	338	848	47	53	522	768	25	27	104	1,443
Other	1,955	826	542	825	199	-	1,440	74	57	719	-
<b>Total revenue</b>	56,367	17,018	32,329	42,772	6,460	17,052	23,094	1,771	5,390	21,137	35,019
<b>Expenses</b>											
Employee services	16,285	6,013	14,998	13,200	2,764	2,843	5,122	368	4,309	5,780	2,601
Services and supplies	18,692	5,452	10,902	26,736	2,952	6,576	6,278	751	746	13,615	26,414
Equipment	51	28	274	1,433	47	-	39	-	-	4,931	6
Debt service	13,385	859	3,575	2,052	1,220	3,576	10,458	466	-	470	141
Other/Transfers	(645)	(191)	(2,799)	642	(255)	1,397	(459)	(106)	(20)	2,100	1,874
<b>Total expenses</b>	47,768	12,161	26,950	44,063	6,728	14,392	21,428	1,479	5,035	26,896	31,036
<b>Capital improvements</b>	13,600	5,083	4,821	667	210	2,811	1,085	60	(50)	193	-
<b>Other sources (uses)</b>	(16)	(930)	(468)	1,167	478	(374)	(150)	2	(26)	3,075	(3,983)
<b>End of year</b>	6,139	5,370	15,717	(791)	-	586	921	591	910	(2,877)	-

**CITY OF SACRAMENTO**

Report to Management

For the Fiscal Year Ended June 30, 2005

CITY OF SACRAMENTO  
REPORT TO MANAGEMENT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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## MACIAS GINI & COMPANY<sup>LLP</sup>

3000 S Street, Ste. 300  
Sacramento, California 95816  
916.928.4600 PHONE  
916.928.2755 FAX

Honorable Mayor, Members  
of the City Council and  
Management  
Sacramento, California

We have audited the financial statements of the City of Sacramento for the year ended June 30, 2005, and have issued our report thereon dated November 29, 2005. Professional auditing standards require auditors to communicate with the audit committee (or in the absence, the governing body) on a number of subjects. The following information satisfies these requirements, and is solely intended for the use of the Honorable Mayor, City Council and management.

### **I. The Auditor's Responsibility Under Generally Accepted Auditing Standards and Government Auditing Standards and OMB Circular A-133**

As stated in our engagement letter dated August 22, 2005, our responsibility as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting standards. Because an audit is designed to provide reasonable, but not absolute assurance, and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the City's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the City's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the City's compliance with those requirements.

## **II. Significant Accounting Policies and Unusual Transactions**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City are described in Note 1 to the financial statements. As described in Note 1, effective July 1, 2004, the City implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures, an Amendment of GASB Statement No. 3*. We noted no transactions entered into by the City during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

## **III. Accounting Estimates**

Accounting estimates are an integral part of the financial statements. Those judgments are based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The more significant financial statement components requiring accounting estimates are as follows:

- Accrual and disclosure of self insured claims liabilities
- Accrual and disclosure of compensated absences
- Depreciation of capital assets

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relationship to the financial statements taken as a whole.

## **IV. Audit Adjustments**

For the purposes of this report, professional standards define an audit adjustment as a proposed correction of the basic financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the City's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we posed, whether recorded or unrecorded by the City, either individually or in aggregate, indicate matters that could have a significant effect on the City's financial reporting process.

**V. Other Information in Documents Containing Audited Financial Statements**

Management's Discussion and Analysis (MD&A) - The MD&A and the required supplementary information other than MD&A, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standard Board (GASB). We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

**VI. Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

**VII. Consultations with Other Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

**VIII. Issues Discussed Prior to Our Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**IX. Difficulties in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing our audit.

This letter is intended solely for the information and use of the Honorable Mayor, City Council, management and others within the organization.

*Macior Mini & Company LLP*

Certified Public Accountants

Sacramento, California  
November 29, 2005

# City of Sacramento

## Fiscal Year 2005

### Annual Financial Report

- What is the Comprehensive Annual Financial Report (CAFR) ?
- What should policy makers expect?
- What information has been included in the staff report?
- Who are the external auditors?
- What are the City's fiscal year 2005 results?

# Comprehensive Annual Financial Report (CAFR)

- City Operations - 240 Funds
- General Fund results
- Enterprise and internal service fund results
- Connects year-end results with budget plan

# Expectations and Goals

- Independent audit
- Unqualified opinion
- Fiscal accountability
- City's financial condition

# Staff Report Contents

- Comprehensive Annual Financial Report
- Single Audit Reports - Federal funding
- Report to Management
- Fiscal year 2005 Results

# City's External Auditor

- Macias, Gini, & Company
- Fourth year of five year contract
- California CPA firm with Sacramento office

# General Fund Revenue Results

• Property tax	\$ 9.0 M
• Utility user tax	1.4 M
• Sales tax	0.8 M
• Real property transfer tax	0.4 M
• Business operations tax	0.5 M
• State repayment of Motor Vehicle License Fee Loan	7.4 M

# General Fund

## Recommendations in the CAFR

- Increase Economic Reserve to \$30M \$0.9 M
- Increase Disaster Recovery Reserve 2.0 M
- Establish Future Labor Costs Reserve 12.0 M
- Establish Growth Initiatives Reserve 7.5 M
- Establish State Impacts Reserve 2.9 M
- Hold FY 2005 Dept Carryover 8.2 M

# General Fund Recommendations

- Establish Department Priorities reserve \$3.0 M
- Economic Development reserve 3.0 M
- Establish Community Projects reserve 3.6 M

# Enterprise Funds Results

- Structural imbalances in Solid Waste, Fleet and Risk funds to be reevaluated in the FY 2006 Midyear Report.
- All other enterprise funds performed better than their budget plan.

## **RESOLUTION NO.**

Adopted by the Sacramento City Council

February 7, 2006

### **FISCAL YEAR 2005 COMPREHENSIVE ANNUAL FINANCIAL REPORT**

#### **BACKGROUND**

- A. The City's Accounting Division has prepared the 2005 Comprehensive Annual Financial Report (CAFR) to present the City's financial condition and the results of its activities for the fiscal year ended June 30, 2005.
- B. As required by the City Charter, the financial statements included in the CAFR were audited by an independent public accounting firm. This firm, Macias, Gini & Company, has determined that the financial statements are presented in accordance with generally accepted accounting principles.
- C. Macias, Gini & Company also completed the Single Audit of the City's Fiscal Year 2005 Schedule of Expenditure of Federal Awards.
- D. The City's financial condition improved during the fiscal year ended June 30, 2005. Tax revenue and department revenue growth, along with prudent department expenditure control, allowed the City to meet and exceed the overall 2005 General Fund financial plan.

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

- Section 1. The City Council accepts the attached CAFR and Single Audit Reports.
- Section 2. The City Council authorizes the following budget actions: 1) designate \$8.2 million of fund balance for General Fund department carryover, 2) increase the designations for economic uncertainties by \$0.9 million and disaster recovery by \$2.0 million, 3) establish designations for future labor costs for \$12.0 million, growth initiatives for \$7.5 million, and state impacts for \$2.9 million, 4) establish designations for department priorities for \$3.0 million, economic development for \$3.0 million, and community projects for \$3.6 million, and 5) amend the 2006 budget to reflect actual beginning available fund balances.

#### **Table of Contents:**

- Exhibit A: Fiscal Year 2005 Comprehensive Annual Financial Report (CAFR)
- Exhibit B: Single Audit Reports

Resolution No. 2006-      adopted on