



CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: December 18, 2012

TO: Mayor and Councilmembers

FROM: Accounting Division, Finance Department

SUBJECT: Comprehensive Annual Financial Report (CAFR) For The Fiscal Year Ended June 30, 2012

RECOMMENDATION: That Council:

- A. Receive a report from staff on the Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2012; and
- B. Accept the Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2012.

DISCUSSION:

Pursuant to City Charter, Finance Department staff has prepared the City's annual financial statements for the fiscal year ended June 30, 2012. Each year, financial statements are prepared to report on the financial condition of the City as a whole, as well as individual funds/operations that are included within the City's operations.

While only certain financial statements and schedules are required by both state law and the City Charter, other information and elements needed to be considered for an award for excellence in financial reporting from the Government Finance Officers Association (GFOA), which recognizes the highest standards of financial reporting. As such, the expanded financial statements and other information included in the report are collectively referred to as a Comprehensive Annual Financial Report ("CAFR"). In addition to allowing the CAFR to be considered for the GFOA award for financial reporting, the financial statements are expanded to enable the community and other interested parties to obtain a better and more complete understanding of the City's finances and operations.

The financial statements were audited by the independent public accounting firm of Lance, Soll & Lunghard, LLP (LSL), whose unqualified opinion is included within the financial section of the report. An unqualified opinion indicates that the financial statements present fairly the financial position of the City of Santa Barbara as of June 30, 2012, and the results of operations, in accordance with generally accepted accounting principles. As part of the audit, LSL also reviewed and performed tests of the City's internal accounting control procedures to determine if there are any material weaknesses or instances of non-

compliance. Based on the audit, no instances of non-compliance or material weaknesses were noted.

The primary purpose of the CAFR is to allow readers to assess the financial condition of the City at the end of each year, and demonstrate whether its financial condition has improved or deteriorated in relation to the prior year. Starting in fiscal year 2002, the City implemented new accounting standards issued by the Governmental Accounting Standards Board Statement, which dramatically changed the reporting requirements of governments nationwide. One of the key changes was the addition of government-wide reporting. Previously, the level of financial reporting was at the fund level. In contrast, the government-wide statements consolidate all City funds and operations into two major categories and require the use of accrual accounting. These changes are designed to align government accounting and reporting to the private sector and, thus, allow readers to better assess the financial health of a government.

The CAFR is divided into three major sections: the introductory section, the financial section, and the statistical section. The introductory section includes the letter of transmittal, a directory of City officials, and an organizational chart. The financial section includes the independent auditors' report (as noted above), management's discussion and analysis (MD&A), and the financial statements, including notes. The statistical section includes financial trend information as well as demographic information about the City.

Staff will present the CAFR to the Finance Committee just prior to the Council's afternoon session. A representative from LSL will be present to provide the Finance Committee and Council with a summary of the audit and the results thereof.

The Comprehensive Annual Financial Report (CAFR) for the Fiscal Year Ended June 30, 2012 is available for review in the City Clerk's Office and the Finance Department. An electronic version of the CAFR will be available on the internet at <http://www.santabarbaraca.gov/Government/Finance/> no later than December 20, 2012.

SUBMITTED BY: Robert Samario, Finance Director

APPROVED BY: City Administrator's Office



CITY OF SANTA BARBARA



City Council Presentation
Comprehensive Annual Financial Report ("CAFR")
Fiscal Year Ended June 30, 2012



PRESENTATION OUTLINE

- ◆ Background
- ◆ Layout and Contents of the Report
- ◆ Financial Highlights
- ◆ Audit Requirements and Results

BACKGROUND

Acknowledgements

- ◆ Doug Smith, Senior Accountant
- ◆ Lynne Sparks, Senior Accountant
- ◆ Audit staff

BACKGROUND

What is a CAFR?

- ◆ It is an annual financial report prepared in accordance with nationally recognized accounting and financial reporting standards (“GAAP”)
 - Presents the financial condition and results of operations of the City as a whole and for individual funds
- ◆ It is “comprehensive” because it includes information not required by financial reporting regulations
 - Qualifies the document for GFOA’s award program
 - Provides the reader more information about the City’s finances

BACKGROUND

Why is a CAFR Prepared?

- ◆ City Charter requires the preparation of an annual financial report that is audited by an independent CPA
- ◆ Required by State law
- ◆ Important in issuing bonds
- ◆ Communicates important financial information to the public about the City's finances

LAYOUT AND FORMAT

Three Sections of CAFR

Refer to Table of Contents Page i

- **INTRODUCTORY SECTION (Unaudited)**
 - Letter of Transmittal
 - Information about the City Organization

- **FINANCIAL SECTION (Covered by Audit Opinion)**
 - Independent Auditors' Report
 - Management's Discussion and Analysis
 - Basic Financial Statements
 - Notes

- **STATISTICAL SECTION (Unaudited)**
 - Ten-Year Financial Trend Information
 - Various Financial Data
 - Demographic Information

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LAYOUT AND FORMAT

Basic Financial Statements

- ◆ Government-Wide Statements
 - Newly required starting in 2001
 - Consolidates all funds into two separate categories
 - Purpose is to present the financial condition of the City in the same manner as the private sector

- ◆ Individual Fund Financial Statements
 - Same format for many years
 - Purpose is to report financial condition from the perspective of “spendable resources”



FINANCIAL HIGHLIGHTS

FINANCIAL HIGHLIGHTS

Impacts of RDA's Dissolution

- ◆ Redevelopment Agencies dissolved as of January 31, 2012 statewide
- ◆ Annual financial report reflects significant changes related to dissolution:
 - Reversing transfer of assets and liabilities from RDA to the City made in June 2011 in anticipation of state law
 - Transferring non-housing assets and liabilities from the former RDA to the Successor Agency as of February 1, 2012.
 - Successor Agency accounted for as a Private Purpose Trust Fund (not included in government-wide statements)

GOVERNMENT-WIDE STATEMENTS

Statement of Net Assets at 6/30/2012

See Page 24

	Governmental Activities	Business-Type Activities	Total
Assets			
Current assets	\$ 132,924,588	\$ 102,278,288	\$ 235,202,876
Non-current assets	561,210	13,396,848	13,958,058
Capital assets	306,417,163	312,327,925	618,745,088
Total assets	439,902,961	542,678,197	982,581,158
Liabilities			
Current liabilities	10,120,334	14,153,596	24,273,930
Non-current liabilities	20,791,468	134,298,705	155,090,173
Total liabilities	30,911,802	148,452,301	179,364,103
Net Assets			
Invested in capital assets, net of related debt	304,585,663	296,692,485	601,278,148
Restricted	63,244,307	18,564,413	81,808,720
Unrestricted	41,161,189	78,968,998	120,130,187
Total net assets	\$ 408,991,159	\$ 394,225,896	\$ 803,217,055

INDIVIDUAL FUNDS

General Fund – Balance Sheet

Assets

Cash and investments	\$	15,292,273
Receivables		8,120,278
Loans receivables		3,979,226
Due from other funds		689,416
Advances to other funds		4,620,373
Prepaid Assets		64,397
		<hr/>
Total assets	\$	<u>34,007,214</u>

Liabilities

Accounts payable	\$	832,194
Salaries and benefits payable		2,841,676
Deposits		1,579,780
Unearned revenue		1,277,097
		<hr/>
Total liabilities		<u>6,530,747</u>

Fund Balances

Non-spendable		8,663,996
Restricted		405,217
Committed		18,304,128
Assigned		103,126
		<hr/>
Total fund balances		<u>27,476,467</u>

Total liabilities and fund balances	\$	<u>34,007,214</u>
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See Page 26

No capital assets
or long-term debt

FINANCIAL HIGHLIGHTS

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FINANCIAL HIGHLIGHTS

General Fund – Final Results

See Page 83

	Annual Budget	Actual	Budget Variance
Revenues	\$ 103,969,713	\$ 103,619,668	\$ (350,045)
Expenditures	105,524,584	102,689,181	2,835,403
Excess (deficiency)	(1,554,871)	930,487	2,485,358
Fund balance, beginning	26,545,980	26,545,980	-
Fund balance, ending	\$ 24,991,109	\$ 27,476,467	\$ 2,485,358

FOOTNOTES

Retirement Plan - CalPERS

Footnote 9 (Pages 61-63)

Fiscal Year	Valuation Date	Accrued Liability	Actuarial Value of Assets	Unfunded Liability/ (Excess Assets)	Funded Status	Annual Covered Payroll	Unfunded (Over-funded) Liability as a % of Payroll
<u>Miscellaneous Plan:</u>							
2012	06/30/09	\$ 363,220,718	\$ 281,760,454	\$ 81,460,264	77.6%	\$ 52,816,930	154.2%
<u>Safety Fire Plan:</u>							
2012	06/30/09	\$ 131,297,827	\$ 106,045,827	\$ 25,252,000	80.8%	\$ 10,105,721	249.9%
<u>Safety Police Plan:</u>							
2012	06/30/09	\$ 173,581,671	\$ 135,805,999	\$ 37,775,672	78.2%	\$ 15,110,797	250.0%

FOOTNOTES

Retirement Plan - CalPERS

Footnote 9 (Pages 61-63)

Fiscal Year	Valuation Date	Accrued Liability	Market Value of Assets	Unfunded Liability/ (Excess Assets)	Funded Status	Annual Covered Payroll	Unfunded (Over-funded) Liability as a % of Payroll
<u>Miscellaneous Plan:</u>							
2012	06/30/09	\$ 363,220,718	\$ 205,722,199	\$ 157,498,519	56.6%	\$ 52,816,930	298.2%
<u>Safety Fire Plan:</u>							
2012	06/30/09	\$ 131,297,827	\$ 77,477,646	\$ 53,820,181	59.0%	\$ 10,105,721	532.6%
<u>Safety Police Plan:</u>							
2012	06/30/09	\$ 173,581,671	\$ 99,301,160	\$ 74,280,511	57.2%	\$ 15,110,797	491.6%

FOOTNOTES

Other Retirement Benefits

Footnote 16 (Pages 70-75)

Other Post Employment Benefits (OPEB's)

	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability
Retiree Medical and Implied Subsidy	7/1/2011	\$ -	\$ 34,113,000
Sick Leave	7/1/2011	-	4,910,000
TOTALS		\$ -	\$ 39,023,001

Approximately \$8 million attributable to Retiree Medical



AUDIT REQUIREMENTS AND RESULTS

AUDIT REQUIREMENTS

Objectives of the Audit

- ◆ Express an opinion as to whether the financial statements are fairly presented in conformity with GAAP.
- ◆ Review and evaluate internal control procedures.

AUDIT RESULTS

- ◆ The City received an unqualified audit opinion
- ◆ No disagreements with City management
- ◆ No material weaknesses or significant deficiencies in internal controls
- ◆ No indications of fraudulent or inappropriate activities
- ◆ No findings on questioned costs

GASB Pronouncement In Process

- ◆ **GASB Statement No. 68 - Accounting and Financial Reporting for Pensions**
 - Adopted in June 2012; effective fiscal year 2015
 - Key Changes:
 - Unfunded liabilities of pension obligation is reported as a liability on financial statements (rather than footnote disclosure)
 - Potentially required to measure unfunded liability using a lower discount rate (7.5% used by PERS)
 - Amortization of prior service costs and plan changes over service lives of employees (versus 20-30 years)



QUESTIONS?