



CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: February 3, 2015

TO: Mayor and Councilmembers

FROM: Accounting Division, Finance Department

SUBJECT: Comprehensive Annual Financial Report For The Fiscal Year Ended June 30, 2014

RECOMMENDATION: That Council:

- A. Receive a report from staff on the Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2014; and
- B. Accept the Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2014.

DISCUSSION:

Pursuant to City Charter, Finance Department staff has prepared the City's annual financial statements for the fiscal year ended June 30, 2014. 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 state law and the City Charter, other information and elements are 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 unmodified opinion is included within the financial section of the report. An unmodified opinion indicates that the financial statements present fairly the financial position of the City of Santa Barbara as of June 30, 2014, 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 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 for the Fiscal Year Ended June 30, 2014, is available for review in the City Clerk's Office. An electronic version of the CAFR will be available no later than February 6, 2015, on the City's website at www.SantaBarbaraCA.gov/CAFR.

PREPARED BY: Julie Nemes, Accounting Manager

SUBMITTED BY: Robert Samario, Finance Director/ Acting Assistant City Administrator

APPROVED BY: City Administrator's Office



CITY OF SANTA BARBARA



City Council Presentation
Comprehensive Annual Financial Report ("CAFR")
Fiscal Year Ended June 30, 2014



PRESENTATION OUTLINE

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



BACKGROUND

BACKGROUND

Acknowledgements

- ◆ Doug Smith, Senior Accountant
- ◆ Lynne Sparks, Senior Accountant
- ◆ James Hamilton, 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 CONTENTS OF REPORT

LAYOUT AND CONTENTS

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



FINANCIAL HIGHLIGHTS

GOVERNMENT-WIDE STATEMENTS

Statement of Net Position at 6/30/2014

See Page 26

	Governmental Activities	Business-Type Activities	Total
Assets			
Current and other assets	\$ 146,837,489	\$ 127,337,668	\$ 274,175,157
Capital assets, net	363,207,305	476,410,058	839,617,363
Total assets	510,044,794	603,747,726	1,113,792,520
Deferred Outflows of Resources			
	39,403	1,444,957	1,484,360
Liabilities			
Current liabilities	10,257,855	14,599,290	24,857,145
Non-current liabilities	26,526,339	151,032,309	177,558,648
Total liabilities	36,784,194	165,631,599	202,415,793
Net Position			
Net investment in capital assets	362,539,874	340,246,483	702,786,357
Restricted	65,614,219	3,658,608	69,272,827
Unrestricted	45,145,910	95,655,993	140,901,903
Total net position	\$ 473,300,003	\$ 439,561,084	\$ 912,861,087

GOVERNMENT-WIDE STATEMENTS

Statement of Activities – FYE 6/30/2014

Functions/Programs	Expenses	Program Revenue	Net
Governmental Activities			
Current:			
Administration	\$ 14,650,111	\$ 2,075,806	\$ (12,574,305)
Public safety	66,524,767	15,974,658	(50,550,109)
Public works	24,551,864	22,850,253	(1,701,611)
Community services	24,083,496	15,330,051	(8,753,445)
Community development	13,567,157	7,127,628	(6,439,529)
Interest on long term debt	74,421	-	(74,421)
Total governmental activities	<u>\$ 143,451,816</u>	<u>\$ 63,358,396</u>	<u>(80,093,420)</u>
General revenues:			
			85,305,468
			6,687,991
			918,076
			38,083,941
			<u>130,995,476</u>
			50,902,056
			<u>422,397,947</u>
			<u>\$ 473,300,003</u>

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GOVERNMENT-WIDE STATEMENTS

Statement of Activities – FYE 6/30/2014

Functions/Programs	Expenses	Revenue	Net
Business-Type Activities			
Current:			
Water	\$ 35,316,497	\$ 36,368,135	\$ 1,051,638
Wastewater	16,929,501	17,990,577	1,061,076
Airport	20,556,902	21,197,858	640,956
Waterfront	12,707,127	14,151,187	1,444,060
Solid Waste	19,731,704	20,689,403	957,699
Parking	7,692,796	7,954,647	261,851
Golf course	1,819,914	2,031,373	211,459
Total business-type activities	114,754,441	120,383,180	5,628,739
General revenues:			
			1,561,654
			221,380
			(918,076)
			28,956,177
			29,821,135
			35,449,874
			404,111,210
			\$ 439,561,084

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INDIVIDUAL FUNDS

General Fund – Balance Sheet

Assets

Cash and investments	\$	20,119,428
Receivables		8,507,290
Loans receivable		2,709,456
Prepaid assets		84,997
Due from other funds		2,404,172
Advances to other funds		4,127,608
		<hr/>
Total assets	\$	<u>37,952,951</u>

Liabilities

Accounts payable	\$	1,026,291
Salaries and benefits payable		3,151,929
Unearned revenues		1,227,783
Deposits		1,626,189
		<hr/>
Total liabilities		<u>7,032,192</u>

Fund Balances

Non-spendable		6,909,913
Restricted		2,213,439
Committed		21,644,315
Assigned		153,092
		<hr/>
Total fund balances		<u>30,920,759</u>

Total liabilities and fund balances	\$	<u>37,952,951</u>
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No capital assets
or long-term debt

See Page 28

INDIVIDUAL FUNDS

General Fund – Final Results

See Page 89

	<u>Annual Budget</u>	<u>Actual</u>	<u>Budget Variance</u>
Revenues (including transfers)	\$ 112,561,117	\$ 113,577,232	\$ 1,016,115
Expenditures (including transfers)	<u>114,941,417</u>	<u>111,879,265</u>	<u>3,062,152</u>
Excess (deficiency)	(2,380,300)	1,697,967	4,078,267
Fund balance, beginning	<u>29,222,792</u>	<u>29,222,792</u>	-
Fund balance, ending	<u>\$ 26,842,492</u>	<u>\$ 30,920,759</u>	<u>\$ 4,078,267</u>

GENERAL FUND

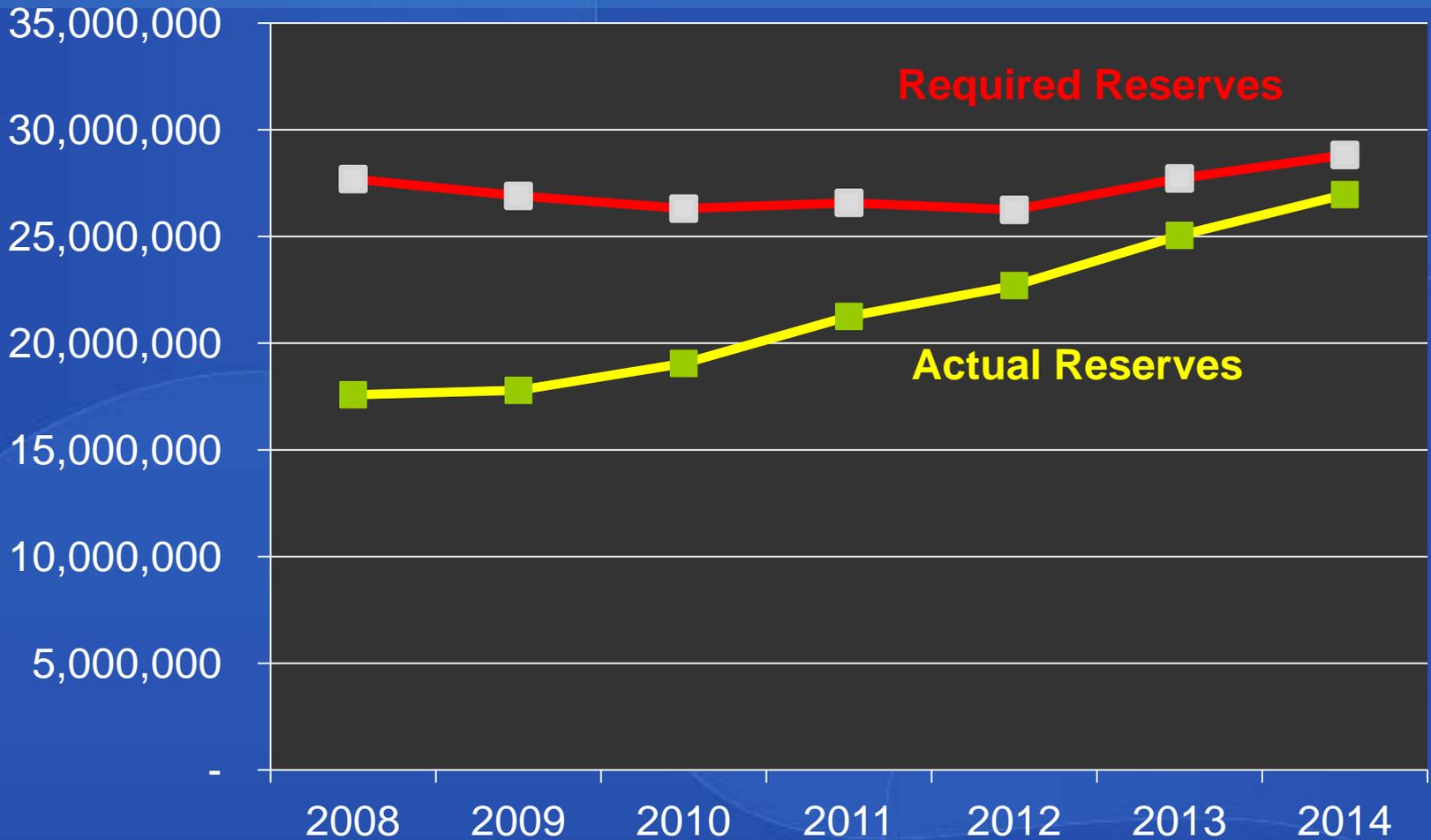
Reserve Balances – June 30, 2014

	<u>Per City Policy</u>	<u>Actual</u>	<u>Difference</u>
Disaster Reserves	\$ 17,292,113	\$ 17,292,113	\$ -
Contingency Reserves	<u>11,528,075</u>	<u>9,671,115</u>	<u>(1,856,960)</u>
Totals	<u>\$ 28,820,188</u>	<u>\$ 26,963,228</u>	<u>\$ (1,856,960)</u>

Actual balances include allocation of \$1.8 million of reserves (50% of surplus) to Capital Outlay Fund

GENERAL FUND

Reserve Balances – 2008 thru 2014



INDIVIDUAL FUNDS

See Page 134

Self-Insurance Fund – Balance Sheet

	Self-Insurance Trust Fund	Post-Employment Benefits Fund	Total
Assets			
Cash and investments	\$ 5,248,317	\$ 408,052	\$ 5,656,369
Accounts receivable, net	1,075,735	-	1,075,735
Advances to other funds	134,291	-	134,291
Total assets	6,458,343	408,052	\$ 6,866,395
Liabilities			
Accounts payable	118,460	-	\$ 118,460
Salaries and benefits payable	19,247	46,136	65,383
Compensated absences payable	25,533	-	25,533
Other post-employment (OPEB) obligation	-	13,700,000	13,700,000
Estimated claims payable	7,613,961	-	7,613,961
Total liabilities	7,777,201	13,746,136	21,523,337
Net Position			
Unrestricted	(1,318,858)	(13,338,084)	(14,656,942)
Total net position	(1,318,858)	(13,338,084)	(14,656,942)
Total liabilities and net position	6,458,343	408,052	\$ 6,866,395



KEY FOOTNOTE DISCLOSURES

FOOTNOTES

Retirement Plan - CalPERS

Footnote 9 (Pages 63-65)

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>							
2014	06/30/11	\$410,437,416	\$318,152,827	\$92,284,589	77.5%	\$50,630,019	182.3%
<u>Safety Fire Plan:</u>							
2014	06/30/11	\$145,634,246	\$115,407,329	\$30,226,917	79.2%	\$10,171,928	297.2%
<u>Safety Police Plan:</u>							
2014	06/30/11	\$190,349,779	\$149,380,237	\$40,969,542	78.5%	\$15,149,486	270.4%

FOOTNOTES

Retirement Plan - CalPERS

Footnote 9 (Pages 63-65)

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>							
2014	06/30/11	\$410,437,416	\$284,306,595	\$126,130,821	69.3%	\$50,630,019	249.1%
<u>Safety Fire Plan:</u>							
2014	06/30/11	\$145,634,246	\$102,613,824	\$ 43,020,422	70.5%	\$10,171,928	422.9%
<u>Safety Police Plan:</u>							
2014	06/30/11	\$190,349,779	\$133,216,726	\$ 57,133,053	70.0%	\$15,149,486	377.1%

CURRENT Retirement Plan - CalPERS

Based on Actuarial Report Issued October 2014

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>							
2016	06/30/13	\$443,569,439	\$315,190,501	\$128,378,938	71.1%	\$49,115,423	261.4%
<u>Safety Fire Plan:</u>							
2016	06/30/13	\$157,344,315	\$109,077,380	\$ 48,266,935	69.3%	\$10,079,664	478.9%
<u>Safety Police Plan:</u>							
2016	06/30/13	\$212,788,455	\$145,907,339	\$ 66,881,116	68.6%	\$16,627,687	402.2%

FOOTNOTES

Other Retirement Benefits (GASB 45)

Footnote 17 (Pages 75-79)

Other Post Employment Benefits (OPEB's)

	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability
Retiree Medical	7/1/2013	\$ -	\$ 10,617,000
Implied Subsidy	7/1/2013	-	22,253,000
Sick Leave	7/1/2013	-	5,616,000
TOTALS		\$ -	\$ 38,486,000

FOOTNOTES

Streets Infrastructure – Capital Assets

Pavement Condition Index (PCI)

See Pages 91-93

<u>Fiscal Year</u>	<u>Estimate</u>	<u>Expenditures</u>	<u>PCI Rating</u>
2009-10	\$ 4,700,000	\$ 3,216,089	70
2010-11	4,700,000	4,748,006	69
2011-12	6,700,000	4,491,598	63
2012-13	6,700,000	2,285,772	63
2013-14	7,500,000	2,839,154	64



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 unmodified audit opinion
- ◆ No disagreements with City management
- ◆ No material weaknesses or significant deficiencies in internal controls
- ◆ No indications of fraudulent or inappropriate activities

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)
 - Net Pension Liability reported on balance sheet = liabilities minus fair value of assets (not actuarial value of assets)
 - Additional required disclosures



QUESTIONS?