



# CITY OF SANTA BARBARA

## COUNCIL AGENDA REPORT

**AGENDA DATE:** January 28, 2014

**TO:** Mayor and Councilmembers

**FROM:** Accounting Division, Finance Department

**SUBJECT:** Comprehensive Annual Financial Report (CAFR) For The Fiscal Year Ended June 30, 2013

**RECOMMENDATION:** That Council:

- A. Receive a report from staff on the Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2013; and
- B. Accept the Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2013.

### **DISCUSSION:**

Pursuant to City Charter, Finance Department staff has prepared the City's annual financial statements for the fiscal year ended June 30, 2013. 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, 2013, 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 (CAFR) for the Fiscal Year Ended June 30, 2013 is available for review by the public in the City Clerk's Office and a copy will be available in the Council offices for Council members' review. An electronic version of the CAFR will be available on the City's website no later than January 31, 2014.

**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, 2013



# 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

# LAYOUT AND CONTENTS

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# LAYOUT AND CONTENTS

## 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

# GOVERNMENT-WIDE STATEMENTS

## Statement of Net Position at 6/30/2013

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
	<i>See Page 24</i>		
Current assets	\$ 143,281,957	\$ 104,945,317	\$ 248,227,274
Non-current assets	561,169	10,748,937	11,310,106
Capital assets	312,884,320	446,021,699	758,906,019
Total assets	457,727,446	561,715,953	1,019,443,399
<b>Deferred Outflows of Resources</b>	49,254	1,560,420	1,609,674
<b>Liabilities</b>			
Current liabilities	11,327,464	12,583,169	23,910,633
Non-current liabilities	24,670,669	149,430,078	174,100,747
Total liabilities	35,998,133	162,013,247	198,011,380
<b>Net Position</b>			
Net investment in capital assets	312,890,908	300,997,205	613,888,113
Restricted	66,509,333	1,358,113	67,867,446
Unrestricted	42,378,326	98,907,808	141,286,134
Total net position	\$ 421,778,567	\$ 401,263,126	\$ 823,041,693

# GOVERNMENT-WIDE STATEMENTS

## Statement of Activities – FYE 6/30/2013

Functions/Programs	Expenses	Program Revenue	Net
<b>Governmental Activities</b>			
<b>Current:</b>			
Administration	\$ 11,850,833	\$ 1,258,693	\$ (10,592,140)
Public safety	61,718,819	12,150,232	(49,568,587)
Public works	25,251,653	22,720,500	(2,531,153)
Community services	24,104,571	9,108,800	(14,995,771)
Community development	11,864,256	7,699,282	(4,164,974)
Interest on long term debt	82,010	-	(82,010)
Total governmental activities	<u>\$ 134,872,142</u>	<u>\$ 52,937,507</u>	<u>(81,934,635)</u>
General revenues:			
			82,360,684
			12,370,968
			748,384
			(695,554)
			<u>94,784,482</u>
			12,849,847
			<u>408,928,720</u>
			<u>\$ 421,778,567</u>

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# GOVERNMENT-WIDE STATEMENTS

## Statement of Activities – FYE 6/30/2013

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Revenue</u>	<u>Net</u>
<b>Business-Type Activities</b>			
<b>Current:</b>			
Water	\$ 32,213,874	\$ 38,171,567	\$ 5,957,693
Wastewater	17,216,520	17,657,814	441,294
Airport	21,376,198	21,676,558	300,360
Waterfront	12,025,923	13,100,683	1,074,760
Solid Waste	19,124,188	19,353,780	229,592
Parking	7,358,981	7,691,177	332,196
Golf course	1,948,808	1,833,345	(115,463)
Total business-type activities	<u>111,264,492</u>	<u>119,484,924</u>	<u>8,220,432</u>
General revenues:			
Investment income			582,126
Transfers			(748,384)
Total			<u>(166,258)</u>
Change in net position			8,054,174
Net position, beginning of fiscal year			<u>393,208,952</u>
Net position, end of fiscal year			<u>\$ 401,263,126</u>

**See Page 25**

# INDIVIDUAL FUNDS

## General Fund – Balance Sheet

### Assets

Cash and investments	\$	11,590,430
Receivables		8,674,181
Loans receivable		3,337,304
Due from other funds		7,775,138
Advances to other funds		4,399,069
Prepaid Assets		76,516
<b>Total assets</b>	<b>\$</b>	<b>35,852,638</b>

### Liabilities

Accounts payable	\$	863,152
Salaries and benefits payable		3,052,680
Deposits		1,267,939
Unearned revenue		1,446,075
<b>Total liabilities</b>		<b>6,629,846</b>

### Fund Balances

Non-spendable		7,812,889
Restricted		421,043
Committed		20,762,584
Assigned		226,276
<b>Total fund balances</b>		<b>29,222,792</b>

<b>Total liabilities and fund balances</b>	<b>\$</b>	<b>35,852,638</b>
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**No capital assets  
or long-term debt**

**See Page 26**

# INDIVIDUAL FUNDS

## General Fund – Final Results

*See Page 83*

	<u>Annual Budget</u>	<u>Actual</u>	<u>Budget Variance</u>
Revenues (including transfers)	\$ 112,954,299	\$ 113,399,959	\$ 445,660
Expenditures (including transfers)	<u>113,817,185</u>	<u>111,653,634</u>	<u>2,163,551</u>
Excess (deficiency)	(862,886)	1,746,325	2,609,211
Fund balance, beginning	<u>27,476,467</u>	<u>27,476,467</u>	-
Fund balance, ending	<u>\$ 26,613,581</u>	<u>\$ 29,222,792</u>	<u>\$ 2,609,211</u>

# INDIVIDUAL FUNDS

## Self-Insurance Fund – Balance Sheet

### Assets

Cash	\$	211,282
Investments		5,675,331
Accounts receivable		75,000
Advances to other funds		184,576
		<hr/>
Total assets	\$	6,146,189

### Liabilities

Accounts payable	\$	718,688
Salaries and benefits payable		20,788
Compensated absences payable		29,404
Estimated claims payable		8,225,412
		<hr/>
Total liabilities		8,994,284

### Net Position

Unrestricted		(2,848,095)
		<hr/>
Total net position		(2,848,095)
		<hr/>
Total liabilities and net position	\$	6,146,189

**See Page 126**



# KEY FOOTNOTE DISCLOSURES

# 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>							
2013	06/30/10	\$383,255,437	\$298,837,969	\$84,417,468	78.0%	\$51,566,379	163.7%
<u>Safety Fire Plan:</u>							
2013	06/30/10	\$136,668,712	\$110,516,251	\$26,152,461	80.9%	\$10,476,219	249.6%
<u>Safety Police Plan:</u>							
2013	06/30/10	\$180,792,452	\$141,957,070	\$38,835,382	78.5%	\$15,402,065	252.1%

# 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>							
2013	06/30/10	\$383,255,437	\$234,911,462	\$148,343,975	61.3%	\$51,566,379	287.7%
<u>Safety Fire Plan:</u>							
2013	06/30/10	\$136,668,712	\$ 86,568,984	\$ 50,099,728	63.3%	\$10,476,219	478.2%
<u>Safety Police Plan:</u>							
2013	06/30/10	\$180,792,452	\$111,407,667	\$ 69,384,785	61.6%	\$15,402,065	450.5%

# CURRENT Retirement Plan - CalPERS

Based on Actuarial Report Issued October 2013

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>							
2015	06/30/12	\$426,099,360	\$281,717,049	\$144,382,311	66.1%	\$50,072,242	288.3%
<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>							
2015	06/30/12	\$198,222,481	\$131,449,223	\$ 66,773,258	66.3%	\$15,489,932	431.1%

\*\* Safety Fire Plan based on actuarial report issued October 2012

# FOOTNOTES

## Other Retirement Benefits (GASB 45)

Footnote 17 (Pages 72-77)

### Other Post Employment Benefits (OPEB's)

	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability
Retiree Medical and Implied Subsidy	7/1/2012	\$ -	\$ 36,502,000
Sick Leave	7/1/2012	-	4,979,000
<b>TOTALS</b>		<b>\$ -</b>	<b>\$ 41,481,000</b>

Approximately \$9 million attributable to Retiree Medical

# FOOTNOTES

## Streets Infrastructure – Capital Assets

### Pavement Condition Index (PCI)

See Pages 85-86

<u>Fiscal Year</u>	<u>Estimate</u>	<u>Expenditures</u>	<u>PCI Rating</u>
2008-09	\$ 8,335,724	\$ 2,385,539	71
2009-10	7,160,438	3,045,353	69
2010-11	6,706,045	3,229,503	69
2011-12	6,516,750	4,102,160	63
2012-13	7,105,595	3,124,332	63



# 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)
    - 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?