



Final Financial Report

For Fiscal Year Ending 06/30/13 (Final/Post-Audit Year End)

January 21, 2014

OVERVIEW

The on-site work for the City's financial audit for FY 2012-13 is complete. A great deal of City staff time goes into closing the books and preparing for the arrival of the City's auditors during the months of August through October. City Finance staff gathers all of the accrual information in accordance with Governmental Accounting Standards. In addition, we analyze the components that make up the City's assets, liabilities, revenues, expenditures and fund balances to ensure everything is properly accounted for. City staff attempts to review activity from an "auditor's" perspective prior to the arrival of the City's independent auditors. This is beneficial because it makes the performance of the audit much smoother for the City's auditors, City staff and other departments throughout the City. Finance makes the effort to ensure that the City has no material misstatements in the pre-audit balances which are provided to the auditors.

The audit was completed in mid-October. Very few adjustments were made to the City's records by the auditors. These adjustments have been included in this final FY 2012-13 Financial Report.

In this Financial Report, the use of reserves to fund operations will be consistently referred to as "Reserves", not to be confused with revenues. Revenues are generated through operational charges for services or tax sources, not from spending fund balances accumulated in previous years to finance current expenditures.

GENERAL FUND

General Fund Financial Condition.

The original adopted budget for FY 2012-13 included revenues of \$32.0 million and expenditures of \$34.3 million resulting in a projected budget deficit of \$2.25 million. This deficit was to be funded using the City's Economic Stabilization Reserve (ESR) Fund.

Throughout the fiscal year, adjustments are approved by City Council increasing the total final adopted budget amounts. Below is a summary of the significant adjustments increasing appropriations during FY 2012-13:

Grants	\$ 910,300
Encumbrance Carryovers from FY 2011-12	238,000
Animal Control Increased Costs	43,700
Strike Team O/T	185,600
Other	6,500
Total	\$ 1,384,100

During FY 2010-11, the City realized that the general fund deficit continued to grow due to increases in expenses at the same time revenues were declining. City staff met with bargaining unit representatives to discuss the City's budget concerns. In working with employee bargaining units, a balanced approach was negotiated whereby the City and employee associations agreed to work together to address the deficit problem. Bargaining units voluntarily agreed to increase the furlough from 5% to a total of 10% in exchange for the City agreeing to use reserves to cover the balance of the deficit for a term of three years. In exchange for agreeing to the expanded furlough program, employees were given job guarantees, with the assurance of no layoffs, for the three year period of bargaining unit contracts. The City retained the right to control filling positions that became vacant through attrition. This three year budget plan included replenishment of the ESR at a level sufficient to support the general fund deficits during the three year term.

General Fund Summary.

A summary of the results of FY 2012-13, the second year of the three year budget plan, are as follows:

Fund Balance	Final Budget	Actual	Percent
Balance, Start of Year	\$ 3,652,783	\$ 3,652,783	-
Revenues	32,962,203	34,025,606	103.2%
Expenditures	(35,686,113)	(34,069,011)	95.5%
ESR Used for Operations	2,257,739	347,204	
Balance	\$ 3,186,612	\$ 3,956,582	-

The table below shows the sources of replenishment of the ESR and the amounts used to fund deficits in the past three fiscal years:

Status and Replenishment of ESR	
ESR Balance, July 1, 2010	\$ 1,452,830
VRP Fund Reserves FY 2010-11	1,350,000
Used for Operations FY 2010-11	(827,579)
VRP Fund Reserves FY 2011-12	1,350,000
General Unalloc. CIP Reserves FY 11-12	1,350,000
Used for Operations FY 2011-12	(422,622)
Used for Operations FY 2012-13	(347,204)
ESR Balance June 30, 2013	\$ 3,905,424

The ESR used for FY 2012-13 includes the amount by which revenues (\$34,025,606) were exceeded by expenditures (\$34,069,011) plus encumbrance carryovers for outstanding purchase orders as of June 30, 2013, of \$303,800.

Revenues.

The City's top ten revenues account for approximately 95% of total General Fund revenues; as such they provide a very good summary of our revenue position.

Fiscal year end is a good time to not only compare budget vs. actual for the fiscal year, but also to compare the actual results of operations for two fiscal years. This is shown in the tables below for the top ten general fund revenues.

Top Ten Revenues	Budget	Actual	% Received
Property Taxes	\$ 9,788,357	\$ 10,303,561	105.3%
Sales Tax	10,181,600	10,778,615	105.9%
Business Licenses	750,000	737,036	98.3%
Franchise Fees	1,370,000	1,425,589	104.1%
Hotel/Motel Surcharge	600,000	673,525	112.3%
Building Permits	500,000	540,894	108.2%
Special Police Services	225,000	248,409	110.4%
CSA "G" Fire Contract	571,200	598,859	104.8%
Recreation Fees	1,208,487	1,153,643	95.5%
Operating Transfers	6,063,277	6,065,957	100.0%
Total	\$ 31,257,921	\$ 32,526,088	104.1%

Top Ten Revenues	FY 11-12	FY 12-13	% Change	Variance
Property Taxes	\$ 10,190,074	\$ 10,303,561	1.1%	\$ 113,487
Sales Tax	10,324,818	10,778,615	4.4%	453,797
Business Licenses	701,347	737,036	5.1%	35,689
Franchise Fees	1,412,077	1,425,589	1.0%	13,512
Hotel/Motel Surcharge	670,662	673,525	0.4%	2,864
Building Permits	491,040	540,894	10.2%	49,854
Special Police Services	224,696	248,409	10.6%	23,713
CSA "G" Fire Contract	589,292	598,859	1.6%	9,567
Recreation Fees	1,202,537	1,153,643	-4.1%	(48,894)
Operating Transfers	6,402,364	6,065,957	-5.3%	(336,407)
Total	\$ 32,208,907	\$ 32,526,088	1.0%	\$ 317,181

▪ **Property Tax.** Property taxes receipts experienced a 1.1% increase in the current fiscal year over the previous year. Budget projections were based on an estimated decline of 3.5%. Assessed values instead declined only 2.2%. With a decline in value, the reason actual receipts

still exceeded those of FY 2011-12 was due to the return of the Property Tax Administrative Fee (PTAF) withheld in FY 2011-12. Actual property tax receipts for FY 2012-13 ended the year \$515,200 more than budgeted due to the combination of receiving the PTAF funds and that the decline was only 2.2%, not the anticipated 3.5% budgeted. It is noteworthy to mention, that even though property tax increased 1.1% from the previous year, it is still down \$1.1 million from three years ago.

▪ **Sales Tax.** Sales tax revenues are \$597,000 more than budgeted and \$454,000 higher than in FY 2011-12. The FY 2012-13 budget projections were developed based upon a modest increase of 2.0%. The actual results were much higher because the 2.0% budgeted increase was based on an increase over the expected results for FY 2010-11, actual results were higher in FY 2010-11 because the average increase for the final two quarters of the year was 7.7%. Actual sales tax increases during FY 2012-13 averaged 3.55% from the same quarter of the previous year. Sales tax has been highly volatile, making it difficult to predict. After several quarters of fairly high positive performance, recent data has not been as optimistic as can be seen in the chart below.

This chart shows the changes in sales tax revenues compared to the same quarter of the previous year, both on a cash basis and on an adjusted basis. The amounts received on a cash basis are important to the City because it represents revenues flowing into our bank account that we can use to pay employees and vendors of the City. The adjusted basis data is important to evaluate also as it is the "true" amount of increase or decrease from the same quarter of the previous year on an audited basis after factoring in accounting anomalies. Accounting anomalies include such items as a retailer who misses a payment in one quarter and then pays a double payment in the following quarter. The adjusted amounts factor in these differences from quarter to quarter.

	Cash Basis	Adjusted Basis
Jul-Sep 09	2.0%	-9.7%
Oct-Dec 09	-2.5%	-3.5%
Jan-Mar 10	-1.9%	-3.2%
Apr-Jun 10	3.1%	-3.1%
Jul-Sep 10	-2.1%	7.2%
Oct-Dec 10	5.3%	7.5%
Jan-Mar 11	8.0%	8.6%
Apr-Jun 11	7.1%	4.6%
Jul-Sep 11	6.8%	4.6%
Oct-Dec 11	6.8%	6.5%
Jan-Mar 12	4.4%	6.2%
Apr-Jun 12	11.0%	9.7%
Jul-Sep 12	6.3%	8.1%
Oct-Dec 12	-0.5%	7.3%
Jan-Mar 13	7.9%	6.5%
Apr-Jun 13	0.5%	5.7%

▪ **Business Licenses.** Business licenses are renewed in January of each year. At year end revenues are up 5.1%, or \$35,700 from the prior year.

▪ **Franchise Fees.** The City receives franchise fees from PG&E, Recology, AT&T and Comcast; the fees are based upon a percentage of their revenues. Actual receipts were \$55,600 more than budgeted and \$13,500 more than the prior year.

Hotel/Motel Surcharge. Surcharge revenues were \$73,500 more than budgeted and \$2,900 more than the previous year. The increase over the amount budgeted was attributable to back payments received from a couple of hotels that were delinquent and owed the City for prior year quarters.

▪ **Construction Permit Fees.** Building Permit revenues were \$40,900 more than budgeted and \$49,900 more than the previous year.

▪ **Special Police Services.** Special police service revenues were \$23,400 more than budgeted and \$23,700 higher than the prior year.

▪ **CSA "G" Fire Contract.** The City receives these funds for fire services to the unincorporated area that was formerly served by the Walton Fire Protection District. These revenues were \$27,700 higher than budgeted and \$9,600 more than the previous year.

▪ **Recreation Fees.** Service fees received through the end of the fiscal year are \$54,800 less than budgeted and \$48,900 or 4.1% less than the previous year. Recreation program revenues have declined a total of \$292,500 since FY 2008-09. Each year since then has shown a decline, with the largest decline occurring in FY 2009-10. Since FY 2008-09, the total decline has reached 20%. Recreation program expenditures showed a 19% decline during the same period. When the Parks and Recreation Department sees that a program is not popular enough to cover its cost, they are able to eliminate the program, thereby also avoiding the expenditure of offering it.

The significant declines during this period are attributed largely to the economy, with less participation in camps and a reduction in aquatics. With the economy beginning to rebound, it is anticipated that we should see these revenues also beginning to rebound.

▪ **Operating Transfers.** The General Fund receives reimbursement for operating costs associated with support services provided to the water and wastewater utilities as well as other fund transfers. Actual transfers for reimbursements to the general fund were \$2,700 higher than budgeted due to reimbursements for staff time spent on various capital projects being slightly higher than originally budgeted. The remaining transfers are within budgetary expectations.

Expenditures. Operating costs were well within budgetary expectations. Below are summaries comparing budgeted vs. actual expenditures both by department and by category.

Expenditures	Budget	Actual	% Expended
City Council	\$ 126,951	\$ 119,938	94.5%
City Attorney	150,000	204,177	136.1%
City Manager	645,377	634,455	98.3%
Finance/IT	2,188,588	2,091,715	95.6%
City Treasurer/City Clerk	56,527	37,067	65.6%
Human Resources	471,910	414,764	87.9%
Community Development	779,066	736,079	94.5%
Public Works/Parks	5,178,946	4,583,364	88.5%
Police	13,774,908	13,138,533	95.4%
Fire	9,118,975	9,217,242	101.1%
Animal Control Services	708,751	694,325	98.0%
Economic Development	209,936	206,545	98.4%
Contingency/Non Departmental	357,321	187,582	52.5%
Parks & Recreation	1,918,857	1,803,225	94.0%
Total General Fund	\$ 35,686,113	\$ 34,069,011	95.5%

	Budget	Actual	Savings	% Expended
Salaries & Benefits	\$27,869,667	\$27,267,701	\$ 601,966	97.8%
Heat & Power	600,561	536,762	63,799	89.4%
Telephone	197,934	165,912	32,022	83.8%
Postage & Freight	136,553	150,292	(13,739)	110.1%
Advertising	31,800	28,365	3,435	89.2%
Forms & Supplies	130,243	109,394	20,849	84.0%
Printing & Binding	65,671	48,766	16,905	74.3%
Professional Services	2,036,687	1,766,366	270,321	86.7%
Travel & Meeting	73,911	79,787	(5,876)	107.9%
Dues & Subscriptions	67,648	60,430	7,218	89.3%
Rental Bld./Equipment/Land	28,549	17,355	11,194	60.8%
Equipment O & M	296,317	259,443	36,874	87.6%
Special Equipment O & M	169,197	123,855	45,342	73.2%
Vehicle & Special Equipment	1,340,796	1,300,421	40,376	97.0%
Buildings & Facility O & M	479,625	372,560	107,065	77.7%
Chemicals	38,500	50,052	(11,552)	130.0%
Tools, Supplies & Equipment	168,204	171,807	(3,604)	102.1%
Training Programs	99,264	90,728	8,536	91.4%
Water	197,618	360,233	(162,615)	N/A
Uniform Clothing	59,041	57,392	1,649	97.2%
Liability Insurance	357,930	357,930	-	100.0%
Debt Service	128,149	128,149	-	100.0%
Contingency	189,980	57,088	132,892	30.0%
Technology Replacement ISF	250,159	250,159	-	100.0%
Recreation Programs	263,546	212,527	51,018	80.6%
Equipment & Vehicle Purchases	408,564	45,536	363,028	11.1%
Total General Fund	\$35,686,113	\$34,069,011	\$1,617,104	95.5%

The savings from unexpended appropriations as of June 30, 2013 is somewhat misleading. It gives the impression that the City was under budget by in excess of \$1.6 million. This is not the full story as there was \$303,800 in encumbrance carryovers for general fund purchase orders outstanding at year end which roll over into the next fiscal year and are in essence monies spent out of the current fiscal year budget. In addition, City Council approved grant funded programs, which were not fully spent during the fiscal year, also roll over into the next year. These total \$544,000 at the end of

FY 2012-13. The actual savings to the general fund for unexpended appropriations that will not carryover and be spent in the following fiscal year amounts to \$769,300.

Comparing actual expenditures for FY 2012-13 to FY 2011-12 indicate that expenditures increased by just over \$174,000.

Expenditures	FY 11/12	FY 12/13	Change
City Council	\$ 117,033	\$ 119,938	\$ 2,905
City Attorney	158,881	204,177	45,296
City Manager	634,001	634,455	454
Finance/IT	2,039,864	2,091,715	51,851
City Treasurer/City Clerk	28,440	37,067	8,627
Human Resources	396,829	414,764	17,935
Community Development	781,581	736,079	(45,502)
Public Works	4,529,150	4,583,364	54,214
Police	13,205,093	13,138,533	(66,560)
Fire	9,354,516	9,217,242	(137,274)
Animal Control Services	474,046	694,325	220,279
Economic Development	184,984	206,545	21,561
Contingency/Non Departmental	198,758	187,582	(11,176)
Parks & Recreation	1,791,752	1,803,225	11,473
Total General Fund	\$ 33,894,928	\$ 34,069,011	\$ 174,083

Comparing expenditures by category to those of the previous year shows the changes in types of expenditures made in FY 2012-13.

	FY 11/12	FY 12/13	Change
Salaries & Benefits	\$27,124,125	\$27,267,701	\$ 143,577
Heat & Power	614,355	536,762	(77,594)
Telephone	182,804	165,912	(16,892)
Postage & Freight	140,889	150,292	9,403
Advertising	30,855	28,365	(2,491)
Forms & Supplies	113,167	109,394	(3,774)
Printing & Binding	53,082	48,766	(4,316)
Professional Services	1,428,660	1,766,366	337,706
Travel & Meeting	65,467	79,787	14,320
Dues & Subscriptions	51,655	60,430	8,774
Rental Bld./Equipment/Land	199	17,355	17,156
Equipment O & M	286,919	259,443	(27,476)
Special Equipment O & M	77,452	123,855	46,403
Vehicle & Special Equipment	1,347,316	1,300,421	(46,895)
Buildings & Facility O & M	448,867	372,560	(76,307)
Chemicals	62,564	50,052	(12,511)
Tools, Supplies & Equipment	131,500	171,807	40,307
Training Programs	107,143	90,728	(16,414)
Water	228,748	360,233	131,485
Uniform Clothing	69,824	57,392	(12,432)
Liability Insurance	327,481	357,930	30,449
Debt Service	128,149	128,149	-
Contingency	3,365	57,088	53,723
Technology Replacement ISF	316,152	250,159	(65,993)
Recreation Programs	217,978	212,527	(5,450)
Equipment & Vehicle Purchases	336,213	45,536	(290,676)
Total General Fund	\$ 33,894,928	\$ 34,069,011	\$ 174,083

ENTERPRISE FUNDS

The following summarizes year-to-date revenues, expenditures and changes in current assets and liabilities for the enterprise funds. Current assets and liabilities are used

as a measurement tool as the net of these two are the resources available to pay for operating expenses and capital infrastructure project funding.

Water Fund

	Budget	Actual	Percent
Balance, Start of Year	\$ 14,635,450	\$ 14,635,450	-
Revenues			
Operating	9,628,600	10,697,726	111.1%
Grant Revenue	1,646,000	1,447,342	87.9%
Capital	350,000	340,430	97.3%
SRF Surcharge	650,000	658,281	101.3%
Sub-Total Revenues	12,274,600	13,143,779	107.1%
Expenditures			
Operating Programs	(7,116,839)	(6,364,876)	89.4%
Capital Equipment	(51,600)	(49,380)	95.7%
CIP Contributions	(4,510,131)	(4,510,131)	100.0%
Debt Service	(2,556,268)	(2,498,741)	97.7%
Sub-Total Expenses	(14,234,838)	(13,423,129)	94.3%
Balance	\$ 12,675,212	\$ 14,356,100	-
CIP Projects	\$ 16,341,000	\$ 5,009,238	30.7%

The Water Fund operating revenues ended the year \$1,069,100 more than budgeted. This difference is attributable to two items. The new rate model generated \$667,100 more in operating revenues than was anticipated during the budget process. These higher revenues are attributable to:

- Increased revenues since the base monthly charge now includes only 15 units (instead of the previous amount allowed of 16);
- An increase in the rate structure as approved during the Proposition 218 rate study process;
- Higher consumption in water sales during the fiscal year.

The other \$402,000 that revenues exceeded budget expectations was because the City did not include one-time funding in the budget which occurred as part of the refunding of the 2005 Water Certificates of Participation (COPs). The City had a guaranteed investment contract (GIC) for the 2005 Water COP reserve fund requirement that was cashed in as part of the refunding. The City was paid a premium to terminate the GIC because of the high interest yield the City was had been receiving on these funds.

Capital revenues were \$9,600 less than budgeted which was mostly attributable to lower than anticipated investment earnings due to the very low interest rate environment on all City reserves.

Operating expenditures ended the year slightly less than \$752,000 under budget. With total FY 2011-12 operating expenditures for the Water Fund at \$6,629,475, the current year-end results represent a savings of \$264,600 over the previous year.

Wastewater Fund

	Budget	Actual	Percent
Balance, Start of Year	\$ 11,399,861	\$ 11,399,861	-
Revenues			
Operating	10,395,800	10,611,225	102.1%
Capital	410,000	462,106	112.7%
Sub-Total Revenues	10,805,800	11,073,331	102.5%
Expenditures			
Operating Programs	(8,328,938)	(7,599,209)	91.2%
Capital Equipment	(434,000)	(423,471)	97.6%
CIP Contributions	(2,817,909)	(2,817,909)	N/A
Debt Service	(1,367,519)	(1,367,519)	100.0%
Sub-Total Expenses	(12,948,366)	(12,208,107)	94.3%
Balance	\$ 9,257,295	\$ 10,265,085	-
CIP Projects	\$ 18,259,000	\$ 3,657,495	20.0%

Wastewater operating revenues exceeded the amounts budgeted by \$215,400. Capital related revenues were \$52,100 more than budgeted. Operating expenditures were \$729,700 less than budgeted. With total FY 2011-12 operating expenditures for the Wastewater Fund at \$7,547,809, the current year-end results show an increase in expenditures of \$51,400 over the previous year.