



Final Financial Report

For Fiscal Year Ending 06/30/14 (Final/Post-Audit Year End)

December 16, 2014

OVERVIEW

The on-site work for the City's financial audit for FY 2013-14 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 2013-14 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 2013-14 included revenues of \$33.9 million and expenditures of \$35.2 million resulting in a projected budget deficit of \$1.325 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 2013-14:

Grants	\$ 1,029,000
Encumbrance Carryovers from FY 2012-13	303,800
ICMA Study of Police & Fire Operations	89,900
Strike Team O/T	131,400
Other	(1,400)
Total	<u>\$ 1,552,700</u>

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 2013-14, the third and final year of the three year budget plan, are as follows:

Fund Balance	Final Budget	Actual	Percent
Balance, Start of Year	\$ 3,994,659	\$ 3,994,659	-
Revenues	34,957,993	35,081,646	100.4%
Expenditures	(36,752,967)	(34,186,365)	93.0%
ESR Used/(Generated)	1,324,585	(636,133)	
Balance	\$ 3,524,270	\$ 4,253,808	-

The table below shows the sources of replenishment of the ESR and the amounts used to fund deficits or generated from a surplus in the past four 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)
Generated from Operations FY 2013-14	636,133
ESR Balance June 30, 2014	\$ 4,541,557

The ESR generated from operations for FY 2013-14 includes the amount by which revenues (\$35,081,646) exceeded expenditures (\$34,186,365) less the budgetary commitment for encumbrance carryovers for outstanding purchase orders as of June 30, 2014, of \$259,148.

The City ended the year adding \$636,100 to its Economic Stabilization Reserve (ESR). With escalating costs for employee benefits including retirement, healthcare and worker's compensation, it is anticipated that the City will continue to have an operating budget deficit through FY 2016-17 when the pension obligation bonds will be paid off. The City's Comprehensive Annual Financial Report (CAFR) shows that the ESR balance remaining is \$4,541,557. This is available to fund operating deficits in future fiscal years until a balanced budget is achieved in FY 2017-18.

The ESR balance is approximately \$480,000 higher than anticipated and projected during last spring's budget development process. This is attributable to expenditures being less than projected by \$225,000 and revenues being more than projected by \$255,000:

- 1) Finance added an additional \$200,000 to the department's total projected year end expenditures because in the prior two fiscal years departments expended more than they projected. Expenditures exceeded departmental projections by \$259,000 in FY 2011-12 and by \$167,000 in FY 2012-13. For FY 2013-14, departments ended the year by spending \$25,000 less than they projected at budget time. The accuracy with which departments projected their year-end expenditures is remarkable and they are to be commended this year. It is noteworthy that Public Works was the closest to their projection (within 0.16% of their projection), this amounts to a difference of less than \$5,700 on a \$3.5 million budget.
- 2) Actual revenues were \$255,000 higher than projected. The two major areas that were significant were building permits by \$137,000 and recreation programs by \$87,000.

The City's updated fiscal policy is to maintain a 15% healthy cities reserve within the general fund. The unassigned reserve balance as of June 30, 2014, was \$4,530,069 or 12.5% of FY 2014-15 general fund appropriations. After adding the ESR balance, the City exceeds this percentage.

City departments once again did an excellent job of holding the line on expenditures. They should be commended for excellent fiscal oversight of their operations. The state of the City's financial situation is attributable to their commitment to ensuring that funds are spent wisely and do not exceed appropriations.

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	\$ 10,483,400	\$ 10,409,570	99.3%
Sales Tax	10,974,250	11,082,664	101.0%
Business Licenses	800,000	778,088	97.3%
Franchise Fees	1,430,000	1,476,210	103.2%
Hotel/Motel Surcharge	600,000	696,092	116.0%
Building Permits	500,000	936,780	187.4%
Special Police Services	240,000	226,844	94.5%
CSA "G" Fire Contract	600,500	608,107	101.3%
Recreation Fees	1,118,740	1,134,791	101.4%
Operating Transfers	6,292,598	6,151,569	97.8%
Total	\$ 33,039,488	\$ 33,500,715	101.4%

Top Ten Revenues	FY 12-13	FY 13-14	% Change	Variance
Property Taxes	\$ 10,303,561	\$ 10,409,570	1.0%	\$106,009
Sales Tax	10,778,615	11,082,664	2.8%	304,049
Business Licenses	737,036	778,088	5.6%	41,052
Franchise Fees	1,425,589	1,476,210	3.6%	50,621
Hotel/Motel Surcharge	673,525	696,092	3.4%	22,567
Building Permits	540,894	936,780	73.2%	395,886
Special Police Services	248,409	226,844	-8.7%	(21,565)
CSA "G" Fire Contract	598,859	608,107	1.5%	9,248
Recreation Fees	1,153,643	1,134,791	-1.6%	(18,852)
Operating Transfers	6,065,957	6,151,569	1.4%	85,612
Total	\$ 32,526,088	\$ 33,500,715	3.0%	\$974,627

▪ **Property Tax.** Property taxes receipts experienced a 1.0% increase, \$106,000, in the current fiscal year over the previous year. Budget projections were based on an estimated increase of 2.0%. Final assessed values increased by 1.95% for the general fund, as provided by the Sutter County Auditor-Controller's Office. With the increase in assessed values being minimally less than expected, the City would have expected to see an increase of 2.0% over the previous year. That was not the case because of two of the components in property taxes. The amount received for investment income on property taxes was about \$20,000 less than anticipated and the amount received as a pass through from the State for property taxes in lieu of vehicle license fees only grew by 0.8% (less than the City's 1.95% increase in assessed values) and was \$49,400 less than budgeted.

It is noteworthy to mention, that even though actual property tax revenues increased from the previous year, they are still down \$1.7 million from the peak in FY 2007-08 and will likely not reach that level again for many years. The City's property tax consultant, HDL, provided the City with a graph that shows our average home sales price is equal to 2003 levels.

- **Sales Tax.** Sales tax revenues are \$108,400 more than budgeted and \$304,000 higher than in FY 2012-13. The FY 2013-14 budget projections were developed based upon a modest increase of 2.0%. Actual sales tax receipts during FY 2013-14 resulted in an average increase of 2.8% from the same quarter of the previous year. Sales tax continues to be volatile from quarter to quarter, making it difficult to predict. The first quarter of the fiscal year resulted in a sizeable decline, next were two quarters of significant percentage increases, the last quarter was right in line with budget projections.

The chart below shows 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 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%
Jul-Sep 13	-4.2%	4.7%
Oct-Dec 13	8.4%	0.3%
Jan-Mar 14	5.0%	-0.2%
Apr-Jun 14	1.8%	1.4%

- **Business Licenses.** Business licenses are renewed in January of each year. Revenues were \$21,900 less than budget estimates, but were 5.6% higher, or \$41,000, 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

\$46,200 more than budgeted and \$50,600 more than the prior year.

- **Hotel/Motel Surcharge.** Surcharge revenues were \$96,100 more than budgeted and \$22,600 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 to the City for prior year quarters.

- **Construction Permit Fees.** Building Permit revenues were \$436,800 more than budgeted and \$395,900 more than the previous year. These revenues are difficult to project and are driven by the level of construction occurring locally.

- **Special Police Services.** Special police service revenues were \$13,200 less than budgeted and \$21,600 less 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 \$7,600 higher than budgeted and \$9,200 more than the previous year.

- **Recreation Fees.** Service fees received through the end of the fiscal year are \$16,100 more than budgeted and \$18,900 or 1.6% less than the previous year. Recreation program revenues have declined a total of \$311,300 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 21.5%. 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 recovering, it is anticipated that we should see these revenues also recover.

- **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 \$141,000 less than budgeted due to reimbursements for staff time spent on various capital projects being less than originally budgeted. The shortfall was due to the former Public Works Director retiring and the Assistant Director promoting to the position and no longer charging time worked to capital projects but instead managing the department. There was also expenditure savings from the vacant position. The remaining transfers are within budgetary expectations.

Expenditures. Operating costs were significantly less than budgetary expectations when the original budget was adopted. The savings generated is mostly attributable to vacant positions. 69% of the savings occurred in salaries and benefits due to vacancies, 29% was from savings in

materials, supplies and services, and 1% was from capital outlay savings. Below are summaries comparing budgeted vs. actual expenditures both by department and by category.

Expenditures	Budget	Actual	% Expended
City Council	\$ 134,214	\$ 133,301	99.3%
City Attorney	150,000	144,754	96.5%
City Manager	657,859	563,244	85.6%
Finance/IT	2,252,864	2,085,672	92.6%
City Treasurer/City Clerk	35,341	22,347	63.2%
Human Resources	528,714	509,315	96.3%
Community Development	802,270	725,479	90.4%
Public Works/Parks	5,196,808	4,552,311	87.6%
Police	14,063,465	12,783,487	90.9%
Fire	9,409,188	9,556,386	101.6%
Animal Control Services	641,386	408,470	63.7%
Economic Development	225,658	224,706	99.6%
Contingency/Non Departmental	354,504	368,808	104.0%
Parks & Recreation	2,300,696	2,108,085	91.6%
Total General Fund	\$ 36,752,967	\$ 34,186,365	93.0%

	Budget	Actual	Savings	% Expended
Salaries & Benefits	\$28,233,291	\$27,026,043	\$1,207,249	95.7%
Heat & Power	486,906	496,054	(9,148)	101.9%
Telephone	189,373	146,048	43,325	77.1%
Postage & Freight	136,953	167,863	(30,910)	122.6%
Advertising	34,200	27,320	6,880	79.9%
Forms & Supplies	136,056	105,779	30,277	77.7%
Printing & Binding	80,576	37,786	42,790	46.9%
Professional Services	2,101,601	1,694,595	407,007	80.6%
Travel & Meeting	69,699	108,861	(39,162)	156.2%
Dues & Subscriptions	66,898	68,706	(1,808)	102.7%
Rental Bld./Equipment/Land	20,538	16,624	3,915	80.9%
Equipment O & M	304,994	227,119	77,875	74.5%
Special Equipment O & M	177,602	118,960	58,642	67.0%
Vehicle & Special Equipment	1,401,605	1,349,180	52,425	96.3%
Buildings & Facility O & M	482,574	459,324	23,251	95.2%
Chemicals	43,000	38,970	4,030	90.6%
Tools, Supplies & Equipment	200,173	153,834	46,339	76.9%
Training Programs	113,139	100,888	12,251	89.2%
Water	259,448	231,236	28,212	N/A
Uniform Clothing	63,555	57,545	6,010	90.5%
Liability Insurance	407,367	407,367	-	100.0%
Debt Service	568,462	544,185	24,277	95.7%
Contingency	76,046	62,918	13,127	82.7%
Technology Replacement ISF	268,935	268,935	-	100.0%
Recreation Programs	223,228	187,399	35,828	83.9%
Equipment & Vehicle Purchases	606,751	82,828	523,923	13.7%
Total General Fund	\$36,752,967	\$34,186,365	\$2,566,604	93.0%

The savings from unexpended appropriations as of June 30, 2014 is somewhat misleading. It gives the impression that the City was under budget by in excess of \$2.56 million. This is not the full story as there was \$259,100 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, and therefore also roll over into the next year.

These total \$720,100 at the end of FY 2013-14. The actual savings to the general fund for unexpended appropriations that will not carryover and be spent in the following fiscal year is significant and amounts to \$1,587,400.

Comparing actual expenditures for FY 2013-14 to FY 2012-13 indicate that expenditures increased by approximately \$117,400, or 0.34%.

Expenditures	FY 12/13	FY 13/14	Change
City Council	\$ 119,938	\$ 133,301	\$ 13,363
City Attorney	204,177	144,754	(59,423)
City Manager	634,455	563,244	(71,211)
Finance/IT	2,091,715	2,085,672	(6,043)
City Treasurer/City Clerk	37,067	22,347	(14,720)
Human Resources	414,764	509,315	94,551
Community Development	736,079	725,479	(10,600)
Public Works	4,583,364	4,552,311	(31,053)
Police	13,138,533	12,783,487	(355,046)
Fire	9,217,242	9,556,386	339,144
Animal Control Services	694,325	408,470	(285,855)
Economic Development	206,545	224,706	18,161
Contingency/Non Departmental	187,582	368,808	181,226
Parks & Recreation	1,803,225	2,108,085	304,860
Total General Fund	\$ 34,069,011	\$ 34,186,365	\$ 117,354

Comparing expenditures by category to those of the previous year shows the changes in types of expenditures made in FY 2013-14.

	FY 12/13	FY 13/14	Change
Salaries & Benefits	\$27,267,701	\$27,026,043	\$ (241,659)
Heat & Power	536,762	496,054	(40,708)
Telephone	165,912	146,048	(19,865)
Postage & Freight	150,292	167,863	17,571
Advertising	28,365	27,320	(1,044)
Forms & Supplies	109,394	105,779	(3,614)
Printing & Binding	48,766	37,786	(10,980)
Professional Services	1,766,366	1,694,595	(71,771)
Travel & Meeting	79,787	108,861	29,074
Dues & Subscriptions	60,430	68,706	8,276
Rental Bld./Equipment/Land	17,355	16,624	(731)
Equipment O & M	259,443	227,119	(32,324)
Special Equipment O & M	123,855	118,960	(4,895)
Vehicle & Special Equipment	1,300,421	1,349,180	48,759
Buildings & Facility O & M	372,560	459,324	86,764
Chemicals	50,052	38,970	(11,082)
Tools, Supplies & Equipment	171,807	153,834	(17,973)
Training Programs	90,728	100,888	10,160
Water	360,233	231,236	(128,998)
Uniform Clothing	57,392	57,545	153
Liability Insurance	357,930	407,367	49,437
Debt Service	128,149	544,185	416,036
Contingency	57,088	62,918	5,831
Technology Replacement ISF	250,159	268,935	18,776
Recreation Programs	212,527	187,399	(25,128)
Equipment & Vehicle Purchases	45,536	82,828	37,291
Total General Fund	\$34,069,011	\$34,186,365	\$ 117,354

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	\$ 13,544,283	\$ 13,544,283	-
Revenues			
Operating	10,435,308	10,484,926	100.5%
Grant Revenue	11,911,224	3,503,728	29.4%
Capital	177,260	807,755	455.7%
SRF Surcharge	657,363	659,606	100.3%
Sub-Total Revenues	23,181,155	15,456,015	66.7%
Expenditures			
Operating Programs	(7,292,226)	(6,747,939)	92.5%
Capital Equipment	(69,500)	(62,161)	89.4%
CIP Contributions	(2,516,987)	(2,516,987)	100.0%
Debt Service	(2,935,008)	(2,915,148)	99.3%
Sub-Total Expenses	(12,813,721)	(12,242,235)	95.5%
Balance	\$ 23,911,717	\$ 16,758,064	-

CIP Projects	\$ 10,092,000	\$ 5,040,203	49.9%
---------------------	----------------------	---------------------	--------------

The Water Fund operating revenues ended the year \$49,600 more than budgeted. The largest difference is in Other Revenues which exceeded the amount budgeted by \$44,800 and was due to water sales revenue and a rebate from PG&E for energy efficiency improvements of \$31,700.

Capital revenues were \$630,500 more than budgeted. The amounts exceeded the amounts budgeted in the following categories and amounts:

- \$487,400 Capital connection fees
- \$105,900 Water main extension fees
- \$27,100 Water meter materials.

Operating expenditures ended the year \$544,300 under budget. With total FY 2012-13 operating expenditures for the Water Fund at \$6,364,900, the current year-end results represent an increase in expenses of \$383,000, or approximately 6% , over the previous year. Comparing the total FY 2012-13 expenses to FY 2013-14, indicate the four areas with the largest increase were in the following areas and amounts:

- \$51,300 Salaries and benefits
- \$144,500 Heat and power
- \$105,400 Special equipment O&M
- \$32,700 Buildings & facilities O&M

Wastewater Fund

	Budget	Actual	Percent
Balance, Start of Year	\$ 10,964,646	\$ 10,964,646	-
Revenues			
Operating	11,213,480	11,548,443	103.0%
SRF Revenue	-	348,760	N/A
Capital	265,730	661,083	248.8%
Sub-Total Revenues	11,479,210	12,558,287	109.4%
Expenditures			
Operating Programs	(8,992,485)	(7,552,199)	84.0%
Capital Equipment	(5,399)	(12,273)	227.3%
CIP Contributions	(2,842,635)	(3,201,395)	112.6%
Debt Service	(1,583,484)	(1,566,709)	98.9%
Sub-Total Expenses	(13,424,002)	(12,332,576)	91.9%
Balance	\$ 9,019,854	\$ 11,190,356	-

CIP Projects	\$ 14,650,000	\$ 11,209,836	76.5%
---------------------	----------------------	----------------------	--------------

Wastewater operating revenues exceeded the amounts budgeted by \$335,000. The amounts exceeding budgeted amounts were largely attributable to the following categories and amounts:

- \$306,000 Sewer service charges
- \$53,900 Septage hauler charges
- \$49,400 Lab testing charges
- (\$63,200) Sunsweet (less than budgeted)

Capital related revenues were \$395,400 more than budgeted as shown below:

- \$218,800 Capital connection fees
- \$140,700 Sewer main tension fees
- \$40,700 Special connection fees

Operating expenditures were \$1,440,300 less than budgeted. With total FY 2012-13 operating expenditures for the Wastewater Fund at \$7,599,200, the current year-end results show a decrease in expenditures of \$47,000, or 0.62% less than the previous year.