

To: James L. App, City Manager
From: Mike Compton, Director of Administrative Services
Subject: Comprehensive Annual Financial Report
DATE: January 18, 2005

Need:

Present the Comprehensive Annual Financial Report for the fiscal year ending June 30, 2004 for City Council consideration.

Facts:

1. A Comprehensive Annual Financial Report (CAFR) is prepared to provide detailed information regarding the financial results of City operations.
2. The CAFR is prepared in accordance with generally accepted accounting procedures, including compliance with pronouncements issued by the Governmental Accounting Standards Board (GASB)
3. The CAFR and all supporting accounting and financial records are audited by the outside certified public accounting firm, Moss, Levy & Hartzheim in accordance with generally accepted auditing standards and the *Government Auditing Standards* as issued by the Comptroller General of the United States.
4. The opinion letter issued by Moss, Levy & Hartzheim is unqualified (clean) and indicates that the financial statements and other information reported in the CAFR fairly represent, in all material respects, the financial position of the City as of June 30, 2004.
5. Moss, Levy & Hartzheim has also issued a management letter citing two recommended improvements to the City's financial operations (copy attached):
 - All time sheets should be signed by a supervisor confirming time worked and leave taken.
 - Expenditures should not be "netted" against revenues.

Analysis and
Conclusions:

The City auditor recommended that a supervisor review and sign approval of all employee time sheets. This is a standard operating procedure that has been re-

communicated to City personnel and department heads. The auditor also recommended discontinuing the practice of netting expenditures against revenues. This recommendation will be implemented beginning with fiscal year 2005 budget.

Results for major funds are summarized as follows:

- General Fund – Given the adopted budget for fiscal year 2004 and subsequent budget appropriations by Council, it was projected, given the assumption that all appropriations would be expended, that the City would experience a budget deficit of \$(1,755,700).

In spite of the fact that actual expenditures exceeded budget appropriations by \$1,086,400, the projected deficit was reduced to an actual deficit of only \$(87,326). This represents an extraordinary improvement over “worst case scenario” projections. The nearly \$1.1 expended over budget was mostly due to expenditures for the San Simeon Quake totaling \$888,500.

The over expenditure including quake related expenditures was nearly offset by revenue collections that exceeded estimates by \$2.2 million. In summary, year end results were as follows (details may be found on page 31):

Revenues	\$ 19,365,134
Expenditures	(19,600,158)
Net Transfers	<u>147,698</u>
 Fund Balance Reduction	 <u>\$ (87,326)</u>

Proprietary Fund Financial Statements

- Water Operations - Net assets rose from \$28,002,415 to \$30,581,400. Current assets, mostly cash and receivables, rose by approximately \$1.3 million and fixed assets (plant, property and equipment) rose by approximately \$1.5 million. Liability offsets was limited to a \$49,000 increase in current liabilities.

Water operations experienced an operating loss of \$(123,902) representing considerable improvement over last year loss of \$(475,091). The Council adopted increased user fees effective 7/1/04. However, operating costs continue to outpace revenues. The Council will be presented additional rate adjustments for their consideration later this year for implementation this coming July.

The term “operating loss or profit” as used below refers to the result whereas operating revenues exceed or don’t exceed operating expenses. Operating revenues exclude such items as interest income, taxes, proceeds from grants, proceeds from debt issuance, impact fees, developer contributed fixed assets and sale of surplus property. Operating expenses exclude interest expense,

contributions to other agencies, bond issuance costs, and the acquisition of fixed assets.

The Water Operations Fund has no outstanding debt.

With regard to cash resources, the balance at 6/30/04 was \$15,108,839 as compared to last year's balance of \$13,902,037. Of the \$15.1 million in cash resources, \$11.8 is generated from operations, mostly for capital and infrastructure replacement. The balance represents cash generated from development impact fees. \$6.244 million of cash resources generated from operations are committed to the current CIP budget. The balance will be advanced towards pre-construction costs associated with Nacimiento Water. The advance will be repaid from construction financing when the bonds are sold.

- Sewer Operations - Sewer Operations experienced an increase in net assets. Net assets increased from \$22,224,167 to \$25,781,782. Current assets, mostly cash and receivables, declined by approximately \$2.7 million and fixed assets (plant, property and equipment) rose by approximately \$5.2 million. The decline in current assets is attributable to the expenditure of bond proceeds for various sewer collection and treatment projects. Current liabilities declined by \$441,000 and long-term liabilities declined by \$640,000.

Sewer Operations Fund has an outstanding bond issue. It is actually a consolidation and refunding of the 1993 Sewer Refunding Bonds (originally issued as the Sewer Improvement Revenue Bonds of 1987 for the treatment plant expansion) and the new \$8 million in bonds sold in 2002 for collection and additional plant improvements.

Last year, for the first time since fiscal year 1994, the Sewer Operations Fund has experienced an operating gain of \$41,121. This year the operating gain was \$1,112,780. It is important to note that \$489,300 of this gain is represented by an accounts receivable amount due from the Templeton Community Services District that remains unpaid and is in dispute.

- Airport Operations - Net assets declined slightly from \$13,955,538 last year to \$13,884,965 this year. Current assets rose by approximately \$243,700, mostly cash and fixed assets declined by about \$300,000. On the liability side, current liabilities rose by \$62,000. This rise was offset by a decline in a similar amount in long-term liabilities.

Although cash resources increased significantly for the second consecutive year, from \$548,757 to \$761,865 this year, the Airport Operations Fund finished with an operating loss of \$(362,918). Last year the loss was \$(232,092). The losses are mostly attributable to depreciation expense.

Given the continued improvement in cash resources, staff will be bringing forward a recommendation to retire the internal debt between Airport Operations and the General Fund. At June 30, 2004, the outstanding principal balance was \$202,650.

- Transit Operations - Transit operations saw an increase in net assets from \$524,735 last year to \$869,851 this year. The Fund's cash balance ended the year at \$471,099 as compared to \$178,277 last year. As transit operations does need cash reserves, future yearly TDA claims for transit operations will be significantly reduced and the funds re-directed towards street and road improvements.

Fiscal

Impact:

None.

Options:

- a. That the City Council receive and file the Comprehensive Annual Financial Report for the fiscal year ending June 30, 2004 or
- b. Amend, modify or reject any of the options above.

COMPREHENSIVE ANNUAL FINANCIAL REPORT

A Copy is available in the library for public review.

Additional copies are available in the City Clerk's Office and Administrative Services

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MOSS, LEVY & HARTZHEIM

 CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS:
 ROBERT M. MOSS, C.P.A.*
 RONALD A. LEVY, C.P.A.*
 CRAIG A. HARTZHEIM, C.P.A.*

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October 19, 2004

DRAFT
 Honorable Mayor and Members of the
 City Council
 City of El Paso de Robles

In planning and performing our audit of the financial statements of the City of El Paso de Robles, for the fiscal year ended June 30, 2004, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the City of El Paso de Robles' ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

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| Finding: | The City did not perform bank reconciliations for its trustee bank accounts throughout the fiscal year. |
| Recommendation: | The City should perform bank reconciliations of all City accounts, and these should be performed in a timely manner according to City's policy. |
| Finding: | The City does not require employees to change their computer passwords on a routine basis. |
| Recommendation: | The City should require employees to change their computer passwords on a routine basis. |

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses, as defined above. However, the reportable conditions described above are not believed to be material weaknesses.

OFFICES: BEVERLY HILLS • SANTA MARIA • SACRAMENTO

This report is intended solely for the information and use of the City of El Paso de Robles City Council, and management, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

MOSS, LEVY & HARTZHEIM

DRAFT
Ron Levy, CPA
Partner