City of Woodland

REPORT TO MAYOR AND CITY COUNCIL

AGENDA ITEM

TO: THE HONORABLE MAYOR AND CITY COUNCIL

DATE: January 8, 2008

SUBJECT: Review and Accept Various Required Annual Audited Compliance and Financial Reports for the Fiscal Year ended June 30, 2007

Report in Brief

Federal, local and state law requires the City to issue various financial reports on an annual basis and have those reports audited by an independent certified public accountant. The following required reports for the fiscal year ended June 30, 2007 have been completed by staff, and audited by the City's independent Certified Public Accounting Firm, Macias, Gini & O'Connell, LLP: City of Woodland – Single Audit Report, City of Woodland - Comprehensive Annual Financial Report (CAFR), Woodland Redevelopment Agency – Basic Financial Statements, and Woodland Finance Authority – Basic Financial Statements

The City received unqualified opinions (clean opinions) on each of three financial reports referenced above, as well as an unqualified report on the single audit.

The details of the financial statements are voluminous and comprehensive, and therefore not included within the text of this report. Staff will provide an overview of the financial statements during the Council Meeting. These documents will be placed on the City's website subsequent to Council review and acceptance.

Staff recommends that the City Council review and accept the four required annual audited compliance and financial reports for the Fiscal Year ended June 30, 2007.

Background

As a governmental agency and recipient of federal funds, the City is required to prepare various annual financial reports, and have those reports audited by an independent certified public accountant.

Included with this communication are four separate required annual reports: a) Comprehensive Annual Financial Report (CAFR); b) Redevelopment Agency Basic Financial Statements; c) Woodland Finance Authority Basic Financial Statements; and d) Single Audit. The City received unqualified (clean) opinions on all its financial statements. With respect to the Single Audit, the City received an unqualified opinion (clean opinion) on compliance, and no audit findings on internal controls.

Discussion

The City's annual financial reports are prepared in compliance with Governmental Accounting Standards, and Generally Accepted Accounting Principals. As required, individual financial statements have been prepared for the City, Redevelopment Agency and Finance Authority. No report has been prepared for the Woodland Public Facilities Corporation since there were no financial transactions in the fiscal year.

The CAFR represents a consolidation of blended financial activities of the primary city government and its component units. The City's CAFR consists of four parts: (1) management discussion and analysis (MD&A), (2) the basic financial statements, (3) required supplementary information, and (4) optional combining statements for non-major government funds, non-major enterprise funds, internal service funds and agency funds.

While the entire report provides valuable and important information, the MD&A provides an executive-type summary highlighting significant changes and activities of fiscal year 2007. Excerpts of the MD&A are attached in Exhibit A of this report.

Because of the comprehensive nature of these reports, detailed financial information is not included in the text of this report. Staff will present an overview of these reports during the Council meeting.

On a final note, the Council has had several discussions regarding the implementation of GASB 45- the accounting requirements related to Other Post Employment Benefits (OPEB). Please note that the City is not required to implement this standard until FY2009; thus the financial impacts of OPEB are not reported nor reflected in these financials.

Fiscal Impact

The annual costs for the audit are included in each fiscal year budget. The costs for the FY07 audit are ~ $80,000.

Public Contact

Posting of the City Council Agenda

Recommendation for Action

Staff recommends that the City Council review and accept the four required annual audited compliance and financial reports for the Fiscal Year ended June 30, 2007.

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City Manager

Enclosures – 4
Exhibit A

EXHIBIT A

City of Woodland – Financial Highlights for the fiscal year ended June 30, 2007

OVERVIEW OF CITY FINANCIAL STATEMENTS - The City's basic financial statements include two reports, each presented a different view of the City.

- The government-wide financial statements provide both long-term and short-term information about the City's overall financial status, and are designed to provide a broad overview of consolidated City finances in a manner similar to a private-sector business.
- Fund financial statements focus on individual parts of the City government, and provide more detailed information. The fund financial statements are designed to report information about groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

A Summary of Net Assets as of June 30, 2007 and 2006 is reflected below in the Table One. Net assets represent the difference between the City's resources (assets) and its obligations. Over time, net assets may serve as a useful indicator of a government's financial position.

Table One - Summary of Net Assets (in millions)

	Governmental Activities		Business-Type Activities		Total Primary Government		Total % Change
	2007	2006	2007	2006	2007	2006	
Current & other assets	$ 62.4	$ 79.0	$ 8.2	$ 9.4	$ 70.6	$ 88.4	-19.9%
Capital assets	248.8	213.0	117.1	117.6	365.9	330.6	7.7%
Total assets	311.2	292.0	125.3	127.0	436.5	419.0	2.0%
Long-term Liabilities	107.5	107.9	14.0	14.5	121.5	122.4	-00.7%
Other liabilities	8.7	12.4	0.7	1.5	9.4	13.9	32.4%
Total liabilities	116.2	120.3	14.7	16.0	130.9	136.3	4.0%
Net Assets:							
Invested in capital assets, net of related debt	159.8	130.8	104.4	108.7	264.2	239.5	6.2%
Restricted	5.8	26.1	--	1.0	5.8	27.1	-78.6%
Unrestricted	29.3	14.8	6.3	1.3	35.6	16.1	121.1%
Total net assets	$ 194.9	$ 171.7	$ 110.7	$ 111.0	$ 305.6	$ 282.7	8.1%

- Total net assets increased by $22.9 million to $305.6 million.

  … $264.2 million (86 percent) of net assets reflects investment in capital assets (e.g. land, buildings and equipment), less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be liquidated for these liabilities.

- … $5.8 million (2 percent) represents resources that are subject to external restrictions on how they may be used. This represents a decrease of $21.3 million or 78.6 percent from the prior year, due primarily to the issuance of the WWTP and the 2005 Capital projects bonds.

- … $35.6 million represents unrestricted net assets.

- Net assets of governmental activities increased by $23.2 million

- Net assets of business-type activities decreased by $0.3 million.

A Summary in Net Assets for fiscal year ended June 30, 2007 and 2006 (*in thousands*) is reflected below in Table Two.

The City's total revenue was $87.7 million for the fiscal year ended June 30, 2007, a decrease of $3.6 million or 3.9 percent from 2006. Charges for services and operating and capital grants provided 61 percent of the total revenue received. Revenue from governmental activities totaled $72.1 million and revenue from business-type activities totaled $15.6 million

Significant changes in revenue are highlighted below

- ~ $1.9 million decrease in charges for services due to slow down in development and related fees
- ~ $6.6 million decrease in capital grants and contributions is related to the timing and phases of qualified capital projects and the associated requests and receipts of funding
- ~ $1.2 million decrease in other taxes: reflects ¾ of a year of MSE revenues in 2007 vs. full year of MSH funding in 2006
- ~ $1.3 million increase in property taxes

Revenue for the City's business-type activities, excluding transfers, increased $1.8 million, from $13.8 million in 2006 to $15.6 million in 2007. This increase is due primarily to a scheduled increase in utility rates, which was effective July 1, 2006. Charges for services totaled $14.9 million or 96 percent of total business-type activity revenues

The City's expenses for the year totaled $64.9 million, an increase of $11.8 million or 22 percent over 2006. Governmental activities expenses totaled $51.2 million, or 79 percent of total expenses. Business-type activities incurred $13.7 million, or 21 percent of total expenses during the year

Significant changes in expenses are primarily attributable to:

- Council approved City-wide increases in salaries and benefits
- Community Development increase due to staff augmentations (8 new FTEs)
- Parks increases relate to capital costs on the new Community Senior Center
- Public Works increases relate to significant capital expenditures for Spring Lake infrastructure and the expansion of the Wastewater Treatment Plant.

Business-type activities expenses totaled $13.7 million in 2007; an increase of $2.4 million. The increase in expenses is attributable to increased salary and benefit costs for existing employees, as well as the addition of new staff. Depreciation expense also increased as a result of completion of capital projects.

Table Two - Changes in Net Assets (in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government		Total %
	2007	2006	2007	2006	2007	2006	change
Revenues							
Program revenues:							
Charges for services	$ 27,033	$ 30,698	$ 14,890	$ 13,097	$ 41,923	$ 43,795	-4.27%
Operating grants and contributions	11,266	4,878	75	14	11,341	4,892	131.83%
Capital grants and contributions	1,508	8,096	-	-	1,508	8,096	-81.37%
General revenues:							
Property taxes	11,074	9,781	-	-	11,074	9,781	13.22%
Sales taxes	9,526	9,364	-	-	9,526	9,364	1.73%
Other taxes (including Measure E)	4,213	5,424	-	-	4,213	5,424	-22.33%
Franchise fees	1,407	1,334	-	-	1,407	1,334	5.47%
Motor vehicle in lieu	4,108	3,831	-	-	4,108	3,831	7.23%
Investment earnings	1,598	1,781	644	676	2,242	2,457	-8.75%
Other	399	2,324	-	-	399	2,324	-85.41%
Total revenues	72,132	77,511	15,609	13,787	87,741	91,298	-3.89%
Expenditures							
Governmental activities:							
General government	1,743	1,818	-	-	1,743	1,818	-4.12%
Finance	1,175	1,248	-	-	1,175	1,248	-3.25%
Community development	4,430	3,031	-	-	4,430	3,031	46.16%
Parks, recreation and community service	5,438	4,194	-	-	5,438	4,194	29.66%
Police	13,959	12,677	-	-	13,959	12,677	10.11%
Fire	7,488	7,478	-	-	7,488	7,478	0.13%
Library	1,534	1,555	-	-	1,534	1,555	-1.35%
Public works	12,205	6,306	-	-	12,205	6,306	93.54%
Interest on long-term debt	3,237	3,474	-	-	3,237	3,474	-6.82%
Business-type activities:							
Water	-	-	4,600	3,507	4,600	3,507	31.17%
Sewer	-	-	6,354	5,062	6,354	5,062	25.52%
Storm drain	-	-	1,282	940	1,282	940	36.38%
Wastewater pretreatment	-	-	304	271	304	271	12.18%
Parking	-	-	-	303	-	303	-100.00%
Recycling	-	-	268	247	268	247	8.50%
Construction & Demolition	-	-	54	-	54	-	100.00%
Fire Training Center	-	-	301	384	301	384	-21.61%
Cemetery	-	-	312	377	312	377	-17.24%
Dubach Park	-	-	185	182	185	182	1.65%
Youth Center	-	-	-	-	-	-	0.00%
Total expenses	51,209	41,781	13,660	11,273	64,869	53,054	22.26%
Excess before transfers	20,923	35,730	1,949	2,514	22,872	38,244	-40.19%
Transfers	2,287	304	(2,287)	(304)	-	-	
Changes in net assets	$ 23,210	$ 36,034	$ (338)	$ 2,210	$ 22,872	$ 38,244	-40.19%

FUND STATEMENTS FINANICAL ANALYSES - As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Due to the volume of fund statements a table is not presented on this information. Please see attached CAFR for summary of financial data.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of $29.1 million, a decrease of $19.3 million from the end of the prior year. The significant activity in funds is noted below:

- City Capital Projects fund decreased of $4.1 million was primarily due to a transfer of $3 million in unexpended bond proceeds (transferred to the Park Development fund for use in construction of the Community Senior Center); and expenditures on the new Fire Station #1.

- The Special Sales Tax District fund decreased by $3.95 million due to on-going construction of capital projects and MSH debt service payments.

- Sewer Development fund decreased by $7.0 million due to $8.0 million of capital construction costs related to the Wastewater Treatment Plant expansion and tertiary improvements, $1.5 million for bond payments; offset by collection of $2.5 million in development fees.

- The Park Reserve (non-major Capital Projects fund) fund decreased by $3.1 million due to $7.3 million for construction of the new Community Senior Center, offset by a transfer in of bond proceeds of $3 million from the City Capital Projects fund, and development fee collection of $2.1 million.

The deficit fund balances of $4.1 million in City Capital Projects and $4.8 million in Sewer Development Funds are attributable to construction of various City infrastructures (e.g. Police Station, Sewer Expansion and Improvements, Road Improvements) in advance of collection of respective development fees. Internal City loans were provided for advance construction.

City General Fund: is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance was $6.5 million, and revenues in excess of expenditures were $0.9 million. The surplus was the result planned savings in personnel vacancies, and constraints on services and supplies. As directed by Council, this surplus has been designated to cover the operating deficit in the City's fiscal year 2008 budget.
The City's final budgeted appropriations increased by $500 thousand from the preliminary budget due to carry-forward appropriations on various programs and projects, and supplemental appropriations related to grants approved during the fiscal year.

During the year, actual revenues and other resources were $596 thousand less than budgeted estimates. This variance consisted of a negative variance for taxes, resulting from a weakening housing market through much of the fiscal year and collection for only 9 months of the year of the supplemental ½ cent sales tax; license and permit fees had a significant negative variance due to the slow down in the housing market and the related fees; intergovernmental revenues were more than expected due primarily to increased motor-vehicle in lieu fees (MVLF) and reimbursements for state mandates; charges for services had a positive variance due to increases in overhead cost recovery; the City's investment earnings were greater than budget due to increased interest rates.

The $2.2 million positive variance between the final budget and actual expenditures (budgetary basis) is primarily due to the following factors:

- Budgetary savings total for all departments salaries and benefits totaled $1.5 million due to staff vacancies and a hiring freeze, which resulted in related savings in supplies.
- Budgetary savings in the Community Development and Public Works departments totaling $890 thousand in contracts and professional services was the result of work done on projects that are fully reimbursable to the City. For these projects, costs that would otherwise have been paid for by the City become the responsibility of the applicant.
- Budgetary savings in Parks & Recreation is primarily due to salary and supplies savings due to the delayed opening of the new Community & Senior Center

The net effect of the budgetary savings, offset by realization of some revenues less than estimated resulted in a positive budgetary fund balance variance of $1.5 million at the end of the fiscal year

Proprietary Funds

The City's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail.

At the end of fiscal year 2007, the unrestricted net assets for the Water and Sewer funds were $6.1 million and $6.6 million, respectively. Total net assets for the Water and Sewer funds increased by $.98 million and $1.01 million, respectively; increases were primarily due to planned increases in the utility rates, as well as growth in the number of customers resulting from new development.

Three proprietary funds had deficits in unrestricted net assets: Storm Drain fund had a deficit of $9 million, Dubach Park had a deficit of $432 thousand and the Cemetery Fund had a deficit of $40 thousand. The solutions for these deficits will Council will have ongoing discussion

The total reduction in net assets for the enterprise funds was $.4 million. Factors concerning the finances of these funds have been addressed previously in the discussion of the City's business-type activities. As in the previous years, the Storm Drain Fund's decrease in net assets is related to a continuing operating deficit. The City proposed a voter approved rate increase in FY 08 to address this on-going deficiency, which did not pass. Of concern is the growing deficit in Dubach Park enterprise; the yearly revenues generated by activities are insufficient to cover the maintenance of this sports park, due to weather-related and topographic factors. Phase 1 of the planned Sports Park, which will begin construction in FY08, will correct this issue.

CAPITAL ASSET & DEBT ADMINISTRATION

Capital Assets

As of June 30, 2007, the City had invested $365 million in a broad range of capital assets, including police and fire equipment, buildings, parks and park improvements, roads and water, sewer and storm drainage transmission and distribution systems. This represents a net increase for the current fiscal year of $35.1 million, or 11 percent.

Capital Assets - As of June 30, 2007 and 2006
(net of depreciation, in millions)

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Capital Assets Not Being Depreciated						
Land and improvements	$ 15.5	$ 13.6	$ 3.7	$ 5.6	$ 19.2	$ 19.2
Construction in progress	85.2	70.7	11.6	7.6	96.8	78.3
Depreciable Capital Assets:						
Ponds	-	-	0.4	0.4	0.4	0.4
Buildings	19.6	17.7	0.1	0.1	19.7	17.8
Improvements	1.3	1.4	17.7	18.5	19.0	19.9
Machinery and equipment	7.7	6.6	1.0	0.8	8.7	7.4
Sewer treatment plant	-	-	9.2	9.6	9.2	9.6
Infrastructure	119.4	103.0	73.4	75.1	192.8	178.1
Total	$ 248.7	$ 213.0	$ 117.1	$ 117.7	$ 365.8	$ 330.7

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This year's major capital asset additions included:

- Completion of the new facility for Fire Station No. 1 and remodeling of Fire Station No. 2 added $2.4 million to buildings.
- Construction of the new Community & Senior Center added $11 million to construction in progress.
- Expansion of the Wastewater Treatment Plant and tertiary improvements added $9.8 million to construction in progress.

- Construction of certain backbone infrastructure for the Spring Lake Specific Plan added $11.1 million to construction in progress, while completion of sewer and drainage infrastructure for the Spring Lake Specific Plan added $20.35 million to infrastructure.
- Pavement rehabilitation and related water line replacement, sewer and storm line repairs added $6.7 million to infrastructure.

More detailed information about the City's capital assets is presented in Note 8 of the Notes to the Financial Statements.

Long-term Debt

At June 30, 2007 and 2006, the City had $119.5 million and $120.7 million, respectively, in long-term debt outstanding. Outstanding debt of governmental activities decreased approximately $0.6 million. This decrease was primarily the result of an increase of $1.4 million of new capital lease obligations and $6.8 million in developer fee obligations, offset by principal retirements of $8.8 million. Outstanding debt of business-type activities decreased approximately $0.6 million as a result of principal payments on existing debt during the fiscal year.

Outstanding Debt - As of June 30, 2007and 2006
(in millions)

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenue and other bonds, net	$ 49.8	$ 51.2	$ 10.1	$10.1	$ 59.9	$ 61.3
Tax allocation bonds	2.1	2.1	-	-	2.1	2.1
Certificates of participation, net	-	-	3.6	4.2	3.6	4.2
Loans payable	5.7	6.1	-	-	5.7	6.1
Developer fee obligations	45.3	45.0	-	-	45.3	45.0
Capital lease obligations	2.9	2.0	-	-	2.9	2.0
Total	$ 105.8	$ 106.4	$ 13.7	$14.3	$ 119.5	$120.7

More detailed information about the City's total long-term liabilities is presented in Note 8 of the Notes to the Financial Statements.

The City continues to maintain excellent credit ratings on all of its debt issues. The following are the ratings as of June 30, 2007 as determined by Moody's Investors Service and Standard & Poor's. These ratings have not changed subsequent to year-end.

	Moody's	S & P
Insured Issues:		
• 2002 Lease Revenue Bonds	A3	AAA
• 2003 Gibson Ranch CFD	-	AAA
• 2004 Gibson Ranch Refunding Bonds	-	AAA

The City's bonded debt per capita is a useful indicator to citizens and investors of the City's debt position. As of June 30, 2007 the City had no bonded debt per capita. Bonded debt does not include special assessment debt or mortgage insured bonds for which the City is not obligated.

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