COMPREHENSIVE ANNUAL FINANCIAL REPORT

DATE: **February 2, 2016**

FROM: **FINANCE DEPARTMENT**

PRESENTATION BY: **STEPHEN DUNIVENT, INTERIM FINANCE DIRECTOR**

FOR FURTHER INFORMATION CONTACT: **STEPHEN DUNIVENT, INTERIM FINANCE DIRECTOR, (714) 754-5243**

RECOMMENDED ACTIONS:

1. Receive and file the Comprehensive Annual Financial Report
2. Approve FY 15-16 budget adjustments for $980,153 in carry over prior year encumbrances to FY 15-16 (Attachment 1B).
3. Approve a FY 15-16 budget adjustment for, and the payment of, an additional $500,000 to further reduce the Fire Side Fund debt.

BACKGROUND:

The Comprehensive Annual Financial Report (CAFR) is prepared by the City's Finance Department in conformity with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) requirements. It is audited by the independent public accounting firm of White Nelson Diehl Evans LLP. It contains a variety of statements including:

- Management's discussion and analysis of key financial highlights and issues
- Statement of net position (difference between assets and liabilities) compared to prior year
- Balance sheets for all funds (some combined)
- Statement of revenues, expenses and changes in fund balances (showing any surplus/deficit) for the year
- Comprehensive notes to the financial statements
- Supplemental information on pension plans
- Comparison of budget to actual revenues by major category and expenses by program
- A Statistical Section with ten-year trends in expenses, revenues, general fund balance and reserves, property tax and assessed values, debt and demographic information

The CAFR provides a point in time snapshot of financial information with some historical trend information in the statistical section.

ANALYSIS:

This report will focus on the CAFR FY 14-15 reporting of the General Fund. The CAFR is referenced as Attachment 1A. Due to the size of this report, it is being made available on line at the City's website:

http://www.costamesaca.gov/modules/showdocument.aspx?documentid=20562

A reference copy is also available at the City Hall in the City Clerk's office. A reference copy will also be available at the City Council meeting.

As reported in the CAFR, revenues were $3,318,601 or 3% above budget and expenses were $8,556,284 or 8% below budget. After accounting for operating transfers for capital projects, the General Fund had a positive change in fund balance (surplus) of $3,615,625. (See pages 26, 94 and 95.) Details on the causes of these variances follow.

Revenues: The positive revenue variance of $3,318,601 resulted mainly from four items:

- Sales tax was $51,115,064; $946,064 or nearly 2% over budget.
- Grants and other reimbursements were $1,747,795; $902,638 or 107% over budget mainly due to the receipt of a portion of prior year claims for State mandated cost reimbursement.
- Investment income of $1,463,378 was $1,166,951 over budget due to the restatement of the general fund loan to the Park Development Fee Fund.
- Miscellaneous revenue of $1,260,202 was $358,242 over budget due to the State payment of $626,386 on the redevelopment loan. This was partially offset by under budget amounts for several other smaller items.

Expenses: The positive expenditure variance of $8,556,284 resulted mainly from the following items:

- Employee costs were $7,658,000 under budget due to vacant positions partially offset by increases in overtime and use of part-time employees.
- Operations and maintenance costs were $898,000 under budget mainly due to under budget amounts for contracted help, consultants and acquisition costs.

Debt: There are only three outstanding bond debt obligations. These are being paid off according to the established debt repayment schedules.

The Governmental Accounting Standards Board (GASB) Statements 68 and 71 took effect for this reporting period and required significant changes to the reporting of pension plans and their related debt. These changes include:

- The net pension liability amount of $214,555,366 is now included in the City's government-wide balance sheet amounts. Previously this amount was disclosed in the footnotes. While the government-wide net position is still a positive $67,402,811, it reflects a substantial decrease from the prior year when the liability was only reported in the footnotes. (See page 18.)

- Footnote 13 (page 64) regarding the defined benefit pension plan has been substantially modified from a four page disclosure to an eleven page disclosure including:
    - Expanded description of benefits provided
    - Number of employees covered
    - Expanded description of actuarial assumptions
    - Discount rate of 7.5%
    - Expanded description of changes in net pension liability
    - Sensitivity analysis of the net pension liability to changes in the discount rate
- Required supplementary information on pensions has been added. (See pages 85-90.)
- The supplemental schedules include the beginning year of what will become a ten year history of pension liability and contributions for each plan (Fire, Miscellaneous and Police).

Operating transfers for capital: Transfers out of the general fund totaled $10,814,636 for the following purposes:

- $5,450,000 for capital improvements
- $4,000,000 for the Library/NCC/Park improvement
- $1,202,000 for the Community meeting room and outdoor meeting space
- $ 87,165 operating subsidy for the Supplemental Law Enforcement Services Fund
- $ 75,471 reimbursement to the Successor Agency based on audit findings

Surplus/Deficit: The General Fund net change in fund balance (surplus) is $3,615,625. In accordance with the City's financial and budget policies and the reserves study, recommendations for use of this surplus is as follows:

a. $980,153 rebudget for carry over of prior year encumbrances to FY 15-16 (Attachment 1B)
b. $500,000 additional payment toward the Fire Side Fund **or**, as an alternative, increase available funds for the Library **or** Fire Station 1 project to reduce possible future debt. Staff recommends the additional payment toward the Fire Side Fund in order to further reduce existing debt. This payment would be in addition to the current year plan of additional payments of $500,000 and $241,147 for a total of $1,241,147 in additional payments to the Fire Side Fund.
c. $ 2,135,472 remaining amount stays in fund balance as an increase to reserves.

Fund Balance and Reserves: Total General Fund balance and reserves reported in the last (June 30, 2014) CAFR were $50,200,326. This CAFR reports the total has increased to $53,815,951, for a net increase in fund balance (surplus) of $3,615,625. (See page 63.) After the two allocations recommended above, the Fund balance and reserves would be $52,335,798. The March 3, 2015 Reserves Study set a goal of $55,000,000 for fund balance and reserves to be achieved by annual allocations of up to $1,500,000 per year in years where there is a surplus.

CONCLUSIONS:

The June 20, 2015 CAFR fairly and accurately represents the City's fiscal year financial results and financial position as of June 30, 2015. The City has received a "clean" audit report as there have been no management letter comments requiring management action or adjustments related to the CAFR. The Finance Advisory Committee plans to review the CAFR on February 23, 2016.

RECOMMENDATIONS:

It is recommended that the Council receive and file this report as well as approve the other actions summarized on page 1 of this report.

Attachments:

1A. Comprehensive Annual Financial Report June 30, 2015 available on-line at: http://www.costamesaca.gov/modules/showdocument.aspx?documentid=20562
1B. List of Prior Year Carry Over Purchase Orders

Attachment 1B

FY 15-16 ROLLOVER P.O. - GENERAL FUND ONLY

PO#	Vendor #	Vendor Name	PO Totals	New PO#	Account	Fund	Org	Program	Remaining Amount	Notes
9984	17501	Quickstart Intelligence	2,235.00	1600009984	505504	101	14600	50720	2,235.00	R/O req by Dept, training rescheduled to 09/28/15
10017	23507	CMC Rescue Inc	1,000.00	1600010017	505504	101	16200	10210	1,000.00	R/O req by A/P email 08/26/15
									3,235.00	**SUBTOTAL**
1500009080	22306	The Omega Group Inc	41,062.50	1600009080	510201	101	16100	50001	41,062.50	R/O Req by McCoy07/08/15
9688	3257	Municipal Code Corporation	6,000.00	1600009688	510205	101	11200	50420	2,437.02	R/O Req by Dept 08/11/15.
9982	23440	Anaheim Transportation Network	25,000.00	1600009982	510206	101	11100	50001	20,833.34	R/O Req by Dept MOU term ends 05/03/16
10089	23601	Classic Party Rentals	1,444.62	1600010089	510206	101	11100	51050	1,444.62	R/O Req by A/P email 09/09/15
10023	23486	eMilitaryCoins.com	1,951.60	1600010023	510206	101	15100	50001	1,951.60	R/O req by PD email 07/21/15
									67,729.08	**SUBTOTAL**
10040	21554	Culver Newlin Inc	4,366.44	1600010040	510301	101	14300	40233	4,366.44	R/O req by A/P email on 07/20/15
9989	21554	Culver Newlin Inc	1,337.04	1600009989	510301	101	18200	20320	807.84	R/O due to undelivered/uninstalled desk
9687	3986	Merrill & Associates	18,911.04	1600009687	510302	101	14300	40231	18,638.54	R/O Req by Dept -unfinshed work as of 08/12/15
9809	11202	Time Warner	9,582.00	1600009809	510302	101	14300	40231	9,582.00	R/O due to incomplete work at 08/14/15
9954	6006	Two Wheels One Planet	7,971.57	1600009954	510302	101	15300	10111	7,971.57	R/O req by Z/P email 07/20/15
10021	20246	Bristol Omega Inc	3,542.50	1600010021	510302	101	15400	10120	3,542.50	R/O req by PD email 7/21/15
10021	20246	Bristol Omega Inc	9,000.00	1600010021	510302	101	15400	10132	9,000.00	R/O req by PD email 7/21/15
10096	22624	Tiger Supplies Inc	479.12	1600010096	510302	101	15400	10137	479.12	r/o req by dept
9993	14807	Samys Camera	1,419.12	1600009993	510302	101	16200	10210	1,419.12	R/O Req by A/P email 07/22/15
10012	19773	Straps Unlimited	1,953.72	1600010012	510305	101	16200	10210	1,953.72	R/O req by A/P email 08/17/15
10086	21554	Culver Newlin Inc	7,184.00	1600010086	510307	101	14300	40236	7,184.00	r/o req by dept
									64,944.85	**SUBTOTAL**
1500008973	2297	Galls Inc	1,011.75	1600008973	510401	101	15400	10136	857.33	r/o req by dept
10054	23552	Brown & Bigelow Inc	724.30	1600010054	510403	101	14300	40212	724.30	R/O req by A/P email 06/26/15
9912	986	Allstar Fire Equipment Inc	5,065.40	1600009912	510404	101	16200	10210	5,065.40	R/O req by A/P email 07/29/15
									6,647.03	**SUBTOTAL**
10084	22225	BC Traffic Specialist	6,270.00	1600010084	510501	101	15300	10111	6,270.00	R/O req by PD email 07/20/15
									6,270.00	**SUBTOTAL**
10020	2983	LN Curtis & Sons	1,506.16	1600010020	510601	101	16200	10210	1,506.16	R/O req by A/P email 08/21/15
10083	14484	Embee Technologies	1,728.71	1600010083	510602	101	13300	50530	1,728.71	R/O Req by A/P email 08/19/15
10041	21554	Culver Newlin Inc	6,230.52	1600010041	510604	101	16200	10210	6,230.52	R/O req by Dept - Mdse not received as of 6/30/15
10035	22986	Newport Awning Company Inc	3,600.00	1600010035	510604	101	19500	40111	3,600.00	R/O due to late insurance Cert
									13,065.39	**SUBTOTAL**
10090	23619	Grow More Inc	2,553.00	1600010090	510701	101	19500	20111	2,553.00	R/O req by A/P on 07/14/15
9934	1142	AY Nursery		1600009934	510702	101	19500	40111	2,095.20	R/O req by A/P email 07/29/15
9936	16331	John Deere Landscapes Inc	2,663.17	1600009936	510702	101	19500	40111	2,663.17	R/O req by PubSvs email 07/09/15
									7,311.37	**SUBTOTAL**
9693	10333	Technology Resource Center Inc	2,320.00	1600009693	520401	101	15400	50001	725.00	
									725.00	**SUBTOTAL**
10082	14484	Embee Technologies	572.33	1600010082	525108	101	19500	40111	572.33	R/O req by A/P email 09/02/15
9932	17059	Midori Gardens Inc	3,429.86	1600009932	525111	101	19500	40111	3,429.86	R/O req by PubSvs email 07/09/15
9722	15837	Pyxis Water Systems Inc	27,300.00	1600009722	525199	101	19500	40111	7,962.50	R/O due to contact end date 10/21/15
10009	22976	Complete Landscape Care Inc	3,376.36	1600010009	525199	101	19500	40111	3,376.36	R/O req by Dept email 06/30/15
10078	19004	Artesia Sawdust Products	1,854.84	1600010078	525199	101	19500	40111	1,854.84	Roll Over Req by A/P 07/14/15
10097	4248	Thomas Plumbing Company	1,925.00	1600010097	525199	101	19500	40111	1,925.00	R/O due to delay in start of work per dept email 09/04/15
									19,120.89	**SUBTOTAL**
9896	23304	Habitat Restoration Sciences Inc	32,100.00	1600009896	525201	101	19500	40111	32,100.00	Dept req R/O due to birds nesting in habitat.
10039	23215	Athletic Field Specialists	27,000.00	1600010039	525201	101	19500	40111	12,000.00	R/O req by A/P email on 08/19/15
10094	17059	Midori Gardens Inc	3,384.00	1600010094	525201	101	19500	40111	3,384.00	R/O req by A/P on 08/12/15

FY 15-16 ROLLOVER P.O. - GENERAL FUND ONLY

PO#	Vendor #	Vendor Name	PO Totals	New PO#	Account	Fund	Org	Program	Remaining Amount	Notes
9943	22976	Complete Landscape Care Inc	3,060.65	1600009943	525202	101	19500	20111	3,060.65	R/O req by Dept email on 06/30/15
10095	16331	John Deere Company	4,220.00	1600010095	525202	101	19500	20111	4,220.00	
									54,764.65	**SUBTOTAL**
10052	17440	Systems Source Inc	17,385.08	1600010052	525601	101	14300	50001	17,242.33	R/O req by A/P email 09/10/15- late invoice Amt $17,242.33
									17,242.33	**SUBTOTAL**
10075	18680	Consolidated Office Systems	80.00	1600010075	525701	101	14100	50610	80.00	R/O due to late invoice received by HR
9741	3419	Oracle America Inc	7,565.51	1600009741	525702	101	14600	50710	5,671.13	R/O due to contract end date 02/18/16.
10067	23508	iCityWork	7,544.00	1600010067	525702	101	14600	50710	4,294.00	R/O req by A/P email 7/29/15
									10,045.13	
10019	15183	Best Contracting Services	1,834.29	1600010019	525801	101	19500	50910	1,834.29	R/O req by a/p
9801	23166	The Dumbell Man Fitness Equip	1,800.00	1600009801	525803	101	16200	10210	419.20	R/O Req by A/P 07/22/15
10002	5846	McCain Traffic Supply	7,118.28	1600010002	525803	101	19300	30241	6,667.92	R/O due to late delivery of Pole per dept email dated 08/19/15
10092	2080	Econolite Control Products Inc	5,279.04	1600010092	525803	101	19300	30241	5,279.04	R/O Req BY A/P email 08/26/15
1500008751	14065	Albert Grover & Associates Inc	228,440.81	1600008751	525803	101	19300	30241	10,000.00	R/O Req by A/P email 08/26/15
1500009197	21535	AndersonPenna Partners Inc	102,017.69	1600009179	525803	101	19300	30241	5,900.00	R/O req by A/O email 08/26/15
									30,100.45	**SUBTOTAL**
9856	1098	Clean Street	204,050.00	1600009856	525901	101	19500	20120	500.08	R/O due to 1st year contract date ending 02/2016. Dept changed account #
9590	1098	Clean Street	7,640.00	1600009590	525901	101	19500	30111	1,425.00	R/O req by A/P email 08/18/15
									1,925.08	**SUBTOTAL**
9748	23085	Pacific Municipal Consultants	30,000.00	1600009748	530200	101	11100	50250	2,625.00	R/O req by dept contract date 11/30/15.
9393	22525	Element Consulting Group	33,500.00	1600009393	530200	101	14600	50710	14,276.57	
9524	21410	Scientia Consulting Group Inc	89,440.00	1600009524	530200	101	14600	50710	-	R/O req by I.T. Dept. 07/16/15
9795	21410	Scientia Consulting Group Inc	113,583.00	1600009795	530200	101	15400	50001	55,941.50	R/O Req by A/P 07/22/15
10060	21354	AMEC Env & Infrastructure Inc	49,000.00	1600010060	530200	101	19200	20510	41,885.00	R/O due to Agreement end date of 04/01/18
10006	23250	AA Architecture Interior	4,800.00	1600010006	530200	101	19200	30112	4,800.00	
1500009176	17030	Civil Source	96,106.95	1600009176	530200	101	19200	40112	31,266.95	R/O req by A/P email 08/19/15
9945	22125	Synoptek LLC	6,720.00	1600009945	530201	101	14600	50710	6,720.00	
10050	23553	Nexus IS Inc	5,301.00	1600010050	530201	101	14600	50710	5,301.00	Roll Over req by A/P 07/16/15
9562	22865	David Taussig & Associates Inc	44,475.00	1600009562	530201	101	18200	20320	6,210.00	R/O req by Dept email 07/08/15
1500008265	16407	Moore Iacofano Goltsman Inc	495,946.42	1600008265	530201	101	18200	20320	355,194.56	Roll over req by Dept email 07/08/15
9678	8858	Michael Balliet	29711.25	1600009678	530201	101	19100	20230	1,193.75	R/O Req by Dept E-mail 07/20/15
									525,414.33	**SUBTOTAL**
9421	14491	Best Best & Krieger LLP	25,000.00	1600009421	530301	101	11100	50001	16,377.80	R/O Req by Dept. Balance Confirmed.
									16,377.80	**SUBTOTAL**
1500009359	22643	IDS Group Inc	67,400.00	1600009359	530401	101	16100	50001	6,989.00	R/O due to contract end date of 11/06/16
9560	1887	CSG Consultants Inc	75,000.00	1600009560	530401	101	16300	10220	61,228.47	R/O req by A/P email 08/26/15, FD Plan Check and Fire Prev. Svcs.
									68,217.47	**SUBTOTAL**
9445	22662	ProCare Work Injury Center	2,235.00	160009445	530600	101	14100	50610	829.86	R/O due to contract Term ending 04/30/17
									829.86	**SUBTOTAL**
9441	4503	West Group Payment Center	2,957.28	1600009441	530704	101	15400	10120	269.92	R/O req by A/O email 08/26/15
									269.92	**SUBTOTAL**
10077	2944	Mesa Art & Framing	2,592.00	1600010077	530802	101	14300	50190	2,592.00	R/O due to late invoice rec'd 09/08/15
									2,592.00	**SUBTOTAL**
10037	21378	GE Capital	5,058.00	1600010037	535401	101	11100	51050	4,215.00	R/O due to contract term.
9747	21378	GE Capital	2,198.16	1600009747	535401	101	11200	50420	915.90	R/O due to contract dates 02/2015 - 01/2016

FY 15-16 ROLLOVER P.O. - GENERAL FUND ONLY

PO#	Vendor #	Vendor Name	PO Totals	New PO#	Account	Fund	Org	Program	Remaining Amount	Notes
9735	19172	De Lage Landen Financial Svs	13,422.96	1600009735	535401	101	15400	10131	2,237.16	R/O due to contract end date 10/2015
9517	23241	Canon Financial Services Inc	1,581.16	1600009517	535401	101	18200	20320	832.61	R/O req by A/P email 07/22/15
9887	3288	National Construction Rentals Inc	1,322.00	1600009887	535402	101	19500	40111	472.84	P/R due to contract term of 6 months
									8,673.51	**SUBTOTAL**
10101	23620	Advanced Training Systems Inc	27,248.40	1600010101	590701	101	15300	10133	27,248.40	R/O Req by PD email 7/8/15
									27,248.40	**SUBTOTAL**
1500009056	22212 *	SunGard Public Sector Inc	97,326.82	1600009056	590800	101	15400	10127	55.55	R/O req by Colleen - late invoice on the way. Fund corr per Steve D.
1500009378	22430	Lextech Labs LLC	15,245.23	1600009378	590801	101	15300	10111	-	R/O req by dept. needed the encumbered funds.
10100	5402	CDW Government Inc	5,107.32	1600010100	590802	101	19200	40112	5,107.32	R/O req by A/P email 08/11/15
1500009212	4859	CompuCom Systems	9,640.36	1600009212	590803	101	14600	50710	9,640.36	R/O req by dept eamil 09/17/15 unreceived invoice pending
									14,803.23	**SUBTOTAL**
									967,552.77	**FUND 101 P.O. ROLLOVER / ENCUMBERED TOTAL**
		Lefta/Int'l Bus. Sys.			590800	101	15300	10133	12,600.00	Unencumbered FY 14/15 PO for PD Field Training Officer Software
									980,152.77	GRAND TOTAL - GENERAL FUND ONLY