



CITY OF CALEXICO

Presentation to the City Council
For the Fiscal Year Ended June 30, 2015

October 19, 2016



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Scope of Work

Scope of Work

- **Financial Audit**
 - City of Calexico's Basic Financial Statements
- **Compliance Audit**
 - Audit of Federal Program (Single Audit)



Audit Responsibilities

Management Responsibilities

- Responsible for the Financial Statements
- Present the Financial Statements in accordance with Accounting Principles Generally Accepted in the United States of America
- Adopt sound accounting policies
- Establish and maintain internal controls over financial reporting and compliance
- Provide evidence supporting the amounts and disclosures in the financial statements
- Prevent and detect fraud

Auditors' Responsibilities

- Perform the audit in conformity with Auditing Standards Generally Accepted in the United States of America and the Standards applicable to Financial Audits contained in *Government Auditing Standards*
- Communicate with “Those Charged with Governance”
- Assess audit risk of internal control over financial reporting and compliance
- Determine fairness presentation of the financial statements
- Render opinions



Overview of the Financial Statements

Basic Financial Statements

Financial Section

Independent Auditors' Reports

Government-Wide Financial Statements

Fund Financial Statements

Notes to Basic Financial Statements

Required Supplementary Information (Unaudited)

Supplementary Information

City of Calexico
Government-Wide Summary
Statement of Net Position
June 30, 2015

| | Governmental Activities | Business-Type Activities | Total |
|---------------------------------------|------------------------------------|-------------------------------------|-----------------------------|
| Assets | <u>\$ 99,945,461</u> | <u>\$ 79,627,254</u> | <u>\$ 179,572,715</u> |
| Deferred Outflows of Resources | <u>1,769,315</u> | <u>118,100</u> | <u>1,887,415</u> |
| Liabilities | <u>60,624,081</u> | <u>18,300,746</u> | <u>78,924,827</u> |
| Deferred Inflows of Resources | <u>4,292,646</u> | <u>749,821</u> | <u>5,042,467</u> |
| Net Position: | | | |
| Net investments in capital assets | 28,442,367 | 33,319,920 | 61,762,287 |
| Restricted | 41,386,495 | 988,706 | 42,375,201 |
| Unrestricted (Deficit) | <u>(33,030,813)</u> | <u>26,386,161</u> | <u>(6,644,652)</u> |
| Total Net Position | <u><u>\$ 36,798,049</u></u> | <u><u>\$ 60,694,787</u></u> | <u><u>\$ 97,492,836</u></u> |

City of Calexico
Government-Wide Summary
Statement of Activities
For the Year Ended June 30, 2015

| | Governmental Activities | Business-Type Activities | Total |
|------------------------------------|------------------------------------|-------------------------------------|------------------------|
| Expenses | <u>\$ (36,615,298)</u> | <u>\$ (8,750,042)</u> | <u>\$ (45,365,340)</u> |
| Program Revenues | | | |
| Charges for services | 4,900,379 | 12,384,994 | 17,285,373 |
| Operating grants and contributions | 7,533,139 | - | 7,533,139 |
| Capital grants and contributions | 5,163,486 | 3,863,269 | 9,026,755 |
| Total program revenues | <u>17,597,004</u> | <u>16,248,263</u> | <u>33,845,267</u> |
| Net Cost of Services | (19,018,294) | 7,498,221 | (11,520,073) |
| General Revenues | <u>14,937,703</u> | <u>(1,876,916)</u> | <u>13,060,787</u> |
| Change in Net Position | <u>\$ (4,080,591)</u> | <u>\$ 5,621,305</u> | <u>\$ 1,540,714</u> |

City of Calexico
General Fund, Including Measure H Summary
Balance Sheet
June 30, 2015

| | |
|--|----------------------------|
| Assets | <u>\$ 1,242,788</u> |
| Liabilities | <u>\$ 1,357,760</u> |
| Fund Balance | |
| Unassigned (Deficit) | <u>(114,972)</u> |
| Total Fund Balance (Deficit) | <u>(114,972)</u> |
| Total Liabilities and Fund Balance | <u>\$ 1,242,788</u> |
| | |
| General Fund Balance @ June 30, 2015 as assumed in 2015-2016 Adopted Budget | \$ 52,857 |
| Shortfall - Transaction Posted to wrong FY | <u>(167,829)</u> |
| General Fund Balance @ June 30, 2015 | <u>\$ (114,972)</u> |

City of Calexico
General Fund, including Measure H Summary
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2015

| | |
|---|------------------------------|
| Revenues | \$ 17,197,115 |
| Expenditures | <u>(20,658,104)</u> |
| Revenues over Expenditures | (3,460,989) |
| Other Financing Sources and Uses | |
| Transfers (Net) | <u>(712,031)</u> |
| Change in Net Position | <u><u>\$ (4,173,020)</u></u> |



Financial Indicators and Key Pension Information

City of Calexico
Governmental Activities
Cost of Services to Tax Revenues
For the Year Ended June 30, 2015

| | |
|-------------------------|--------------------------|
| Cost of Services | \$ 19,018,294 |
| Tax Revenues | <u>13,776,571</u> |
| Ratio | <u>138.05%</u> |

City of Calexico
General Fund
Unassigned Fund Balance to Annual Expenditures
For the Year Ended June 30, 2015

| | |
|--------------------------------|----------------------|
| Unassigned Fund Balance | \$ (114,972) |
| Annual Expenditures | <u>21,341,085</u> |
| Ratio | <u><u>-0.54%</u></u> |



Implementation of GASB 68 and 71 The New Pension Standards

Implementation of GASB 68 and 71 – The New Pension Standards

- GASB Statement No. 68, *Accounting and Financial Reporting for Pension Plans* (Fiscal Year 2014-2015)
- GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68* (Fiscal Year 2014-2015)

Implementation of GASB 68 and 71 – The New Pension Standards

| | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Total</u> |
|---|------------------------------------|-------------------------------------|---------------|
| Deferred Outflows of Resources: | | | |
| Contributions Made After Measurement Date | \$ 1,546,852 | \$ 118,100 | \$ 1,664,952 |
| Difference between actual and proportionate share of employer contributions | \$ 222,463 | \$ - | \$ 222,463 |
| Liabilities: | | | |
| Net Pension Liabilities | \$ 14,288,476 | \$ 1,898,785 | \$ 16,187,261 |
| Deferred Inflows of Resources: | | | |
| Actual earnings in excess of projected earnings on pension plan investments | \$ 4,166,806 | \$ 749,821 | \$ 4,916,627 |
| Difference in proportions | \$ 125,840 | \$ - | \$ 125,840 |



Status of the Audit

Timeline

- **Draft**
 - Provided to City's staff on 10/19/2016 @ 12:30pm
- **Quality Control**
 - Concurrently reviewed by Management, Engagement Partner, and Engagement Control Reviewer
- **Final**
 - Expect to release the report by 10/31/2016



Audit Result

Audit Result

- **Opinions**
 - Unmodified Opinions for all opinion units
- **Emphasis of Matters:**
 - Restatement of Prior Year Financial Statements
 - Implementation of GASB Statements No. 68 and 71, The New Pension Standards
 - Improper Stewardship of Funds
 - Financial Conditions of the General Fund



Observations

Delayed in Financial Reporting

Challenging Audit:

- Almost 100% staff turnover
- Implementation of New Accounting Software
- No budget loaded into the Accounting System for budgetary report/control
- Change in all bank accounts with departure of Rabobank from local service
- 2014-15 bank reconciliation not initiated until after end of fiscal year
- Finance staff new to positions
- Two management positions filled by one person
- Six month gap from field work to audit completion due to competing staff priorities, including a break to build 2015-16 and 2016-17 budget

Depletion of General Fund's Fund Balance

- General Fund has been spending/operating based upon a flawed revenue and reserve assumptions, and must take strong action to reduce the scope or cost of services it provides to rebalance operations within available resources.
- Most General Fund departments overspent their budget during the year, which was masked/offset by almost \$2 million in undelivered Measure H capital projects, including the swimming pool project (finally delivered in FY 2016).
- PD vacancies and additional cost allocations to grants generally offset the extra professional services spending on investigations.
- Overspending in non-safety programs was partially due to planned staffing reassignments or reductions that were not fully implemented, and unbudgeted materials/supplies costs.

Internal Control Lapses

- Delays in bank reconciliations
- Unrecorded disbursements (that have now been addressed through fully implemented software system);
- Lack of any revenue or expenditure budget monitoring that might have identified budgeting issues.



Recommendation

Implement a Comprehensive Fiscal Policy

- The City has its fiduciary to ensure their operations are sustainable and have good control environment to set standards, processes, and structures; to promote high integrity; and to retain competent employees for its mission.
- Fiscal policy is required as a **guiding principles** to provide the rationale which lead to the development of Administrative and Council Policy.
- A Comprehensive Fiscal Policy should included the followings:
 - Operational Efficiencies
 - Voter Approved Revenues
 - Reserves
 - Infrastructures
 - Employees Development
 - Economic Development
 - Construction of New Facilities
 - Fiscal Management

For more information, contact:

Presenter:

Kenneth H. Pun, CPA

Direct +1 949 777 8801

Ken.Pun@PunGroup.com

City of Calexico
Required Supplementary Information (Unaudited) (Continued)
For the year ended June 30, 2015

Note 1 – Budgetary Information (Continued)

The following are the budget comparison schedules for the General Fund and all major special revenue funds.

Budget Comparison Schedules, General Fund

| | Budgeted Amounts | | | | Actual Amounts | Variance with Final Budget |
|---|--------------------------|----------------------------|-----------------------|-----------------------|---------------------|-------------------------------|
| | General Fund Original | Measure H Fund Original | Original Total | Final | | |
| REVENUES: | | | | | | |
| Property taxes | \$ 1,740,700 | \$ - | \$ 1,740,700 | \$ 1,740,700 | \$ 2,133,732 | \$ 393,032 |
| Other taxes: | | | | | | |
| Other taxes | 4,706,598 | - | 4,706,598 | 4,706,598 | 4,483,078 | (223,520) |
| Measure H sales tax | 2,623,928 | 2,623,928 | 5,247,856 | 5,247,856 | 2,757,246 | (2,490,610) |
| Total other taxes | <u>7,330,526</u> | <u>2,623,928</u> | <u>9,954,454</u> | <u>9,954,454</u> | <u>7,240,324</u> | <u>(2,714,130)</u> |
| Licenses, permits and fees | 1,085,277 | - | 1,085,277 | 1,085,277 | 1,515,816 | 430,539 |
| Intergovernmental | 3,576,142 | - | 3,576,142 | 3,576,142 | 3,761,789 | 185,647 |
| Charges for services | 1,521,341 | - | 1,521,341 | 1,521,341 | 1,844,093 | 322,752 |
| Fines and forfeitures | 252,316 | - | 252,316 | 252,316 | 369,098 | 116,782 |
| Use of money and property | 284,730 | - | 284,730 | 284,730 | 266,110 | (18,620) |
| Other revenues | 170,028 | - | 170,028 | 170,028 | 66,153 | (103,875) |
| Total revenues | <u>15,961,060</u> | <u>2,623,928</u> | <u>18,584,988</u> | <u>18,584,988</u> | <u>17,197,115</u> | <u>(1,387,873)</u> |
| EXPENDITURES: | | | | | | |
| Current: | | | | | | |
| General government | 2,745,205 | - | 2,745,205 | 2,745,205 | 2,871,270 | (126,065) |
| Public safety: | | | | | | |
| Police | 7,297,962 | 850,000 | 8,147,962 | 8,147,962 | 8,575,214 | (427,252) |
| Fire | 4,330,382 | 400,000 | 4,730,382 | 4,730,382 | 4,337,807 | 392,575 |
| Total Public Safety | <u>11,628,344</u> | <u>1,250,000</u> | <u>12,878,344</u> | <u>12,878,344</u> | <u>12,913,021</u> | <u>(34,677)</u> |
| Public works | 1,444,061 | - | 1,444,061 | 1,444,061 | 1,763,925 | (319,864) |
| Culture and recreation: | 1,056,226 | 145,000 | 1,201,226 | 1,201,226 | 1,424,588 | (223,362) |
| Community development | 484,749 | - | 484,749 | 484,749 | 1,073,135 | (588,386) |
| Housing | - | - | - | - | 203 | (203) |
| Capital outlay | - | 2,106,119 | 2,106,119 | 2,106,119 | 407,100 | 1,699,019 |
| Debt service: | | | | | | |
| Principal | - | 195,688 | 195,688 | 195,688 | 195,688 | - |
| Interest and fiscal charges | - | 9,181 | 9,181 | 9,181 | 9,174 | 7 |
| Total expenditures | <u>17,358,585</u> | <u>3,705,988</u> | <u>21,064,573</u> | <u>21,064,573</u> | <u>20,658,104</u> | <u>406,469</u> |
| REVENUES OVER (UNDER) EXPENDITURES | <u>(1,397,525)</u> | <u>(1,082,060)</u> | <u>(2,479,585)</u> | <u>(2,479,585)</u> | <u>(3,460,989)</u> | <u>(981,404)</u> |
| OTHER FINANCING SOURCES (USES): | | | | | | |
| Transfers in | 1,397,525 | - | 1,397,525 | 1,397,525 | 391,188 | (1,006,337) |
| Transfers out | - | (996,661) | (996,661) | (996,661) | (1,103,219) | (106,558) |
| Total other financing sources (uses) | <u>1,397,525</u> | <u>(996,661)</u> | <u>400,864</u> | <u>400,864</u> | <u>(712,031)</u> | <u>(1,112,895)</u> |
| Net changes in fund balance | <u>\$ -</u> | <u>\$ (2,078,721)</u> | <u>\$ (2,078,721)</u> | <u>\$ (2,078,721)</u> | <u>(4,173,020)</u> | <u>\$ (2,094,299)</u> |
| FUND BALANCE: | | | | | | |
| Beginning of year, as restated | 6,922,694 | 2,078,721 | 9,001,415 | 9,001,415 | 4,058,048 | (4,943,367) |
| End of year | <u>\$ 6,922,694</u> | <u>\$ -</u> | <u>\$ 6,922,694</u> | <u>\$ 6,922,694</u> | <u>\$ (114,972)</u> | <u>\$ (7,037,666)</u> |