



THE CITY OF
SAN FERNANDO



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SAN FERNANDO

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT (“CAFR”)
FOR THE YEAR ENDING JUNE 30, 2018**

MARCH 4, 2019

“A TALE OF TWO BALANCE SHEETS”

PRESENTED BY:

SONIA GARCIA

SENIOR ACCOUNTANT



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ANNUAL AUDIT REQUIREMENT

Annual audit by independent certified public accountants is required by City Code.

- Financial statements prepared in accordance with Generally Accepted Accounting Principles (“GAAP”) as promulgated by Governmental Accounting Standards Board (“GASB”).
- Audit conducted by Van Lant & Fankhanel, LLP.

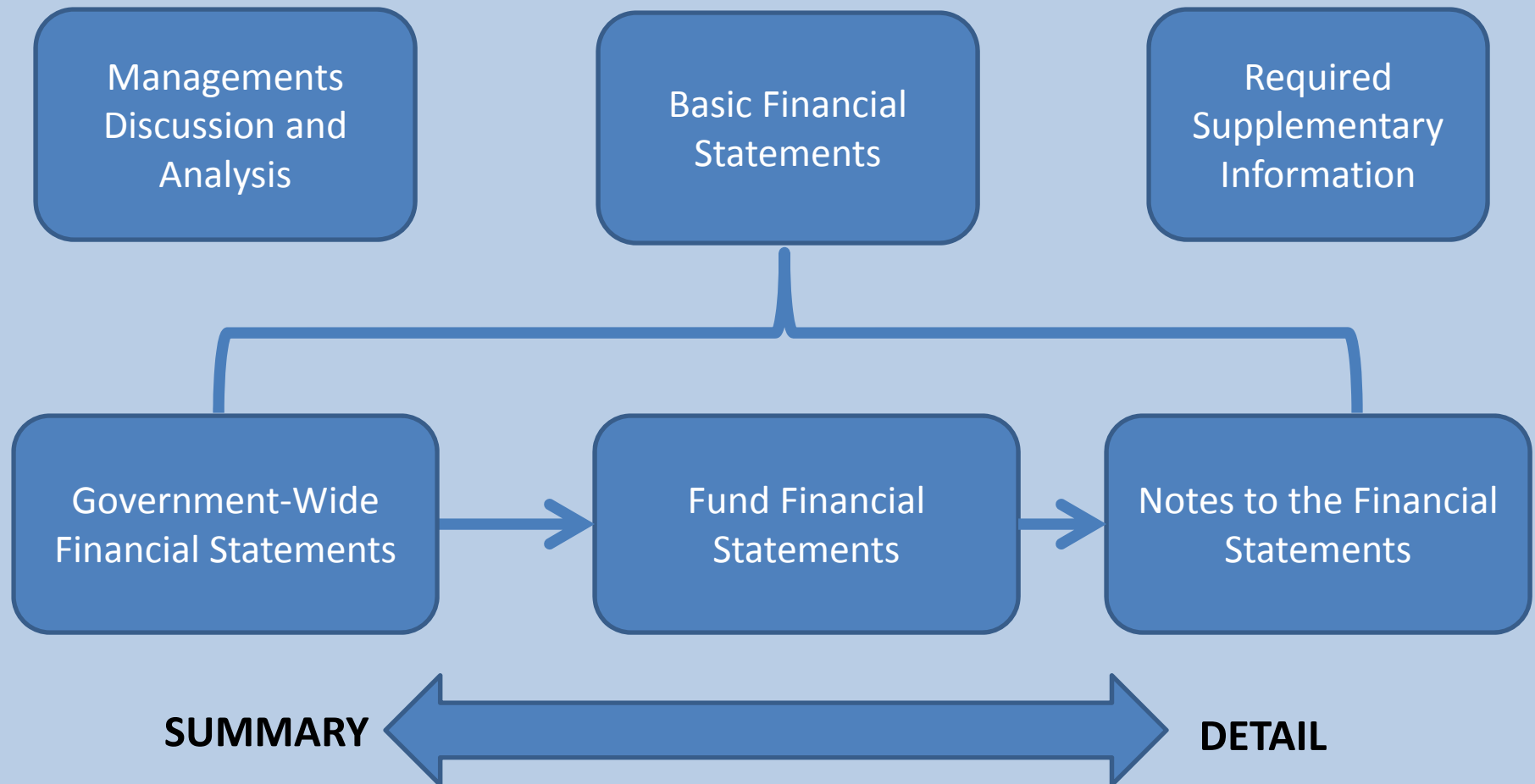
GFOA Excellence in Financial Reporting Award.

- Awarded to the City consistently for the last 29 years.
- Received award for June 30, 2017 CAFR.
- Submitted June 30, 2018 CAFR for Award Consideration.



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STRUCTURE OF CAFR





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GOVERNMENT-WIDE FINANCIALS

Net Position: Total assets minus total liabilities

- Over time, serves as an indicator of overall financial health.
- Net position decreased from \$32 million to \$4.8 million.
- Total assets increased by \$3.4 million.
- Liabilities increased by \$30.6 million; primarily due to the \$27.3 million increase in OPEB.

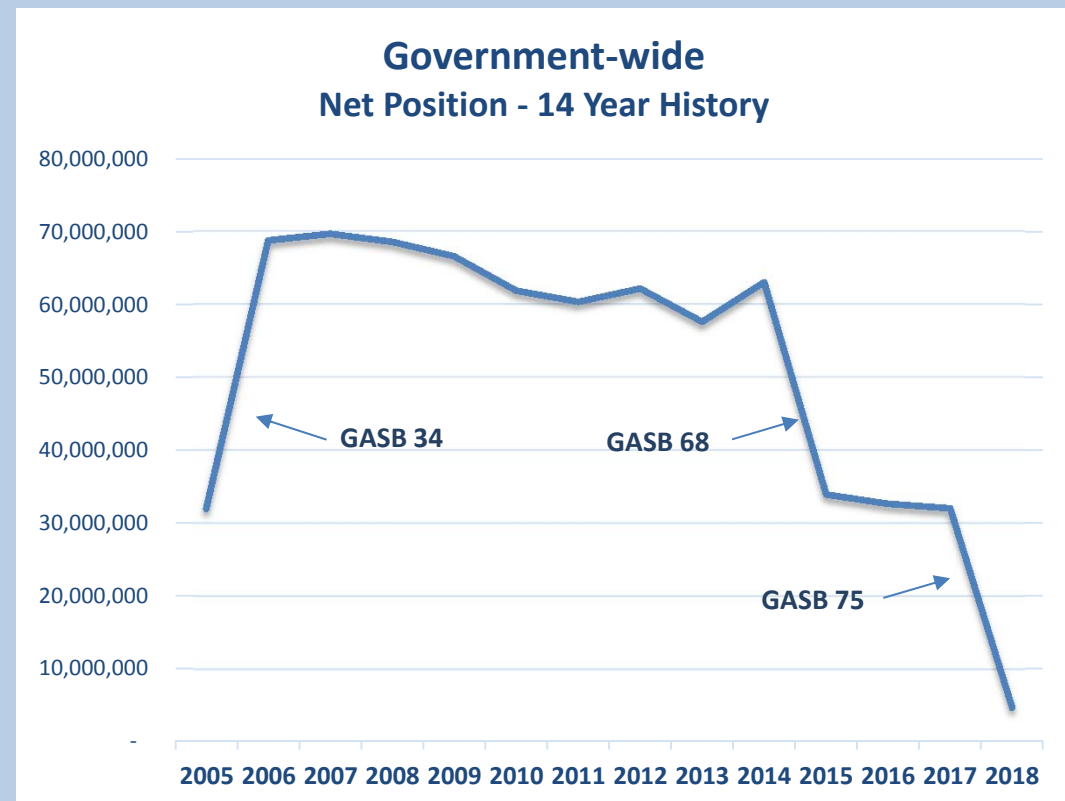


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GOVERNMENT-WIDE FINANCIALS

Over the last 14 years, GASB Pronouncements have had significant impact on Net Position.

- GASB 34 increased Net Position by reporting land, buildings, and infrastructure as assets.
- GASB 68 decrease Net Position by reporting long term Pension liabilities.



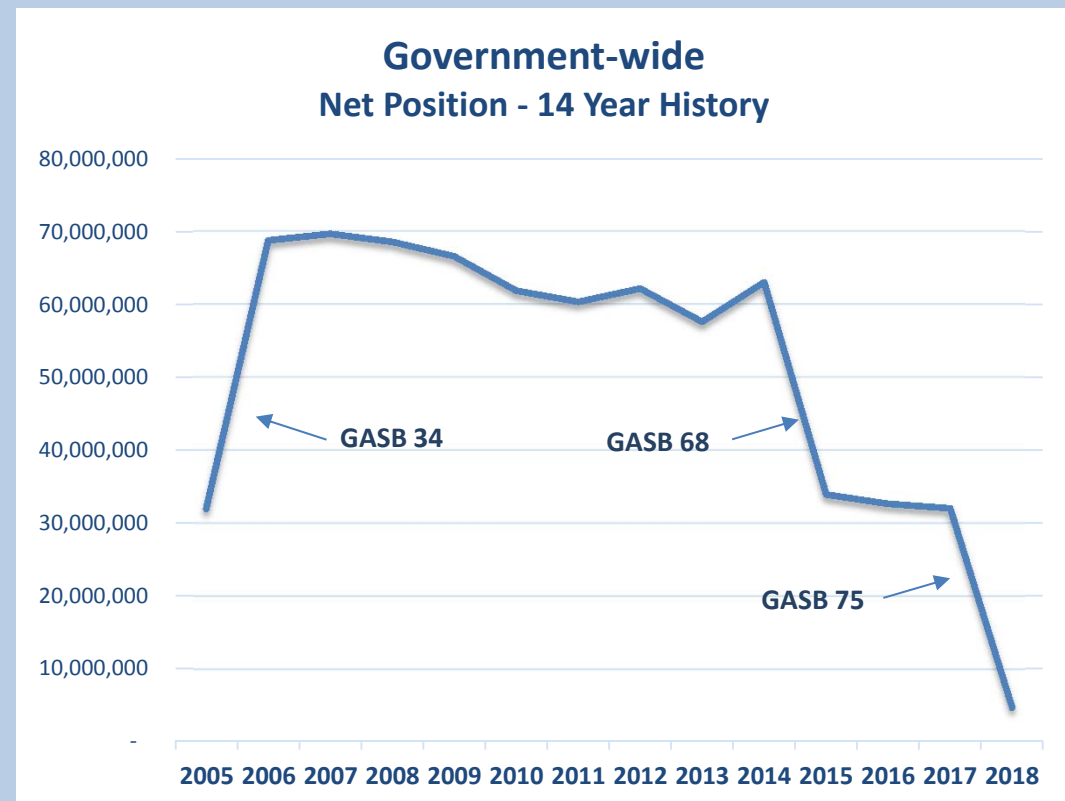


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GOVERNMENT-WIDE FINANCIALS

Over the last 14 years, GASB Pronouncements have had significant impact on Net Position.

- GASB 75, further decreased Net Position by reporting long-term OPEB liabilities.





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NET PENSION LIABILITY

The City's net pension liability as of June 30, 2018 was \$40.4 million, which is an increase of \$4.4 million from June 30, 2017 (Note 7).

- The increase is primarily related to CalPERS investment rate of return not meeting projections.
- Total Miscellaneous Liability: \$20.85 million.
- Total Safety Liability: \$19.60 million.



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NET PENSION LIABILITY

- CALPERS is phasing in decreases in the discount rate (i.e. expect rate of investment returns) from the current rate of 7.15% to 7.00% by 2020.
- In 2019, CALPERS will amortize actuarial gains and losses over 20 years rather than 30 years.
- Both of these actions will serve to improve the pension program's overall financial health, however, it will increase the City's long-term net pension liability.



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GASB STATEMENT NO. 75

For Fiscal Year 2017-18 GASB Statement No. 75 required a new accounting and financial reporting for governments that provide and finance Other Pension Employee Benefits (OPEB) to their employees.

This new reporting required the City to record the full OPEB liabilities directly onto the balance sheet. In prior years, OPEB liabilities were only reported as footnotes to the CAFR.

As a result of the reporting requirement set forth, the City's total OPEB liability reported on the financial statements increased to \$42,765,541 which caused a dramatic decrease in the City's net position.



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OTHER POST EMPLOYMENT BENEFITS

OPEB (Retiree Health Care) liability continues to grow as the City continues to “pay-as-you go” (Note 8)

Beginning Liability:	\$15,393,946
2018 Required Contribution:	2,966,500
Actual Retiree Health Payments:	(1,064,148)
Actuarially Determined Liability Per GASB 75:	<u>\$25,469,243</u>
Ending Liability:	\$42,765,541

Through labor negotiations the City eliminated RHC for new employees, which will help limit the City’s long term liability.

The City will be exploring options to establish a Section 115 OPEB Trust. Funds deposited in this type of Trust can only be used to pay the City’s OPEB costs and will allow the City to take advantage of increased investment options and an increased discount rate to reduce long term liability.



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GOVERNMENTAL FUND FINANCIALS

How did the Fund Balance increase while Net Position decreased?

- Government-wide reporting provides information on current and long term obligations, including capital assets and long-term liabilities – Useful in assessing the City’s overall financial health.
- Governmental Fund reporting provides information on near term inflow, outflows and balances of spendable resources – Useful in assessing the City’s ability to meet short term requirements.



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GOVERNMENTAL FUND FINANCIALS

The City maintains 27 individual governmental funds.

Balance for all Governmental Funds increased from \$15.8 million to \$17.4 million.

- The net increase was due to a decrease in the General Fund deficit and increase the Retirement Tax Fund and Housing Fund balances.

Fund Balances	2017	2018
Non-spendable	\$66,703	\$68,204
Restricted	17,728,008	18,388,470
Unassigned	(2,022,176)	(1,034,038)
TOTAL	\$15,772,535	\$17,422,636



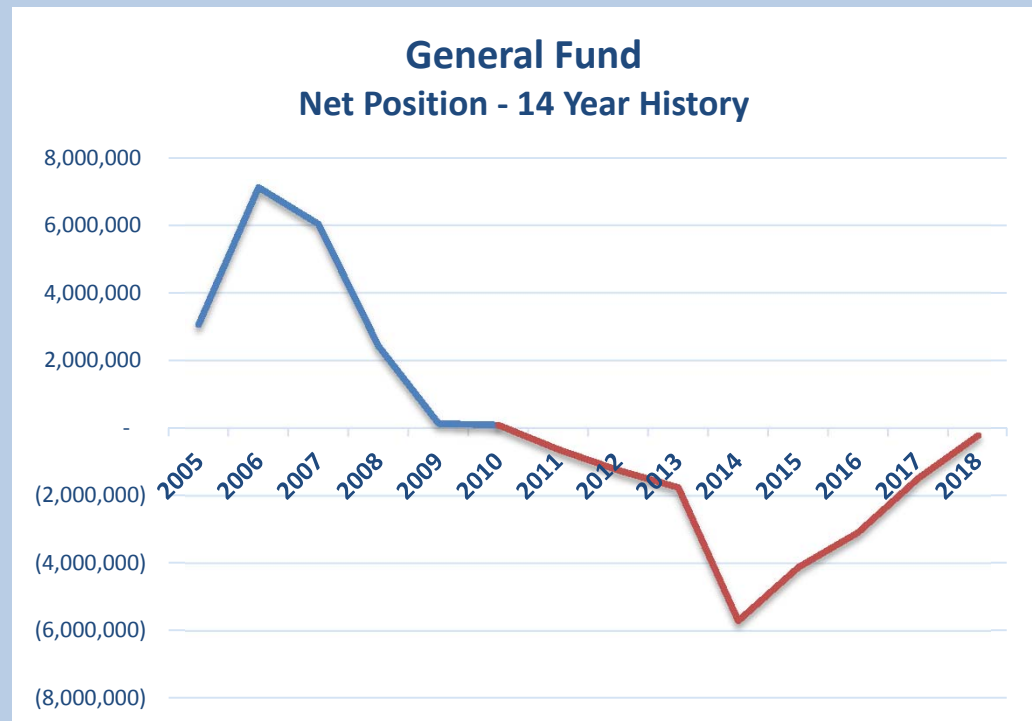
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GENERAL FUND

\$1.27 million total deficit reduction; from **(\$1.5 million) to **(\$208,253)****

A Closer Look...

Operating Revenues:	\$17,172,353
Operating Expenses:	<u>(\$17,224,322)</u>
Operating (Deficit):	(\$51,969)
One-time Revenues:*	\$2,663,298
One-time Expenses:**	<u>(\$1,344,494)</u>
One-time Surplus:	\$1,318,804
Total Surplus:	\$1,266,835



*Measure A - \$2.7 M

**Capital Outlay - \$266k; Equip. Repl. - \$90,894k; Self Ins. - \$350k; One-time Enhancements - \$207,600; Debt reduction - \$300k; Transfer to Equip. Repl. - \$130k



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GENERAL FUND HIGHLIGHTS

Revenue Highlights:

- Residual property tax revenue from RDA dissolution
- Steady growth in sales tax including Measure A revenue
- Overall improved economic activity –
 - Increase in Business License receipts
 - Increase in Development Fees



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GENERAL FUND HIGHLIGHTS

Expenditure Highlights:

- Reduced Retirement and Las Palmas loans \$300,000.
- Replaced 2 Police Patrol Vehicles \$80,000.
- Replaced 1 Street Maintenance Truck \$50,000
- Purchased Additional Street Maintenance Material & Equipment \$20,000
- Purchased Additional Holiday Lighting & the associated electrical upgrades \$20,000



CONCLUSION

This year's audited financials once again present mixed signals – "A Tale of Two Balance Sheets"

- In the short term, the City's finances are looking strong.
- The General Fund deficit decreased by \$1.27 million; but it continues to have a deficit fund balance of **(\$208,253)**.
- In the long term, there is still a lot of work that needs to be done.
- Despite Council action over the last few years to reduce long-term liabilities, the total City-wide "net worth" decreased by \$27,304,336. This is primarily due to net pension obligations and OPEB for retiree healthcare.



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CONCLUSION

**This year's audited financials once again present mixed signals
– "A Tale of Two Balance Sheets"**

- Deficit reduction will continue to be slow and steady as the City works to balance the need to reduce the deficit with the need to replace equipment and infrastructure, address deferred maintenance, and set-aside funds to offset future liabilities.



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QUESTIONS?