



Office of **FINANCE**
A Leader in “Transparent Accounting”

Gary J. Lysik, Chief Financial Officer, 26135 Mureau Road, Calabasas, CA 91302 (818) 878-4225 FAX (818) 878-4215 <http://www.cityofcalabasas.com>

December 28, 2005

The Honorable Mayor Barry Groveman
The Honorable Members of the City Council
Citizens of the City of Calabasas, CA

LETTER OF TRANSMITTAL

The Comprehensive Annual Financial Report (CAFR) represents a compilation of financial data that details the City’s financial workings. Information contained in this report was prepared in strict accordance with guidelines set forth by the Government Finance Officers Association (GFOA) and the California Society of Municipal Finance Officers (CSMFO). With this writing, the City of Calabasas’ Office of Finance is pleased to be among the first of many California cities to fully implement GASB 44 as a part of their CAFR. The CAFR is intended to provide readers with a clearly articulated, user-friendly reporting of the City’s financial affairs. As such, the City assumes responsibility for content accuracy, completeness, and objectivity of the presentation.

The CAFR is presented in three primary sections:

- 1) *Introductory Section* - includes this letter of transmittal, a list of principal officials, an outline of city management staff, an organization chart, and a map of the City.
- 2) *Financial Section* – consists of the Independent Auditor’s Report, Management’s Discussion and Analysis (MD&A), financial statements, notes to the financial statements, and required supplementary information.
- 3) *Statistical Section* – supplies specific financial information on a multi-year basis and provides general demographic data.

Within the CAFR, readers will find reporting on all funds and account groups for the City of Calabasas. In accordance with the criteria established by GASB Statement No. 14, the City of Calabasas Facilities Corporation’s financial data has been included within the City’s general purpose financial statements as a “blended” component unit because the primary government is financially accountable for the Corporation.

THE PRIMARY GOVERNMENT

The City of Calabasas was incorporated on April 5, 1991. It is classified as a general law city because it is reliant upon California state law to define procedural regulations utilized by City Council. Through a



general election process, the five-member council is elected to staggered four year terms. The council serves as the City’s primary governing body.

In April of each year the council selects one of its members to serve as Mayor and one to serve as Mayor Pro Tem. Calabasas City Council retains authority over the management of the City. Additionally, a City manager oversees daily functions and ensures that directions of the council are carried out.

For financial reporting purposes, the primary government consists of all legally joined funds, organizations, agencies, boards, commissions, and authorities that are considered part of the City’s legal domain.

Additionally, reporting for contractual services provided by Los Angeles County or private vendors such as law enforcement, fire protection, animal control, public works maintenance, park maintenance, and traffic signal maintenance are also included in the financials. Reporting for other contractual services such as refuse collection, landscape maintenance, street sweeping, crossing guards, parking administration, janitorial services, and major capital projects is included as well. The City provides Planning, Building and Safety, Code Enforcement, Engineering, Traffic and Transportation, Recreation Programs, Media Operations, Financial Support, and Administrative Services with City employees.

THE CITY OF CALABASAS

Situated approximately 25 miles west of downtown Los Angeles (8 miles east of the Ventura County line), Calabasas is located in western Los Angeles County in the foothills of the Santa Monica Mountains National Recreation Area and adjacent to the San Fernando Valley. The first recorded occupation in the area was by Chumash Native Americans who settled along the banks of Calabasas Creek during the mid-1800s. Today, neighboring communities include Agoura Hills, Malibu, Westlake Village and Hidden Hills.

The City’s distinctive character is in part derived from its natural environment, oak-studded hillsides, and natural open space. Other notable characteristics include its physical diversity, small town atmosphere, and active population.

Primary access to this community is from the 101 Ventura Freeway or by taking Malibu Canyon Road north four miles from Pacific Coast Highway.

ACCOUNTING SYSTEM AND BUDGETARY CONTROL

Accurate accounting of the City’s assets is essential to safeguard against loss and misrepresentation. Calabasas’ system of accounting establishes solid control of the City’s financial assets and allows for



budgeting and reliable performance reporting. It provides for the proper recording of financial transactions and lends itself to the establishment of accurate financial statements.

The City's recently adopted financial approach includes a two-year budget that is approved on an annual basis. In other words, each year the City Council is presented with a new, rolling two-year budget for approval. One benefit resulting from this approach is that the City always has at least a 12-month (look-ahead) budget that has not yet been executed. From a budgetary standpoint, providing a longer forward plan better prepares staff to manage future projects. It should be noted that although in its infancy, this approach has already proven beneficial, particularly in regards to the Capital Improvement Program (CIP).

CAPITAL IMPROVEMENTS

Calabasas' Capital Improvement Program is a component of the budget process and addresses the City's short and long-term capital needs. The CIP includes a plan to effectively maintain existing infrastructure as well as provide new facilities to support population growth and replace older assets that are no longer useful or are unsafe. Among the City's future capital projects is the construction of a new Civic Center campus, which is to include a City Hall, a new Library, and underground parking. Additionally, the City has highlighted projects to improve transportation in and around Calabasas.

CASH MANAGEMENT

The City makes investments in accordance with the provisions of Government Code Section 53600, et seq. and of the City's Investment Policy. The standard of prudence used by investment officials of the City is the "prudent person" standard which states that investments shall be made with judgment and care – under circumstances then prevailing – which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived. The criteria for selecting investments and the absolute order of priority shall be: 1) safety, 2) credit risk, 3) market risk, 4) Liquidity, and 5) yield.

The City invests in two different investment vehicles including the State Treasurer's Local Agency Investment Fund (LAIF) and in securities issued by the U.S. Government. The average yield on investment for the year was 3.88%, with total earnings for all funds equaling \$1,335,349.

RISK MANAGEMENT

As a California Joint Powers Insurance Authority (CJPIA) member, the City of Calabasas maintains full coverage for all municipal events under its general liability policy. This policy provides for total coverage, including bodily injury, property damage, or personal injury. In addition to general liability, the City



maintains coverage for automobiles, workers' compensation, property, environmental, public official bonds, and special events.

LOCAL ECONOMIC CONDITION AND OUTLOOK

Calabasas is one of America's wealthiest communities with a current per capita income of \$53,812, which is 2.4 times that of the State of California. At \$112,339, the median household income in Calabasas in 2005 was nearly twice that of the State of California. The median age of Calabasas residents in 2005 was 38.1, while the median age in the United States as a whole was 35.3 years.

As with the greater region, the local area housing market has been characterized by substantial growth in the number of units and values over the last 20 years. Reflecting the severity of the recent recession, pricing and the number of units sold dropped in the early 1990's only to rebound significantly during the last five years. Further cause for increased demand and rising prices is the limited number of new projects being built in the City. The median home value was \$782,000.

Labeled a business friendly city, Calabasas continues to entice companies to relocate to and remain in the City by refraining from charging a business tax. As a result, the City enjoys a strong and diverse business and retail base both of which contribute greatly to revenue received through sales tax. All indicators predict a very strong financial future for the City.

ACCOMPLISHMENTS

The financial state of the City of Calabasas is better today than prior fiscal years. The City's higher credit rating recently issued by Moody's provides a solid testimony to this assertion. Fundamentally, the improved positioning of the City's finances is a relational byproduct of clearly defined, consistent management practices and responsible stewardship of the City's assets. Following are undertakings that have helped to strengthen the City's financial stability.

1. Refunding the existing 1999 Certificates of Participation (COPs).

The 1999 COPs (\$6.345 million) were issued to a) purchase Creekside Park, b) purchase the future Civic Center site, and c) refund the Mello Roos Tax associated with the Civic Center site. A strategic decision to refund the 1999 COPs allowed for the removal of all encumbrances on the property on which the new civic center will be constructed. The significance of detaching the civic center site from the 1999 bond issuance eliminates the exposure of a reduction or nullification of the grant issued by the California State Library, Office of Library Construction for the construction of the new library due to ownership issues. The potential savings of this effort is the amount of the grant from the Office of Library Construction totaling \$8.2 million.



Refunding also allowed the City to take advantage of historically lower interest rates enabling the City to pay off the amount owed for Creekside Park 12 years earlier than its originally scheduled term. Actual gross saving realized as a result of this action is over \$3.0 million.

2. Revamp instead of replace the City's Financial Tracking System.

Since its incorporation the City has used a financial tracking system [Fund Balance] to keep record of its financial transactions. However, years of growth and increased financial intricacies has significantly burdened the system. Rather than retire the existing system, Fund Balance has been revamped thereby allowing for system performance enhancement while saving the City nearly \$650,000 - the cost of an adequate system replacement.

3. Grant Management

A grant reimbursement program was instituted. As a result of the program, grant reimbursement requests submitted total \$3,074,904.59. Of this, \$2,738,706.09 has been collected.

ACKNOWLEDGEMENTS

Within the Department of Finance, I am particularly proud to be at the helm of a committed team of individuals, each contributing to the soundness of the numbers and to the accuracy in which they are reported.

Luisa Barancik: painstakingly prepared payments to vendors of the City and had a careful eye for ensuring proper coding and correctness regarding the issuance of money for payment.

Paul Chung: did an outstanding job at keeping track of revenue received by the City and administering payroll for all City employees (including those from the Community Center), in an accurate and timely fashion.

Natalie Fridman: contributed greatly to preparing and maintaining accurate records regarding refundable deposit accounts. Her commitment to ensuring that each individual project was properly and completely accounted for was essential to building and maintaining community confidence.

Lesley Pelka: made significant contributions in numerous ways, from the day-to-day postings of all accounting transactions to interfacing directly with the auditors. She was committed to meeting established deadlines and completing a multitude of different assignments.

Claudia Reyes: contributed greatly by identifying and gathering data required for GASB 44 compliance. Throughout the year, she was also responsible for the reconciliation of the bank account statements which ensured that the City's financial records were accurate and free from material misrepresentation.

Shaylene Stepner: was responsible for the accuracy and maintenance of the Grant Fund (Fund 36) and all related components. She provided requested information to the auditors regarding grant activity in a timely and accurate fashion. Additionally, she provided a contract log making it easier to verify agreements with vendors for payment purposes.



Sandy Smith: made contributions in almost every facet of the department. Assisting with gathering data for the preparation of the CAFR, her presence continues to provide value and efficiency.

Karlo Gorgon (Media Department): for his willingness to provide hands-on support as it relates to media consultation.

Certainly the Mayor (Barry Groveman), council members (James Bozajian, Mary Sue Maurer, Jonathon Wolfson, and Mayor Pro Tem Dennis Washburn), and the city manager (Tony Coroalles) must be acknowledged for providing a design template for cultivating a strong finance organization.

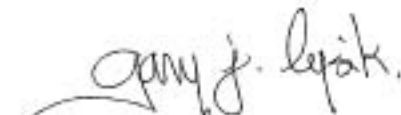
INDEPENDENT AUDIT

For the fiscal year ended June 30, 2005, the City's financial statements were audited by the certified public accounting firm of Moss, Levy & Hartzheim to ensure that the financial statements of the City were free of material misstatement. The audit a) examined activities, documents, and disclosures used to create the financial statements, b) assessed the accounting principles used by management, and c) evaluated the overall financial statement presentation. The results of the audit are as follows:

- The City's financial statements are free of material misstatement and are presented in accordance with Generally Accepted Accounting Principles (GAAP).
- Internal control over financial reporting and its operation was considered free from material weaknesses.
- Financial statements fairly depict the respective financial position of governmental activities, business-type activities, and each major fund as of June 30, 2005.

In this, it is my goal to provide readers and citizens an accurate depiction of the financial standing and activities regarding the City of Calabasas.

Respectfully submitted,



Gary J. Lysik, Chief Financial Officer
City of Calabasas