



# CITY OF LODI

# COUNCIL COMMUNICATION

**AGENDA TITLE:** COMPREHENSIVE ANNUAL FINANCIAL REPORT & SINGLE AUDIT (FISCAL YEAR 1996-97)

**MEETING DATE:** December 17, 1997

**PREPARED BY:** Finance Director

**RECOMMENDED ACTION:** That the City Council receive for file the following reports and financial statements submitted by KPMG Peat Marwick LLP and the Finance Department for Fiscal Year 1996-97.

- The Combined Annual Financial & Single Audit Report
- The No Material Weakness Report (Internal Control)
- The SAS 61 Report (Report to City Council)

**BACKGROUND INFORMATION:** The annual audit was conducted to ensure the City Council and other interested parties that the City's financial records and reports are prepared in accordance with generally accepted accounting principles (GAAP), that internal controls are adequate and protect the City against loss from unauthorized use or disposition and that the City has complied with all agreements and covenants to obtain grant funds and debt financing. KPMG Peat Marwick has issued an "unqualified opinion".

When the printing of the Financial Statements is finalized, these reports will be provided to Federal and State oversight agencies, bond trustees and insurance companies for their review and evaluation. Copies of the reports were provided to the City Council under separate cover. A copy of the Combined Annual Financial & Single Audit report will be available during the Council meeting. The report may be requested by the public by contacting the Finance Department Accounting Manager or go to the Lodi Public Library for reference. Copies will be mailed out as soon as they are received from the printer.

**Certificate of Achievement**

The City received a Certificate of Achievement for Excellence in Reporting from the Government Finance Officers Association (GFOA) and the California Society of Municipal Finance Officers (CSMFO) for the fourth year in a row. Copies of these certificates are included in the 1996-97 Financial Report.

**Acknowledgments**

Ruby Paiste and Jamie Moso of the Accounting section of the Finance Department are to be commended for their hard work and professionalism in preparing the City's Annual Financial Reports. It is due to their dedication to excellence and to the City that Lodi has been recognized by the auditors and other professional financial organizations.

**FUNDING:** None

*Vicky McAthie*  
Vicky McAthie  
Finance Director

**APPROVED:** *H. Dixon Flynn*  
H. Dixon Flynn -- City Manager



400 Capitol Mall  
Sacramento, CA 95814

October 17, 1997

The Honorable Members of the City Council  
City of Lodi, California:

We have audited the general purpose financial statements of the City of Lodi (the City) for the year ended June 30, 1997, and have issued our report thereon dated October 17, 1997. In planning and performing our audit of the general purpose financial statements of the City we considered the internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. However, we noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above. We have not considered the internal control structure since the date of our report.

This report is intended solely for the information and use of the City Council and City Management.

Very truly yours,

*KPMG Peat Marwick LLP*



Member Firm of  
KPMG International

**CITY OF LODI, CALIFORNIA**

**Report to the City Council**

**Year Ended June 30, 1997**



Peat Marwick LLP

400 Capitol Mall  
Sacramento, CA 95814

October 17, 1997

**PRIVATE & CONFIDENTIAL**

The Honorable Members of City Council  
City of Lodi, California:

We have audited the general purpose financial statements of the City of Lodi, California for the year ended June 30, 1997, and have issued our report thereon dated October 17, 1997. Under generally accepted auditing standards, we are providing you with the attached information related to the conduct of our audit.

This information is intended solely for the use of the City Council and Management and should not be used for any other purpose.

*KPMW Peat Marwick LLP*



Member Firm of  
KPMG International

**Report of KPMG Peat Marwick LLP**  
**to the City Council of the**  
**City of Lodi, California**

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### **Our Responsibility Under Generally Accepted Auditing Standards**

Our responsibility under generally accepted auditing standards is to express an opinion on the general purpose financial statements of the City of Lodi, California (City) based on our audit. In carrying out this responsibility, we assessed the risk that the general purpose financial statements may contain a material misstatement, either intentional or unintentional, and designed and conducted our audit to provide reasonable, not absolute, assurance of detecting misstatements that are material to the general purpose financial statements. In addition, we considered the internal control structure of the City to gain a basic understanding of the internal control policies and procedures in order to design an effective and efficient audit approach, not for the purpose of providing assurance on the internal control structure.

### **Significant Accounting Policies**

The significant accounting policies used by the City are described in Note 1 to the general purpose financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 1997.

We noted no transactions entered into by the City during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you of, or transactions for which there is a lack of authoritative guidance or consensus.

### **Management's Judgments and Accounting Estimates**

Accounting estimates are an integral part of the general purpose financial statements prepared by management and are based upon management's current judgments. Certain accounting estimates are particularly sensitive because of their significance to the general purpose financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

Management's estimate of the liability for self-insurance is based on an evaluation by a claims administrator for claims filed and management's evaluation of incidents incurred but not reported. While management uses the best information available to evaluate the adequacy of the liability, future adjustments may be necessary. We evaluate the key factors and assumptions used to develop the estimate in determining that the liability is reasonable in relation to the general purpose financial statements of the City taken as a whole.

### **Significant Audit Adjustments**

A prior period adjustment has been recorded in the amount of \$16,486,112 in the Electric Fund to more properly account for a refundable advance maintained with the Northern California Power Agency (NCPA). This advance was established to provide a reserve to fund contingent liabilities that may require significant future expenditures. The balance of this advance receivable at June 30, 1997 is \$17,909,336.

There were no other corrections to the general purpose financial statements that could, in our judgment, either individually or in the aggregate, have a significant effect on the City's financial reporting process.

### **Other Information in Documents Containing Audited Financial Statements**

Our responsibility for other information in documents containing the City's general purpose financial statements and our report thereon does not extend beyond the financial information identified in our report, and we have no obligation to perform any procedures to corroborate other information contained in these documents. We have, however, read the other information included in the City's Comprehensive Annual Financial Report for the year ended June 30, 1997, and no matters came to our attention that cause us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the general purpose financial statements.

### **Disagreements with Management**

There were no disagreements with management on financial accounting and reporting matters which, if not satisfactorily resolved, would have caused a modification of our report on the City's general purpose financial statements for the year ended June 30, 1997.

### **Consultation with Other Accountants**

To the best of our knowledge management has not consulted with or obtained opinions, written or oral, from other independent accountants during the past year that were subject to the requirements of Statement on Auditing Standards No. 50, *Reports on the Application of Accounting Principles*.

### **Major Issues Discussed with Management Prior to Retention**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### **Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing our audit.