



DATE: December 20, 2021

AGENDA ITEM # 2

TO: Financial Commission

FROM: John Furtado, Finance Director

SUBJECT: Fiscal Year 2021 Annual Comprehensive Financial Report (ACFR)

RECOMMENDATION:

Receive the draft FY2021 Annual Comprehensive Financial Report (ACFR).

BACKGROUND

The City's Finance Department has prepared the FY2021 ACFR for review by the Finance Commission. The Certified Public Accounting firm, Maze & Associates, has audited the financial statements in the report. The auditors have issued an opinion that the financial statements represent the position of the City fairly, in all material respects. Representatives from the audit firm will be present at the Finance Commission meeting.

RECOMMENDED ACTION BY THE COMMISSION

- Receive the draft FY2021 ACFR.

DISCUSSION

A number of state and federal laws require that the City's financial statements be audited annually by external auditors who are Certified Public Accountants. The result of the audit is a compilation of detailed financial statements, known as the Annual Comprehensive Financial Report (ACFR), prepared in accordance with generally accepted accounting principles (GAAP) as required by the Government Accounting Standards Board (GASB). The ACFR is a useful tool in understanding and evaluating the City's financial condition.

The audit typically begins a few months before the fiscal year-end with a review of the City's financial processes and internal controls. However, the scope of the audit is to express an opinion on the City's financial statements, not to express an opinion on the effectiveness of the City's internal controls. Next, the auditor completes a site visit to conduct the interim audit procedures; however, due to the COVID-19 pandemic, this year the interim and final audits were performed mostly remotely, with the Auditors on site for a couple of days. Staff was available for questions using Zoom, Teams, in person and other forms of remote communication. The interim audit occurred in May and June 2021. The auditors completed those year-end testing procedures and an evaluation of fund balances in November 2021.

This is the sixth year that Maze & Associates has performed the City's annual audit, and the City has received an "unmodified" or "clean" opinion.

The ACFR is presented to the Finance Commission for its review prior to being submitted to the City Council for review and acceptance.

READING THE ACFR AND RELATED DOCUMENTS

1. **ACFR:** The ACFR highlights both the results of operations during FY2021 and changes to fund balances. The report is divided into three major sections, as follows:
 - **Introductory Section** – provides a narrative summary of changes in fund balances and highlights of the results of operations. It includes a letter of transmittal from management, an organizational profile, and a listing of key officers and personnel.
 - **Financial Section** – presents the independent auditor's report, management's discussion and analysis of the financial reports, all of the financial statements, notes on the financial statements, and supplemental information.
 - **Statistical Section** – includes several unaudited schedules that provide comparative information over a 10-year period.

Select highlights from the ACFR are presented below. The full draft ACFR is included as a link (Attachment 1).

2. **Single Audit:** The Uniform Guidance addresses audit requirements for entities receiving federal grants. Audits performed under this provision are designed to reduce the risk of waste, fraud and abuse. The annual dollar threshold requirement for a single audit is \$750,000 or more in grant expenditures. During fiscal year 2021, the City exceeded this threshold as its federal grant-related expenditures. Therefore, the City is required to issue a Single Audit report for fiscal year 2021. The current deadline to submit Single Audit reports is September 30, 2022, which was extended by the Office of Management and Budget (OMB) due impacts associated with the pandemic. The Single Audit fieldwork will be completed in February/ March 2022. We intend to bring the report to the Finance Commission upon completion.
3. **Appropriations Limit:** The auditor has reviewed the City's calculation of the allowed spending caps defined in State legislation, known as Gann limits. The City's numbers were found to be accurate, as documented in Attachment 3.

FY2021 RESULTS

During the year, the net position of Governmental Activities increased by \$4.3 million, from \$101.45 million to \$105.8 million. Total assets and deferred outflows of resources increased by \$14.3 million, offsetting the increase in total liabilities and deferred inflows of resources of \$10.2 million during the year.

Total fund balances include cash and non-cash assets (such as capital assets). A notable change in governmental fund balances in FY2021 was a decrease in the General Fund from \$32.5 million to \$22.7 million. This \$9.8 million decrease is primarily attributable to the Transfer of \$10 million to fund the new community center project as well as another transfer of \$6.4 million to Fund other CIP projects.

The unassigned General Fund balance as of June 30, 2021, is approximately \$1.2 million after required contributions to reserves and encumbrances. The primary contributor to this lower amount is when the City Council entered into the Purchase and Sale and Settlement agreement for 999 Fremont Ave. the staff report indicated the fiscal impact was \$2.85M. When the land purchase was recorded, instead of placing it as an expenditure and realizing the fiscal impact in the budget, the City decided to record it as an investment. At the time, City staff represented to the auditors that the purpose of the property was for sale and redevelopment. We are unaware of any plans by the City to sell the property or make it available for development. Because of this, we cannot record the property as an investment and must comply with the terms of the agreement and record the \$2.85M as an expenditure. Additionally, the unassigned General Fund balance was drawn down due to the adjustment of \$1.1M of unrealized gains which were incorrectly recorded as unassigned in the previous fiscal year.

The City's liability for unfunded CalPERS pension costs (UAL) increased from \$39.1 million to \$42.3 million, an increase of \$3.2 million. This is primarily driven by lower-than-expected investment returns and increases in pension expense, based on valuations date of June 30, 2019, and a measurement date of June 30, 2020.

The City's liability for Other Postemployment Benefits (OPEB) costs increased from \$1.4 million to \$1.6 million, an increase of \$0.2 million. This is primarily driven by lower-than-expected investment returns and increases in health care costs and higher life expectancy.

General Fund Operating Results

The General Fund is the chief operating fund of the City. For the year ending June 30, 2021, the total fund balance was \$23.7 million, \$21.5 million of which is non-spendable, restricted, or has been committed or assigned to cover contingencies, claims, encumbrances, advances to other funds, and other City projects. The unassigned General Fund balance as of June 30, 2021 is approximately \$1.2 million after required contributions to reserves and encumbrances. This amount represents an operating reserve of 18.9% of expenditures. This is due in large part to the approval of \$1.1M in additional legal fee expenditures out of this reserve.

Revenues were \$2.4 million higher in fiscal year ended June 30, 2021, compared to last fiscal year, a change of 5.2%, however this number includes stimulus monies received of \$3.8 million. Without the stimulus revenues would have been lower by \$1.6 million

Expenditures increased \$0.2 million in fiscal year ended June 30, 2021, compared to last fiscal year, a change of -0.6%. Significant changes in revenues and expenditures that affected the General Fund balance are discussed below:

General Fund Revenues

Property Taxes overall increased by \$2.7 million (10.4%) compared to the prior year primarily attributable to continued increases in property values (assessed value) and increased residential sales activity that increased the tax roll.

Sales and Use Taxes overall decreased by \$0.4 million (-11.2%) compared to the prior year. This was due to the full year impacts faced by the global pandemic that started in March of 2020.

Utility user Taxes overall increased by \$0.1 million (2.8%) compared to the prior year. This was due normal inflationary increases rather than an increased tax base.

Charges for Services decreased by \$0.7 million (-18.9%) from the prior year, mainly effected by the closing of all recreational activities during the construction of the new community center.

Grants and donations increased by \$3.9 million (4,424%) from the prior year, mainly due to the receipt of American Rescue Plan Act and CARES Act stimulus monies allocated to cities.

Other Taxes decreased significantly by \$1.3 million (-35.9%) compared to the prior fiscal year, primarily due lower levels of Transient Occupancy Taxes caused by lack of demand due to the pandemic.

Interest and Rentals decreased significantly by \$2.1 million (-91.8%) compared to the prior fiscal year, primarily due the federal reserve bank reducing the discount rates to near zero in their attempts to stimulate the economy.

General Fund Expenditures

Public Safety expenditures increased by \$0.6 million (3.2%) from the prior year primarily due to increased personnel and benefit costs, offset by lower other expenses.

Public works expenditures increased by \$0.15 million (2.7%) compared to the prior year primarily due to salary increases, and other increased expenses on protection such as plexiglass screens and cleaning supplies for COVID-19 in the city facilities.

Community development expenditures increased \$0.8 million (15.1%) from the prior fiscal year primarily attributable to salary adjustments and an added position for sustainability, planned work on the housing element as well an increased cost that were related to higher revenues from planning activity.

Recreation expenditures were \$0.5 million (-23.0%) less than the prior year primarily due to an overall decrease in operations from the pandemic and closure of the community center for construction activity.

Administration and Finance expenditures decreased by \$0.8 million (-9.5%) compared to prior year primarily due to an overall decrease in operations and a large number of vacant positions.

Budgetary Highlights

Over the course of the year, the City Council revised the City's budget with adjustments for various revenue and expenditure changes. After considering these adjustments, General Fund actual revenues were higher than the final budget by \$6.3 million (15.1%), which is primarily attributable to higher property taxes and grants revenue, offset by lower sales tax, transient occupancy tax and recreation fees which were impacted by the pandemic and community center closure respectively.

General Fund actual expenditures were \$0.6 million (-1.5%) under the final budget, with significant savings in Public safety (\$0.95 million) partly offset by higher costs in Administration and finance (\$0.25 million) due to higher legal fees and contract staffing to cover vacancies.

Net unassigned fund balance for the year was \$4.9 (\$1.2 after reserving ARPA proceeds) million after accounting for contributions to the Capital projects, Debt service and other. Further details are provided in the Transmittal letter.

NEXT STEPS

Upon acceptance by the City Council, the ACFR will be submitted to the Government Finance Officers Association for consideration of a *Certificate of Achievement for Excellence in Financial Reporting*.

DOCUMENTS

Attachment 1 – DRAFT FY2021 Annual Comprehensive Financial Report (ACFR)

Attachment 2 – FY2021 Appropriations Limit Calculation (GANN Limit)

Attachment 3 – FY2021 Year-End General Fund Summary.