

# Capitola City Council

## Agenda Report



**Meeting:** January 26, 2023

**From:** Finance Department, Jim Malberg

**Subject:** FY 2021-22 Audit Report

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**Recommended Action:** Receive Report.

**Background:** The City of Capitola is required by state statute to publish a complete set of financial statements presented in conformity with generally accepted accounting principles and audited in accordance with generally accepted auditing standards. The audit must be conducted by a firm of licensed certified public accountants.

The City's Annual Comprehensive Financial Report (ACFR) for the fiscal year ended June 30, 2022, received an "unmodified" opinion, which indicates the auditor believes the financial statements are presented fairly in all material respects. The City's annual audit and ACFR meet all state and federal requirements and will be available to the public at City Hall, as well as on the City's website.

**Discussion:** The financial report presents the financial condition, results of operations, and current economic condition for the City and component units' for the fiscal year ended June 30, 2022. Financial information for the Successor Agency is presented as a separate Private Purpose Trust Fund within the ACFR.

The independent audit firm Eide Bailly LLP issued the following opinion on the City's financial records, found on page two of the ACFR: "In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Capitola, California, as of June 30, 2022, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America."

The Fiscal Year (FY) 2021-22 ACFR has been submitted to the Government Finance Officers' Association for the Excellence in Financial Reporting Award. The City's ACFR has received this prestigious award for the last nine fiscal years. Previously, the City had received the California Society of Municipal Finance Officers Award for the Outstanding Financial Reporting every year since FY 2000.

In addition to the ACFR, the auditor also issues a Management Letter and the Letter of Required Disclosures to the Governing Body and Statement of Auditing Standards (SAS) 114. The Management Letter discusses the City's internal control over financial reporting and makes recommendations, if necessary, of controls that need to be strengthened. The SAS 114 Letter is a document that discusses, among other matters, any significant audit findings. Neither document identified any areas of concern.

**Fiscal Impact:** The following are key financial highlights of the FY 2021-22 ACFR:

- **Net Position**

○ Current and other assets	\$ 29,751,865
○ Capital assets	<u>35,039,287</u>

○ <b>Total Assets</b>	<b>\$ 64,791,152</b>
○ <b>Total Deferred Outflows of Resources</b>	<b>\$ 6,571,485</b>
○ Other Liabilities	\$ 1,818,072
○ Long-term liabilities	
▪ Due in one year	496,959
▪ Due in more than one year	<u>20,853,145</u>
○ <b>Total Liabilities</b>	<b>\$ 23,168,176</b>
○ <b>Total Deferred Inflows of Resources</b>	<b>\$ 14,499,880</b>
○ Net Position:	
○ Net investment in capital assets	\$ 33,335,826
○ Restricted	11,767,869
○ Unrestricted	<u>(11,409,114)</u>
○ <b>Total Net Position</b>	<b>\$ 33,694,581</b>
● <b>Revenues</b>	
○ General Revenues:	
○ Taxes:	
▪ Sales and use taxes	\$ 8,484,799
▪ Property taxes	2,883,183
▪ Transient occupancy taxes	2,170,541
▪ Franchise taxes	634,511
▪ Business license taxes	315,604
○ Motor vehicle in-lieu	341,183
○ Investment income	33,464
○ Miscellaneous revenue	205,129
○ Program Revenues:	
▪ Charges for services	3,038,933
▪ Operating grants and contributions	2,969,861
▪ Capital contributions and grants	<u>865,027</u>
○ <b>Total Revenues</b>	<b>\$ 21,942,235</b>
● <b>Expenses</b>	
○ General Government	\$ 6,117,483
○ Public Safety	7,553,751
○ Community Development	1,998,051
○ Culture and Recreation	1,420,660
○ Public Works	4,222,401
○ Interest and other charges	<u>55,843</u>
○ <b>Total Expenses</b>	<b>\$ 21,368,189</b>
○ <b>Change in Net Position</b>	<b>574,046</b>
○ <b>Beginning Net Position</b>	<b><u>33,120,535</u></b>
○ <b>Ending Net Position</b>	<b>\$ 33,694,581</b>
● <b>General Fund</b>	
○ Fund balance:	
○ Non-spendable:	

<ul style="list-style-type: none"> <li> <ul style="list-style-type: none"> <li>▪ Prepaid items</li> </ul> </li> <li>○ Assigned: <ul style="list-style-type: none"> <li>▪ Emergency Reserve</li> <li>▪ Contingency Reserve</li> <li>▪ PERS Retirement Trust</li> </ul> </li> <li>○ Unassigned</li> <li>○ <b>Total Fund Balance</b></li> </ul>	<p>\$ 0</p> <p>1,314,206</p> <p>2,494,060</p> <p>904,275</p> <p><u>7,315,608</u></p> <p><b><u>\$ 12,028,149</u></b></p>
<ul style="list-style-type: none"> <li>• <b>Capital Assets:</b> <ul style="list-style-type: none"> <li>○ Land</li> <li>○ Building &amp; Improvements</li> <li>○ Equipment</li> <li>○ Infrastructure</li> <li>○ Construction in Progress</li> <li>○ <b>Total Capital Assets</b></li> <li>○ <b>Less Depreciation</b></li> <li>○ <b>Capital Assets Net of Depreciation</b></li> </ul> </li> </ul>	
<ul style="list-style-type: none"> <li>○ \$ 4,883,789</li> <li>○ 17,913,338</li> <li>○ 4,395,924</li> <li>○ 34,119,074</li> <li>○ <u>2,715,304</u></li> <li>○ <b><u>\$ 64,027,429</u></b></li> <li>○ <b><u>28,988,142</u></b></li> <li>○ <b><u>\$ 35,039,287</u></b></li> </ul>	
<ul style="list-style-type: none"> <li>• <b>Long-Term Debt / Liability</b> <ul style="list-style-type: none"> <li>○ Pacific Cove Capital Lease</li> <li>○ Beach &amp; Village Parking Lease</li> <li>○ Compensated Absences</li> <li>○ Net OPEB Obligation</li> <li>○ Net Pension Liability</li> <li>○ <b>Total Long-Term Debt</b></li> </ul> </li> </ul>	
<ul style="list-style-type: none"> <li>○ 807,729</li> <li>○ 895,732</li> <li>○ 896,141</li> <li>○ 1,642,315</li> <li>○ <u>17,108,187</u></li> <li>○ <b><u>\$ 21,350,104</u></b></li> </ul>	

The next opportunity to review the City's financial picture, including updated revenue and expenditure forecasts, will be at the Mid-Year Budget Review in February.

Attachments:

1. Attachment 1: City of Capitola FY 2021-22 ACFR
2. Attachment 2: Governance Communication Letter

Report Prepared By: Jim Malberg, Finance Director

Reviewed By: Julia Moss, City Clerk

Approved By: Jamie Goldstein, City Manager