



DATE: March 20, 2023

AGENDA ITEM # 3

TO: Financial Commission
FROM: June Du, Finance Director
SUBJECT: Fiscal Year 2022 Annual Comprehensive Financial Report (ACFR)

RECOMMENDATION:

Receive the draft FY2022 Annual Comprehensive Financial Report (ACFR).

BACKGROUND

The City’s Finance Department has prepared the FY2022 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 FY2022 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.

This is the seventh 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 FY2022 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).

FINANCIAL HIGHLIGHTS

Financial highlights for the year ended June 30, 2022, include the following:

The City ended its fiscal year on a government-wide basis with total revenues of \$67.31 million, which was an increase of \$5.83 million or 9.5% compared to the prior year, and total expenses of \$68.5 million, an increase of \$18.50 million or 37.0%. The results represent combined government and business operations, with an overall decrease in net position of \$1.17 million primarily due to increased salary, benefits, and inflationary pressure on the supply chain.

Operational revenue gains were predominantly in Community Development and Recreation activities. Sales tax, utility tax, and hotel occupancy tax have gradually recovered to pre-pandemic levels and has exceeded the projected budget. Property tax has an increase of \$1.7 million. Sewer revenues increased by \$1.15 million as projected, and solid waste revenues were stable and positioned to facilitate future operational and capital needs.

The increase in Government-wide expenses is the result of salary and benefit adjustments and using consultants more over time to fill existing staff vacancies. There is also inflation caused by supply chain shortages related to COVID-19. Resource use continues to reflect an emphasis on public safety, infrastructure maintenance, quality of life, and community development activity.

The City made significant progress on many capital improvement initiatives, which include maintenance and street resurfacing, streetscape and intersection improvements, and pedestrian and traffic safety enhancements throughout the City. The City has also made significant capital investments in the maintenance and improvement of the City-wide sewer systems.

General Fund

The General Fund is the chief operating fund of the City. For the year ending June 30, 2022, the total fund balance was \$19.6 million, \$10.3 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 unrestricted unassigned fund balance is \$9.1 million, an increase of \$4.1 million from the prior year.

Revenues were \$3.7 million higher in the fiscal year ended June 30, 2022, compared to last fiscal year, a change of 7.4%.

Expenditures increased \$9.4 million in the fiscal year ended June 30, 2022, compared to the last fiscal year, a change of 23%. Significant changes in revenues and expenditures that affected the General Fund balances are discussed below:

General Fund Revenues

Property Taxes overall increased by \$1.59 million (5.7%) compared to the prior year. This is 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 increased by \$0.74 million (24.8%) compared to the prior year. The revenue is almost recovered to the pre-pandemic level.

Utility user Taxes overall increased by \$0.19 million (6.7%) compared to the prior year. This was due to normal inflationary increases rather than an increased tax base.

Charges for Services increased by \$0.68 million (23.1%) from the prior year, mainly because of the opening of the new community center and other city facilities for recreational activities.

Grants and donations decreased by \$0.1 million (-2.5%) from the prior year, mainly due to fewer CARES Act stimulus monies allocated to the city in FY22.

Other Taxes increased significantly by \$1.25 million (54.2%) compared to the prior fiscal year, primarily due to the recovery of Transient Occupancy Taxes and real estate document transfer tax from the pandemic.

Interest and Rentals decreased significantly by \$1.13 million (-616.3%) compared to the prior fiscal year, primarily due to 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 \$1.7 million (8.9%) from the prior year primarily due to increased personnel and benefit costs, fire services contract, offset by lower other expenses.

Public Works expenditures increased by \$0.5 million (9.5%) compared to the prior year, primarily due to salary increases.

Community Development expenditures increased \$0.1 million (1.8%) from the prior fiscal year, primarily attributable to salary adjustments.

Recreation expenditures were \$0.7 million (41.1%) more than the prior year, primarily due to an overall increase in operations and the opening of the new community center and other city facilities.

Administration and Finance expenditures increased by \$6.3 million (81.4%) compared to the prior year, primarily due to a contribution of \$6.5 million additional payment pay down its pension obligations. The payments to CalPERS will provide long-term stability to the City's pension costs and future liabilities.

Finance Commission
FY 2022 Annual Comprehensive Financial Report (ACFR)
March 28, 2023

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 FY2022 Annual Comprehensive Financial Report (ACFR)