



## AGENDA REPORT SUMMARY

**Meeting Date:** March 26, 2024

**Subject:** Acceptance of Fiscal Year 2023 Audited Financial Statements and Compliance reports

**Prepared by:** June Du, Finance Director

**Approved by:** Gabriel Engeland, City Manager

**Attachment(s):**

1. Draft Annual Comprehensive Financial Report (ACFR)
2. Memorandum on Internal Control (MOIC)

**Initiated by:**

Staff and the Financial Commission

**Previous Council Consideration:**

N/A

**Fiscal Impact:**

None

**Environmental Review:**

Not applicable

**Policy Question(s) for Council Consideration:**

- Does the Council Accept the Fiscal Year 2023 Audited Financial Statements and Compliance reports?

**Summary:**

- The City's Finance Department has prepared the FY2023 ACFR which was reviewed by the Finance Commission on March 18th, 2023. 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.

**Staff Recommendation:**

Accept the Comprehensive Annual Financial Report and compliance reports for the fiscal year ended June 30, 2023.



## **Purpose**

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.

## **Background**

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. The interim audit occurred in May and July 2023. The auditors completed those year-end testing procedures and an evaluation of fund balances in December 2023.

This is the eighth 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.

## **Discussion/Analysis**

### **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 can be seen in Attachment 1.



2. **Memorandum on Internal Control:** In planning and performing the audit of the basic financial statements of the City, auditor also considered the City's internal control over financial reporting as a basis for designing audit procedures. The communications to the City's management presented in Attachment 2.

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## **FY2023 RESULTS**

The City ended its fiscal year on a government-wide basis with total revenues of \$71.4 million, which was an increase of \$4.1 million or 6.1% compared to the prior year, and total expenses of \$53.0 million, an decrease of \$15.5 million or 22.6%. The results represent combined government and business operations, with an overall increase in net position of \$18.4 million primarily due to a increased revenue in property tax, and development related project and decrease in expenses in Public Safety, Public Works and Admin/Community Services activities.

Operational revenue gains were predominantly in Public Works activities. Property tax increased by \$2.5 million. Sewer revenues increased by \$0.6 million as projected, and solid waste revenues were stable and positioned to facilitate future operational and capital needs.

The decrease in Government-wide expenses is the result of savings improved personnel management and a reduction in legal costs.

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 Operating Results**

The General Fund reported an operating surplus of \$13.5 million before transfers in/(out). The General Fund transferred \$2.3 million to the Capital Projects Fund to support the rehabilitation and replacement of City's infrastructure. General Fund also transferred \$1.7 million to Internal Service Funds to pay for supportive services.

General Fund revenues increased to \$57.2 million, up \$5.1 million from the prior year's \$52.0 million. Expenditure decreased to \$43.7 million, down \$6.8 million the from prior year's \$50.4 million.

General Fund unassigned/unrestricted fund balance for the current year totaled \$18.7 million, an increase of \$9.6 million or 106% when compared to prior year reported at \$9.1 million. The unassigned fund balance represents 42.8% of General Fund expenditures. The City of Los Altos ended the fiscal year 2023 on a healthy reserve balance for general services.



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### **General Fund Revenues**

**Property Taxes** overall increased by \$2.6 million, or 8.6% compared to the prior year. This increase is primarily attributable to continued increases in property values (assessed value) and residential sales activity that increased the tax roll.

**Sales and Use Taxes** overall decreased by \$0.05 million, or -1.3% compared to the prior year. This decline can be attributed primarily to elevated costs of goods resulting from a decrease in population, rising labor expenses, and heightened inflation.

**Utility user Taxes** overall increased by \$0.12 million, or 3.8% compared to the prior year. This increase was due to inflationary increases rather than an increased tax base.

**Charges for Services** increased by \$3.4 million, or 92.8% compared to the prior year. This surge is primarily linked to the growth in revenue from building permits and plan checks, particularly driven by multi-family building development projects.

**Grants and donations** decreased by \$3.7 million or -95.6% compared to the prior year, mainly due to the City were no longer receiving the ARPA stimulus funds allocated to the City in fiscal year 2023.

**Other Taxes** increased by \$0.56 million, or 15.9% compared to the prior fiscal year, primarily due to the recovery from the pandemic of Transient Occupancy Tax.

**Interest and Rentals** increased by \$1.3 million compared to the prior fiscal year, predominantly attributed to the substantial rise in the market value of the City's investment portfolio resulting from a shift in investment strategy.

### **General Fund Expenditures**

**Public Safety** expenditures decreased by \$0.4 million, or -1.7% compared to the prior year primarily due to the salary savings from personnel and benefit costs offset by higher contracts costs such as animal control and crossing guard services.

**Public works** expenditures decreased by \$0.2 million, or -3.2% compared to the prior year, primarily due to salary savings from position management.

**Community development** expenditures decreased \$0.3 million, or -4.4% compared to the prior fiscal year, primarily attributable to salary adjustments and the profession services reductions.

**Recreation** expenditures increased \$0.3 million, or 11.8% more than the prior year, primarily due to an overall increase in operations and the opening of the new Community Center and costs related to other city facilities.



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**Administration and Finance** expenditures significantly decreased \$6.2 million, or -44.4% compared to the prior year, primarily due to position management and a reduction in legal costs.

**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.