



TO: Financial Commission
FROM: Jon Maginot, Staff Liaison
SUBJECT: Preliminary audit results

RECOMMENDATION:

Receive an update and preliminary report of audit results

BACKGROUND

The City has contracted with Badawi & Associates to conduct the City's audit for FY 2023/24. This is the first year Badawi has conducted the City's audit. The majority of the work for the audit has been completed. Staff is presenting a preliminary update on the results of the audit. The final audit and Annual Comprehensive Financial Report (ACFR) will be presented to the Financial Commission at a future meeting.

Preliminary Audit Results

The City has received the draft financials from the auditors. Staff does not anticipate the draft numbers to change significantly. Additionally, staff anticipates the audit receiving a clean opinion. Although there will be a few comments on internal controls, we do not anticipate any issues that would change the audit opinion.

Internal Controls and Accounts Payable: While no material weaknesses have been identified, a few minor recommendations are anticipated. Some of the recommendations have already been implemented and the remaining should not cause a significant burden to the City.

Discussion/Analysis

1. Financial Stability and Reserves

- Total Assets increased from \$58.3 million in FY2023 to \$68.8 million in FY2024, reflecting 18.2% growth. The General Fund accounted for \$41.4 million of these assets, up 31.4% from \$31.5 million in FY2023.
- Liabilities decreased slightly from \$5.5 million to \$5.4 million, reducing the liabilities-to-assets ratio from 9.3% to 7.9%.

- General Fund Balance grew by \$9.3 million to \$38.1 million. The unassigned fund balance rose to \$28.1 million, representing 58.4% of expenditures, significantly exceeding the GFOA’s recommended range of 10% to 25%.

<Table 1>

BALANCE SHEET

	(million)					
Governmental Funds	General Fund	In-Lieu Park Land	Capital Projects	Los Altos Community Center lease	Other Governmental Funds	Total Governmental Funds
Total Assets	41.4	8.0	12.0	0.5	6.9	68.8
Total Liabilities	3.3	-	1.2	0.5	0.4	5.4
Total Fund Balances	38.1	8.0	10.8	-	6.5	63.4

2. Revenue and Expenditure Trends

- Total Revenues increased by \$2.0 million to \$63.4 million. Key drivers:
 - Property Taxes increased by \$1.8 million to \$34.4 million.
 - Interest and Rental Income grew by \$2.5 million due to higher yields on investments.
 - Charges for Services declined by \$2.2 million, offsetting some revenues in other areas.
- Expenditures decreased slightly from \$53.0 million to \$52.3 million. Major changes include:
 - Public Safety expenditures rose by \$1.3 million to \$22.1 million, driven by service enhancements.
 - Capital Improvements spending fell from \$8.3 million to \$2.7 million, reflecting the completion of major projects in FY2023.

3. General Fund Performance

- The General Fund realized an operating surplus of \$11.5 million. Revenue surplus came from increases in property tax of \$1.8 million and interest and rental income of \$2.1 million. These increases were offset by reduced charges for services by \$2.2 million.
- Transfers included \$1.4 million to the Capital Projects Fund to support the rehabilitation and replacement of the City’s infrastructure, including pavement restoration, architectural enhancements, public art preservation, safety and security system upgrades, tree services, and the modernization of essential systems and facilities to ensure sustainable and efficient operations. General Fund also transferred \$2.4 million to Internal Service Funds to pay for supportive services.
- The General Fund revenues increased by \$2.4 million to \$59.6 million, while expenditures increased by \$4.5 million to \$48.1 million.

<Table 2>

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

(million)

Governmental Funds	General Fund	In-Lieu Park Land	Capital Projects	Los Altos Community Center lease	Other Governmental Funds	Total Governmental Funds
Total revenues	59.6	0.9	0.5	-	2.4	63.4
Total expenditures	48.1	-	2.8	0.6	0.8	52.3
Operating Surplus	11.5	0.9	(2.3)	(0.6)	1.6	11.1
Other Financing Sources (Uses)	(2.3)	(0.8)	1.2	0.6	0.8	(0.5)
Net change in fund balances	9.3	0.1	(1.1)	0.0	2.4	10.6

<Table 3>

FUND BALANCE

(million)

Governmental Funds	General Fund	In-Lieu Park Land	Capital Projects	Los Altos Community Center lease	Other Governmental Funds	Total Governmental Funds
Beginning of year	28.9	7.9	11.9	-	4.1	52.8
Net change in fund	9.3	0.1	(1.1)	0.0	2.4	10.6
End of year	38.1	8.0	10.8	0.0	6.5	63.5

4. Fund Balances

- Total governmental fund balances equaled \$63.5 million at fiscal year-end, an increase of \$10.6 million from prior year’s fund balance of \$52.8 million.
- The In-Lieu Park Land Fund ended the year with a fund balance of \$8.0 million with revenues of \$0.9 million and transfers out of \$0.8 million spent on eligible projects and debt service payments.
- General government capital spending totaled \$2.7 million. The level of capital reinvestment in Los Altos reflects a sustained focus on the maintenance of streets, facilities, traffic calming efforts, and safety. In fiscal year 2024, the Capital Improvements Projects Fund balance ended the year with \$10.8 million.
- Other Non-Major Governmental Funds ended the fiscal year 2024 with a total combined fund balance of \$6.5 million, an increase of \$2.4 million from \$4.1 million in fiscal year 2023.

5. Enterprise and Internal Service Funds

- Sewer operations ended the year with a net position of \$28.7 million. Operating revenue increased by \$1.6 million from \$8.8 million in fiscal year 2023 to \$10.4 million in fiscal year 2024.

- Solid waste operations ended the year with a net position of \$3.3 million. Operating expenses decreased by \$0.4 million from \$2.2 million in fiscal year 2023 to \$1.8 million in fiscal year 2024, primarily due to \$0.8 million decrease in pension expenses in current year, offset by increase of service and supplies.
- Internal Service Funds ended the year with a total combined net position of \$3.6 million in fiscal year 2024, an increase of \$0.4 million from \$3.2 million in fiscal year 2023.

<Table 4>

STATEMENT OF NET POSITION					(million)
Proprietary Funds	Sewer	Solid Waste	Business-type Total	Internal Service Funds	
Total Assets	31.4	4.3	35.7		8.1
Deferred Outflows	1.1	0.5	1.6		-
Total Liabilities	3.5	1.3	4.8		4.5
Deferred Inflows	0.3	0.1	0.5		-
Net Position	28.7	3.3	32.0		3.6

<Table 5>

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET POSITION					(million)
Proprietary Funds	Sewer	Solid Waste	Business-type Total	Internal Service Funds	
Total revenues	10.4	0.9	11.3		5.0
Total expenditures	8.2	1.8	10.0		5.8
Operating Surplus	2.2	(0.9)	1.3		(0.8)
Non Operating & Transfers	(0.3)	0.2	(0.1)		1.2
Change in Net Position	1.9	(0.7)	1.2		0.4

<Table 6>

NET POSITION					(million)
Proprietary Funds	Sewer	Solid Waste	Business-type Total	Internal Service Funds	
Beginning of year	26.8	4.0	30.8		3.2
Net change in fund	1.9	(0.7)	1.2		0.4
End of year	28.7	3.3	32.0		3.6

6. Summary

The City demonstrated strong financial performance in FY2024, with healthy reserves, growing fund balances, and a manageable liabilities-to-assets ratio. Strategic use of surplus funds for infrastructure and operational needs aligns with long-term goals.

- Revenue Stability: Property tax and interest income are strong contributors, but declining charges for services warrant exploration of new revenue opportunities.
- Reserve Levels: With an unassigned General Fund balance of \$28.1M (58.4% of expenditures), the City is well-positioned to address future economic uncertainties.

- Capital Investment: Lower capital spending in FY2024 reflects completed projects but also an area of focusing for maintaining long-term infrastructure priorities.