



AGENDA REPORT SUMMARY

Meeting Date: March 28, 2023

Subject: Acceptance of Fiscal Year 2022 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 2022 Audited Financial Statements and Compliance reports?

Summary:

- The City's Finance Department has prepared the FY2022 ACFR which was reviewed by the Finance Commission on March 20th, 2022. 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:

Reviewed By:

City Manager

GE

City Attorney

JH

Finance Director

JD



Subject: Fiscal Year 2022 Annual Comprehensive Financial Report (ACFR)

Accept the Comprehensive Annual Financial Report and compliance reports for the fiscal year ended June 30, 2022.

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; however, due to the COVID-19 pandemic, this year the interim and final audits were performed remotely. Staff was available for questions using Zoom, Teams, and other forms of remote communication. The interim audit occurred in May and June 2022. The auditors completed those year-end testing procedures and an evaluation of fund balances in December 2022.

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.



Subject: Fiscal Year 2022 Annual Comprehensive Financial Report (ACFR)

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.



Subject: Fiscal Year 2022 Annual Comprehensive Financial Report (ACFR)

FY2022 RESULTS

The City ended its fiscal year on a government-wide basis with total revenues of \$67.3 million, which was an increase of \$5.8 million or 9.5% compared to the prior year, and total expenses of \$68.5 million, an increase of \$18.5 million or 37.0%. The results represent combined government and business operations, with an overall decrease in net position of \$1.2 million primarily due to a one-time \$6.5 million elective contribution to CalPERS, increased salary, benefits, and inflationary pressure on the supply chain. The payments to CalPERS will provide long-term stability to the City's pension costs and future liabilities.

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 have exceeded the projected budget. Property tax increased by \$1.7 million. Sewer revenues increased by \$1.2 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 and overtime to address existing staff vacancies. Expense increases also reflect 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 Operating Results

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, \$10.5 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 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 \$6.8 million in the fiscal year ended June 30, 2022, compared to the last fiscal year, a change of 10.5%. Significant changes in revenues and expenditures that affected the General Fund balances are discussed below:



Subject: Fiscal Year 2022 Annual Comprehensive Financial Report (ACFR)

General Fund Revenues

Property Taxes overall increased by \$1.6 million, or 5.7% 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 increased by \$0.7 million, or 24.8% compared to the prior year. The revenue is almost recovered to the pre-pandemic level.

Utility user Taxes overall increased by \$0.2 million, or 6.7% compared to the prior year. This increase was due to inflationary increases rather than an increased tax base.

Charges for Services increased by \$0.7 million, or 23.1% compared to the prior year, mainly related to city facilities for recreational activities including the opening of the new Community Center.

Grants and donations decreased by \$0.1 million or 2.5% compared to the prior year, mainly due to a reduction in CARES Act stimulus funds allocated to the City in fiscal year 2022.

Other Taxes increased significantly by \$1.2 million, or 54.2% compared to the prior fiscal year, primarily due to the recovery from the pandemic of Transient Occupancy Taxes and real estate document transfer tax.

Interest and Rentals decreased by \$1.1 million compared to the prior fiscal year, primarily due to the significant reduction in market interest rates applicable to the City's investment funds.

General Fund Expenditures

Public Safety expenditures increased by \$1.7 million, or 8.9% compared to the prior year primarily due to increased personnel and benefit costs and fire services contract costs, offset by lower other expenses.

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

Community development expenditures increased \$0.1 million, or 1.8% compared to the prior fiscal year, primarily attributable to salary adjustments.

Recreation expenditures were \$0.7 million, or 41.1% 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 increased by \$6.3 million, or 81.4% compared to the prior year, primarily due to a one-time elective contribution of \$6.5 million to CalPERS Pension and OPEB.

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.