



## Legislation Details (With Text)

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<b>Enactment date:</b>		<b>Enactment #:</b>			
<b>Title:</b>	Audited Financial Statements for the City of San Leandro for the Fiscal Year Ending June 30, 2023				
<b>Indexes:</b>					
<b>Code sections:</b>					
<b>Attachments:</b>	1. Attachment A - Annual Comprehensive Financial Report, 2. Attachment B - Single Audit Report, 3. Attachment C - Measure B Program Financial Statements, 4. Attachment D - Measure BB Program Financial Statements, 5. Attachment E - Measure F Program Financial Statements, 6. Attachment F - Memorandum on Internal Control, 7. Attachment G - City of San Leandro Required Communications, 8. Attachment H - Presentation - ACFR for FY23				

Date	Ver.	Action By	Action	Result
4/24/2024	1	Finance Committee		

Audited Financial Statements for the City of San Leandro for the Fiscal Year Ending June 30, 2023

### CITY COUNCIL PRIORITY

- Fiscal Sustainability and Transparency

### SUMMARY

The Annual Comprehensive Financial Report for the City of San Leandro for the fiscal year ending June 30, 2023 and other financial reports are for information only.

### RECOMMENDATION

Staff recommends that the City Council Finance Committee review the Annual Comprehensive Financial Report for the City of San Leandro for the fiscal year ended June 30, 2023 and other financial reports.

### BACKGROUND

The City's independent auditor, Maze & Associates, completed the audit of the City's financial statements and provided the auditor's reports for the fiscal year ended June 30, 2023. The Finance Department prepares the City's financial statements in the form required for the Annual Comprehensive Financial Report (ACFR). The Government Accounting Standards Board recommends elements for the ACFR format. The ACFR and the related financial statements fully disclose the financial condition of the City and its other reporting units.

The ACFR and other compliance reports prepared for the year ended June 30, 2023 include:

1. Annual Comprehensive Financial Report
2. Single Audit Report

3. Measure B Program Financial Statements
4. Measure BB Program Financial Statements
5. Alameda County VRF Measure F Program Financial Statements
6. Memorandum on Internal Control
7. City of San Leandro Required Communications

The ACFR details the total of all financial accounting for the fiscal year. The financial reporting provided in the ACFR is in greater detail than the basic financial statements and is made up of three primary sections:

- **Introductory Section:** Provides general information about the City including the letter of transmittal, list of principal officers, and an organizational chart.
- **Financial Section:** Provides the overall financial information for the City including the report of the independent auditor, management's discussion and analysis (MD&A), the basic financial statements, notes to the basic financial statements, required supplementary information, and other supplementary statements and schedules.
- **Statistical Section:** Provides a broad range of operational, economic, and historical data providing context for assessing the City's fiscal condition. This section provides information about general financial trends, revenue and debt capacities, economic and demographic trends, and operating information.

The format of the ACFR is designed to serve the needs of three primary users: the City Council along with other governmental oversight bodies, the public, and agencies assessing the City's creditworthiness.

## **Analysis**

### ***Financial Highlights***

Maze & Associates completed audits of the City's financial statements, the Single Audit, Measures B and BB special sales tax revenues, and Measure F vehicle license registration fees. Maze found the basic financial statements present fairly, in all material ways, the City's financial position as of June 30, 2023 (*Independent Auditor's Report, Opinions*). The audited financial statements include the statement of net position, statement of activities and changes in net position, balance sheets, statements of revenues, expenditures, and changes in fund balance, and statements of cash flows.

Please refer to the MD&A section in the ACFR for detailed discussion regarding the City's financial performance and position. Key financial highlights for the year ended June 30, 2023, are as follows:

- The City's Assets and Deferred Outflows of Resources exceeded its Liabilities and Deferred Inflows of Resources by \$257.5 million (Net Position), a \$41.8 million increase from the prior year. Of the total net position, \$182.6 million was invested in capital assets, \$78.7 million was restricted for other purposes, and (\$3.7) million was unrestricted. Net Investment in Capital Assets saw a decrease of \$1.6 million while Restricted and Unrestricted Net Positions increased by \$27.4 million and \$15.9 million, respectively.
- Assets and Deferred Outflows of Resources increased by \$63.2 million and Liabilities and Deferred Inflows of Resources increased by \$21.5 million from the prior year. The increase in Liabilities was primarily due to the increase in net pension liability of \$83 million and the decrease in Deferred Inflows of Resources related to pensions of \$60.3 million.

- City-wide Net Pension Liability to CalPERS for 2022-2023 increased by \$83.1 million, or 58.8% from \$141.2 million in the prior year to \$224.3 million. This significant increase in liability was driven by revised actuarial valuations from CalPERS reducing the discount rate from 7.15% to 6.9%. In addition, the City contributed \$8,222,725 to the Section 115 irrevocable trust with the Public Agency Retirement Services (PARS).
- The City's total net position increase of \$41.7 million is comprised of a \$36.6 million increase in government activities and a \$5.1 million increase in Business-Type activities.
- In response to the COVID-19 pandemic, the Federal government passed the American Rescue Plan Act (ARPA) in March 2021, including financial aid to cities. The City was awarded \$18.6 million in ARPA funds, received in two equal tranches in 2021-2022 and 2022-2023. During 2022-2023, \$5.2 million was spent on eligible programs.

### ***Auditors' Communication with Those Charged with Governance***

Professional auditing standards require the auditors to communicate in writing to management and those charged with governance. Maze and Associates has issued the Memorandum on Internal Control and the Required Communications, and these are attached to this report.

Maze considers the City's internal controls over financial reporting as a basis for designing audit procedures. At the conclusion of the audit, the firm expresses an opinion on the effectiveness of the internal controls. Maze reported five "significant deficiencies" in internal controls related to the Finance Department. Three of the deficiencies relate to "timely and accurate" and "timeliness" in completing several Finance functions. The other two deficiencies relate to one "unrecorded loans receivable" and an error in "recording of investment income and fair value adjustments."

Maze extended its prior observation that "Due to the significant transition and turnover within the Finance Department during the year, particularly in high level positions, there was significant strain on the City accounting staff's ability to ensure all accounting were fully analyzed, and closing entries were complete prior to proving the general ledger for the audit." In addition, "year-end-close", "bank reconciliations", and "posting of journal entries" were not completed with sufficient timeliness.

Management responded to these findings, stating, "The Finance Department is making progress on filling management positions in a challenging environment." In addition, the Department "assigned a dedicated staff to bank reconciliations" and is "reevaluating month-end closing, analyzing staff resources, and improving processes for journal posting." Finally, management has improved coordination with other departments and implemented GASB 31 procedures for the proper recording of both loans receivable and investment income.

### ***Conclusion***

In summary, Maze found the basic financial statements present fairly the City's financial position as of June 30, 2023. This is the highest-level opinion that can be rendered by the auditors. This opinion assures that the City's financial statements are in conformity with generally accepted accounting principles in the United States, an opinion rendered on all the City's funds. Other statements such as the Single Audit and the Measure B/BB reports also meet the compliance requirements.

The City was awarded the Certificate of Achievement for Excellence in Financial Reporting for the Fiscal Year ended June 30, 2022, by the Government Finance Officers Association of the United

States and Canada (GFOA). The City has applied for the award for the 2022-2023 ACFR, and staff believes it continues to meet the stringent standards of the GFOA Awards program.

## ATTACHMENTS

- **Attachment A:** Annual Comprehensive Financial Report
- **Attachment B:** Single Audit Report
- **Attachment C:** Measure B Program Financial Statements
- **Attachment D:** Measure BB Program Financial Statements
- **Attachment E:** Alameda County VRF Measure F Program Financial Statements
- **Attachment F:** Memorandum on Internal Control
- **Attachment G:** City of San Leandro Required Communications
- **Attachment H:** Presentation - ACFR for FY23

## PREPARED BY

T. Michael Yuen, Finance Director