



## Legislation Details (With Text)

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**Title:** Adopt a Resolution to Accept the Audited Financial Statements for the City of San Leandro for the Fiscal Year Ending June 30, 2022

**Sponsors:** T. Michael Yuen

**Indexes:**

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**Attachments:** 1. A - Resolution Accepting Audited Financial Statements 2021-22, 2. B - ACFR, 3. C - Measure B Compliance Audit, 4. D - Measure BB Compliance Audit, 5. E - Measure F.Vehicle License Fee Compliance Audit, 6. F - Report Regarding Appropriations Limit Calculation for 2022-23, 7. G - Memorandum on Internal Control, 8. H - Memorandum on Required Communications

Date	Ver.	Action By	Action	Result
5/15/2023	1	City Council	Received and Filed	Pass

Adopt a Resolution to Accept the Audited Financial Statements for the City of San Leandro for the Fiscal Year Ending June 30, 2022

### SUMMARY AND RECOMMENDATIONS

Staff recommends that the City Council adopt a resolution accepting the audited financial statements, including the Annual Comprehensive Financial Report for the City of San Leandro, for the fiscal year ended June 30, 2022.

### 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, 2022. 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 the elements for the ACFR format. The ACFR and the related financial statements fully disclose the financial condition of the City and other reporting units of the City.

The ACFR and other compliance reports prepared for the year ended June 30, 2022, include:

1. Annual Comprehensive Financial Report
2. Measure B Compliance Audit
3. Measure BB Compliance Audit
4. Measure F/Vehicle License Fee Compliance Audit
5. Report regarding the Appropriations Limit Calculation for 2022-2023
6. Memorandum on Internal Control
7. Memorandum on 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.

## DISCUSSION

### *Financial Highlights*

Maze & Associates completed audits of the City's financial statements, grants, Measures B and BB special sales tax revenues, and Measure F vehicle license registration fees. Maze also reviewed the City's Appropriations Limit Calculation for 2022-2023. Maze found the general-purpose financial statements present fairly, in all material ways, the City's financial position as of June 30, 2022 (*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, 2022, are as follows:

- The City's Assets and Deferred Outflows of Resources exceeded its Liabilities and Deferred Inflows of Resources by \$215.8 million (Net Position), a \$22.6 million increase from the prior year. Of the total net position, \$184.2 million was invested in capital assets, \$51.2 million was restricted for other purposes, and \$19.7 million was unrestricted. While Net Investment in Capital Assets and Restricted Net Position saw a decrease of \$2.0 million and \$0.4 million, respectively, Unrestricted Net Position increased by \$24.9 million.
- Assets and Deferred Outflows of Resources increased by \$13.9 million and Liabilities and Deferred Inflows of Resources decreased by \$8.8 million from the prior year. The decrease in Liabilities was partly due to the decrease in net pension liability of \$62.8 million and the decrease in debt repayment of \$6.7 million and decrease in net OPEB liability of \$1.7 million.
- City-wide Net Pension Liability to CalPERS for 2021-2022 decreased by \$62.8 million, or 31% from \$204.1 million in the prior year to \$141.2 million. This significant decrease in liability was driven by revised actuarial valuations from CalPERS considering member contributions and strong investment earnings in 2020-2021. In addition, the City contributed \$6,500,000 into the Section 115 irrevocable trust with the Public Agency Retirement Services.

- The City's total net position increase of \$22.6 million is comprised of a \$17.6 million increase in government activities and a \$5.0 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 2020-2021 and 2021-2022. During 2021-2022, \$1.2 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 Required Communications, and the memorandum is attached to this report for your review.

Maze considers the City's internal controls over financial reporting as a basis for designing the audit procedures. At the conclusion of the audit, the firm does express an opinion on the effectiveness of the internal controls. Maze reported one "significant deficiency" in internal controls related to the Finance Department- "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. As a result, there were a significant number of post-closing entries after the audit had commenced."

Management responded to this sole deficiency stating, "The Finance Department is making progress on filling management positions in a challenging environment..." and has "contracted with staffing agencies to bring in temporary staff to fill the void where possible."

### ***Conclusion***

In summary, Maze found the general-purpose financial statements present fairly the City's financial position as of June 30, 2022. 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 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, 2021, 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.

### **REVIEW BY CITY COUNCIL FINANCE COMMITTEE**

The City Council Finance Committee reviewed the audited financial statements, including the Annual Comprehensive Financial Report for the City of San Leandro, on April 26, 2023. The Finance Committee unanimously recommends the financial statement and audit reports to the City Council for acceptance.

### **ATTACHMENTS**

- Attachment A: Resolution
- Attachment B: Annual Comprehensive Financial Report

- Attachment C: Measure B Compliance Audit
- Attachment D: Measure BB Compliance Audit
- Attachment E: Measure F/Vehicle License Fee Compliance Audit
- Attachment F: Report regarding Appropriations Limit Calculation for 2022-23
- Attachment G: Memorandum on Internal Control
- Attachment H: Memorandum on Required Communications

**PREPARED BY**

T. Michael Yuen, Finance Director