



Legislation Text

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Staff Report for a City of San Leandro City Council Resolution to Accept the Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2021

SUMMARY AND RECOMMENDATIONS

Staff recommends that the City Council accept the Comprehensive Annual Financial Report for the fiscal year ended June 30, 2021.

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, 2021. The Finance Department prepares the City's financial statements in the form required for the Comprehensive Annual Financial Report. Please note that the new acronym for the Comprehensive Annual Financial Report is ACFR based on a new pronouncement issued by the Government Accounting Standards Board (GASB). 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 ending June 30, 2021 are described below.

1. Comprehensive Annual Financial Report
2. Measure B Compliance Audit
3. Measure BB Compliance Audit
4. Measure F/Vehicle License Fee Compliance Audit
5. Report regarding Appropriations Limit Calculation for Fiscal Year 2021-2022
6. Single Audit
7. Memorandum on Internal Control and Required Communications

The ACFR shows 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 and 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 fiscal year 2021-2022. Maze found the general purpose financial statements present fairly, in all material ways, the City's financial position as of June 30, 2021 (*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 Management's Discussion and Analysis section in the ACFR for detailed discussion regarding the City's financial performance and position. Key financial highlights for the years ended June 30, 2021 are as follows:

- The City's Assets and Deferred Outflows of Resources exceeded its Liabilities and Deferred Inflows of Resources by \$193.1 million (Net Position), a \$12.9 million increase from the prior year. Of the total net position, \$186.2 million was invested in capital assets, \$51.6 million was restricted for other purposes, and (\$44.6) million was unrestricted. Unrestricted Net Position increased by \$28.6 million while Net Investment in Capital Assets and Restricted Net Position saw a decrease of \$2.8 million and \$12.9 million respectively.
- Assets and Deferred Outflows of Resources increased by \$43.7 million from the prior fiscal year, offset by an increase in Liabilities and Deferred Inflows of Resources of \$30.7 million. The increase in Liabilities was partly due to the increase in net pension liability of \$15.3 million and a new direct borrowing lease agreement of \$7.6 million offset by the decrease in debt repayment of \$6.0 million and decrease in net OPEB liability of \$1.9 million. As of June 30, 2021, the City's net pension liability was \$204.1 million and the net OPEB liability was \$2.8 million.
- The City's governmental fund balance increased by \$6.3 million for an ending fund balance of \$135.3 million. Of this balance, \$8.1 million is not spendable because the funds are not available due to advances and loans to other funds. A total of \$54.4 million is Restricted due to the constraints placed on the use of resources, such as capital projects and debt service payments. \$9.5 million is Assigned, which are General Fund encumbrances from the prior year, a one-time licensing fee set aside for projects, and a reserve to fund anticipated Other Post-Employment Benefit costs resulting from the City's contract for fire protection services with Alameda County. Lastly, \$63.3 million is Unassigned and available for spending.

- The General Fund ended the fiscal year with revenues above final budget projections by 7.3% or \$8.6 million, excluding interfund transfers and one-time revenue from the sale of City property. The increase was largely due to improved sales tax and real property transfer tax revenues. Sales tax revenue increased by \$4.9 million after declining in 2019-2020 reflecting the beginning months of COVID-19. Revenues rose as the recovery occurred more quickly, businesses delaying payments caught-up more quickly, and several sales tax categories realized extraordinary growth. Real property transfer tax revenue increased by \$5.8 million in 2020-21. Some of the variance stems from the voter approved tax rate increase impacting the last half of the year. In addition, an unprecedented number of high value commercial and industrial properties sold in 2020-2021. It should be noted that total General Fund revenues, including other financing sources, reflect \$4.9 million in interfund transfer from the Capital Projects Fund and \$1.2 million in one-time revenue from the sale of property.

General Fund expenditures were 6.4% or \$7.4 million below final budget projections, excluding \$3.5 million in transfers out to other funds. A portion of the unspent budget balance represents open purchase orders and deferred purchases that will incur in future fiscal years. As shelter-in-place orders were extended, City programs and activities remained closed, and some programs were deferred. The unspent balance also reflects \$1.7 million that was set aside for police budget reallocation.

The City achieved positive financial results by extraordinary growth in sales tax and property transfer tax revenues, and early imposition of strategies to control costs considering the COVID-19 pandemic.

- The City's business-type/enterprise activities include the Water Pollution Control Plant, Shoreline, Storm Water Utility, and Environmental Services. The total net position for all four of these funds was \$65.6 million at fiscal year end June 30, 2021, an increase of \$7.1 million over the prior fiscal year. The increase mainly attributed to one-time sewer connection fees and the increase in golf course revenue.

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 staff report for your review.

Staff is pleased to inform the Committee that there were no findings resulted from the audit.

Review by Finance Committee

On Wednesday, January 12, 2022, the Finance Committee met to review the Comprehensive Annual Financial Report and other compliance reports. The Engagement Partner from Maze and Associates also attended the meeting and provided the Committee an overview about the audit process and audit results.

Conclusion

In summary, Maze found the general purpose financial statements present fairly the City's financial position as of June 30, 2021. 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 accounting principles generally accepted in the United States and was rendered on all City funds. Other statements such as the Single Audit and 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, 2020 by the Government Finance Officers Association of the United States and Canada (GFOA). Because of staffing transitions, the City did not apply for the GFOA award for the fiscal year 2018-2019 ACFR. The City has applied for the award for the fiscal year 2020-2021 ACFR, and staff believes it continues to meet the stringent standards of the GFOA Awards program.

ATTACHMENTS TO THE RESOLUTION

- Comprehensive Annual Financial Report
- Measure B Compliance Audit
- Measure BB Compliance Audit
- Measure F/Vehicle License Fee Compliance Audit
- Report regarding Appropriations Limit Calculation for Fiscal Year 2021-2022
- Single Audit
- Memorandum on Internal Control and Required Communications

PREPARED BY

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