



AGENDA NO: 9.b

MEETING DATE: February 11, 2024

Staff Report

TO: Honorable Mayor and City Council

DATE: February 11, 2024

FROM: Emily Conrad, Finance Director
Megan Schotborgh, Accounting Manager

SUBJECT: Presentation and Discussion of the Fiscal Year (FY) 2023-24 Annual Comprehensive Financial Report

RECOMMENDED ACTION

1. Receive the presentation and provide feedback on the FY 2023-24 Annual Comprehensive Financial Report (ACFR) for the period of July 1, 2023 through June 30, 2024 (Attachment 1), and
2. Receive FY 2023-24 Annual Street Report (Attachment 2), FY 2023-24 Transit Operator Financial Transactions Report (Attachment 3), and FY 2024-25 Prop 172 Maintenance of Effort Certification (Attachment 4).

BACKGROUND

In the City's ongoing commitment to transparency and fiscal accountability, the City completes an Annual Comprehensive Financial Report (ACFR). In 2021 the City issued a Request for Proposal (RFP) for auditing services and Brown Armstrong Accountancy Corporation (Brown Armstrong) was selected as the most responsive proposer. The City entered into agreement with Brown Armstrong to perform auditing services for the fiscal years ending June 30, 2021, 2022, 2023, 2024, and 2025, with the option to renew for two additional fiscal years (2026 through 2027). The auditors performed both in-person and remote review of expenditures, revenues, contracts, and general accounting processes for both accuracy and internal controls (fraud prevention).

DISCUSSION

Annual Comprehensive Financial Report

Lindsey Zimmerman, Certified Public Accountant (CPA) and Partner at Brown Armstrong, was the partner-in-charge of this year's audit. Ms. Zimmerman has over 18 years of auditing experience including over 10 years of governmental auditing experience. She will present the FY 2023-24 auditor's report to the City Council on February 11th, including highlights from the ACFR.

Highlights of the FY 2023-24 ACFR results include the following:

Independent Auditor's Report (pages 1-3)

The auditors have given reasonable assurance that the City's financial statements for the year ended June 30, 2024 "present fairly, in all material respects, the respective financial position of

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City Manager Review: <u> </u>	City Attorney Review: <u>_RWS_</u>

the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2024, and the respective changes in financial position, and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.”

Management’s Discussion and Analysis (MD&A) (pages 5-13)

This section provides an explanation of what is included in the City’s basic financial statements and provides supplementary information in addition to the financial statements. It outlines financial highlights for the fiscal year and presents summary data for the City on an entity-wide basis. Information is provided in this section with a year-to-year view, explaining how net position and fund balances have changed between fiscal years ending June 30, 2023 and June 30, 2024. This section outlines what is reported as part of the General Fund, Nonmajor Governmental Funds, and Proprietary Funds throughout the report. The section also breaks down the unassigned fund balance in the General Fund’s components, including the operating fund (\$4.1 million), Unfunded Compensable Leave (\$0.2 million), Emergency Reserve (\$7.5 million), Capital Accumulation Fund (\$0.6 million), and Vehicle Replacement Fund (\$0.8 million). This total unassigned fund balance of \$13.3 million is a \$1.3 million improvement over the prior fiscal year when the total unassigned fund balance across all components of the General Fund was \$11.9 million. The increase can be attributed to a combination of more revenue and less expenditure than anticipated. For example, interest revenues exceeded expectations in these funds. While that is a welcome source of revenue, it is essential to note that it is a volatile source largely out of City control and therefore not a source to depend upon. Another factor is increased revenue from services like permitting and design review, facility rentals, and recreation sports and childcare programs. On the expenditure side, there were savings in budgeted personnel costs (due to vacancies) and in consulting/contractual services due to limited staff and time to manage the projects. The MD&A also highlights the ending fund balances and unrestricted net position in the City’s other major funds, including Measure E at \$0.45 million, the Water Fund at \$16.4 million, the Sewer Fund at \$31.5 million, the Harbor Fund at \$1.3 million, and the Transit Fund at \$0.27 million.

Statement of Net Position (pages 18-19)

The Statement of Net Position serves as a useful indicator of a government’s financial position. On June 30, 2024, the City’s net position had increased by \$15.0 million over June 30, 2023, primarily due to the Business-Type Activities which had an increased net position of \$13.9 million while Governmental Activities net position increased by \$1.1 million. The increase in Business-Type Activities is due to continued loan draws from the U.S. Environmental Protection Agency and State Water Resources Control Board loans secured to partially fund the planning and construction of the WRF. During FY 2023-24 the City received reimbursement of approximately \$9 million for expenditures already paid from operating cash flow in both the current and prior fiscal years. The increase in Governmental Activities net position is due to increased revenues from investment returns, property taxes, franchise taxes, grant awards, rental income, and business license taxes.

Basic Financial Statements (pages 15-83)

This section contains basic financial statements, including the Government-wide statement of Net Position (pages 18-19) and Statement of Activities (pages 20-21), financial statements Governmental Funds (pages 27-30), Proprietary Funds (pages 32-41), and Fiduciary Funds (pages 45-46). The Statement of Activities is where activity by department and revenue source is presented. The Fiduciary Funds statements now present the Pension Trust Fund and the Other Postemployment Benefit (OPEB) Trust Fund in addition to the Custodial Fund. The footnotes portion of this section provides details on significant items such as the City’s cash and

investments, its long-term obligations related to loan payables, pension related debt and compensated absences, the net pension liability for both the City's miscellaneous and public safety pension plans, and a discussion of the City's other post-employment benefit plans.

The Citywide total net pension liability was approximately \$33.7 million as of the most recent measurement date of June 30, 2023, an increase of approximately \$2.3 million since the prior measurement date of June 30, 2022. See pages 90-93 for more detail. The Citywide net Other Post-Employment Benefit (OPEB) liability was approximately \$628,000 as of June 30, 2024, a decrease of approximately \$1,000 since June 30, 2023. See page 94 for more detail. In FY 2022-23, the City established a Section 115 Trust to build funds for future pension contribution increases, beginning with total contributions of \$2.2 million as of the reporting date of June 30, 2024.

Required Supplementary Information (pages 85-95)

The Budgetary Comparison Schedule for the General Fund and Pension Plan Contributions are provided in this section.

Supplementary Information (pages 97-128)

This section lists the nonmajor governmental special revenue funds and provides balance sheets and budget-to-actual information and changes in fund balance for nonmajor governmental funds. These funds each represent less than 10% of the City's total governmental fund assets/liabilities/revenues/expenditures and approximately 5% of the City's total assets/liabilities/revenues/expenditures across all funds.

Statistical Section (pages 131-181)

This section presents ten-year historical financial data for the City to help the reader understand how the City's financial well-being has changed over time, the City's revenue and debt capacity, demographic and economic information to provide context for the City's financial activities.

State Mandated Reports (Attachments 2, 3, and 4)

The following annual reports have been completed and attached for your review:

- FY 2023-24 Annual Street Report
- FY 2023-24 Transit Operator Financial Transactions Report
- FY 2024-25 Prop 172 Maintenance of Effort Report

The Annual Street Report and Transit Operator Financial Transactions Report are required to be filed annually with the State of California State Controller's Office and summarizes street-related and transit-related fiscal year revenues and expenditures. The FY 2024-25 Prop 172 MOE Report is also required to be filed annually with the county and state regarding the reporting of City Prop 172 sales tax revenues received and the City's budgeted allocation of funding to Public Safety from other City revenue sources not including Prop 172 revenues.

CONCLUSION

Lindsey Zimmerman from Brown Armstrong will present the FY 2023-24 audit report to the City Council.

The FY 2022-23 ACFR was awarded a Certificate of Achievement for Excellence in Financial Reporting. The FY 2023-24 ACFR will also be submitted to the Government Finance Officers Association (GFOA) for consideration for excellence in financial reporting.

Weblinks and Attachments

1. [FY 2023-24 Annual Comprehensive Financial Report](#)
2. [FY 2023-24 Annual Street Report](#)
3. [FY 2023-24 Transit Operator Financial Transactions Report](#)
4. [FY 2024-25 Proposition 172 Maintenance of Effort Certification](#)