



Council Agenda Report

From: Ryan Cornell, Administrative Services Director
Catherine Piatti, Finance Manager

Subject: Annual Comprehensive Financial Report for Fiscal Year 2021-22

CEQA Determination: The City find that this action is not a project under the California Environmental Quality Act pursuant to State Guidelines Section State CEQA Guidelines, §§15060, subd. (b)(2)-(3), 15378.

Date: January 31, 2023

Facts

1. The Annual Comprehensive Financial Report (ACFR) is a set of financial statements comprising all financial activity of the City. The information presented in the ACFR has been reviewed by an independent auditor, using accepted standards and report formats, to ensure the accuracy on the City's financial practices and overall financial condition.
2. The ACFR is prepared in accordance with generally accepted accounting procedures (GAAP), including compliance with pronouncements issued by the Governmental Accounting Standards Board (GASB). The report is designed to highlight changes in the City's financial condition and practices over time and to allow consistencies between all state, municipal, and other governmental agencies.
3. An audit of the City's financial records was performed by the outside certified public accounting firm, Brown Armstrong Accountancy Corporation.
4. City management is responsible for the preparation and fair presentation of the financial statements as well as the design, implementation, and maintenance of internal control. Internal controls are the mechanisms, rules, and procedures implemented by the City to ensure the integrity of financial and accounting information, promote accountability, and prevent fraud.
5. The independent auditors issued an unqualified opinion, meaning that the financial statements and other information reported in the ACFR fairly represent, in all material respects, the financial position of the City as of June 30, 2022 and the financial activities beginning on July 1, 2021 and ending on June 30, 2022.
6. In addition to receiving an unqualified opinion, the auditors did not note any deficiencies within the City's accounting practices or internal controls, thus informing the community that the City's financial practices contribute to the City's commitment to be trustworthy stewards of the community's tax dollars. Over the past 22 years, the City has excelled in financial reporting, resulting in various awards and audits that have been clear of findings and material misstatements.
7. Hard copies of the ACFR are available for review in the City Library and City Clerk's Office at 1000 Spring Street, and the Administrative Services Office at 821 Pine Street. A reference copy for the City Council has been placed in the City Council office. An electronic copy of the ACFR is also available on the City's [website](#).

Options

1. Take no action;
2. Receive and file the Comprehensive Annual Financial Report for the fiscal year ending June 30, 2022;
or
3. Provide alternative direction to staff or the auditor.

Analysis and Conclusions

State law requires that every general-purpose local government publish an annual report on its financial position and activity, and that the report be audited by an independent firm of certified public accountants. Taken together, the ACFR, the multi-year fiscal forecast, and the budget provide the best overview of the City's fiscal health and opportunities for future financial stability. Because the ACFR is audited by an independent expert, the report provides additional assurance to the community that the City is being a responsible steward of the community's tax dollars.

The City's financial statements, internal documents, and controls have been audited by Brown Armstrong Accountancy Corporation. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended June 30, 2022 are free of material misstatements. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor's report is presented as the first component of the financial section of the ACFR.

ACFR Organization

The City's ACFR is organized into three major sections: Introductory, Financial, and Statistical. The following is a brief summary of the contents of each of these sections:

1. **Introductory Section:** The letter of transmittal and other information of general interest are presented in this section including the organizational chart, directory of officials as well as the Government Finance Officers Association's *Certificate of Achievement for Excellence in Financial Reporting*. The letter of transmittal is an opportunity for management to provide an overview of the City's activities, prospective information as well as subjective information useful in assessing the City's economic condition.
2. **Financial Section:** The financial section includes the report of the independent auditor, management's discussion and analysis, basic financial statements (including notes), required supplementary information and related notes, combining statements (i.e., non-major funds), and individual fund financial statements and schedules.
3. **Statistical Section:** The statistical section offers operational, economic, and historical data that provides a context for assessing the City's economic condition. Such data includes information on financial trends, information on revenue capacity, information on debt capacity, demographic and economic information, and operating information.

Recognition for Excellence in Financial Reporting

Beginning in fiscal year 2017-18, the City's ACFR has been awarded each year with the *Certificate of Achievement for Excellence in Financial Reporting* from the Government Finance Officers Association of the United States and Canada (GFOA). This is a prestigious national award recognizing the City's use of the highest standards in preparing our annual financial report.

Financial Highlights

Key financial highlights for FY 2021-22 are as follows:

- General Fund revenues continued to see unprecedented year-over-year increases due to the improved stay-at-home restrictions coming out of the COVID-19 pandemic. This resulted in record-breaking tourism activity for the City with transient occupancy tax increasing by 37%, from \$7.1 million in FY 2020-21 to \$9.8 million in FY 2021-22. Similar results were realized in tourism-related sales tax industries such as casual dining, restaurants, hotels, and fuel and service stations. As such, sales tax increased by \$2.5 million from FY 2020-21 to FY 2021-22, representing a 14% increase. Spikes in the global cost of crude oil resulted in higher gas prices which also boosted sales tax receipts for the first part of 2022, as well.

- In 2020, the voters of the City approved Measure J-20, a one-cent supplemental sales tax override. The main priorities for spending the Measure J-20 supplemental sales tax revenue—as approved by City Council in Resolution 20-118—are for fire and emergency services, police services, and street repair and maintenance. FY 2021-22 reflects the first full year of revenues received which totaled \$13.1 million. Approximately \$3.9 million of these funds were expended on the following:

Measure J-20 Fund	Expended in Fiscal Year
Police Personnel	\$ 357,882
Police Vehicle & Equipment	62,404
Design of Substation/Evidence Storage	143,972
Fire and Emergency Services Personnel ¹	311,304
Fire and Emergency Services Equipment	43,018
Construction of Fire Station No. 3	1,741,151
Street Maintenance Personnel	153,191
Street & Road Maintenance	1,133,813
Total J-20 Expenditures	<u>\$ 3,946,735</u>
1- Net of grant revenues	

- For FY 2021-22, the City implemented Government Accounting Standards Board (GASB) Statement No. 87, *Leases*. Under this statement, the City, as a lessee, is required to recognize a lease liability and an intangible right-to-use leased asset; and, as a lessor, is required to recognize a lease receivable and a deferred inflow of resources. The objective of this statement is to improve accounting and financial reporting for leases by governments, thereby enhancing the relevance and consistency of information about governments' leasing activities. Implementation of GASB Statement No. 87 and the impact on the City's financial statements are explained in Note 4, Leases Receivable, and Note 10, Right-to-Use Leased Assets and Leases Payable in the Notes to the Basic Financial Statements section of the ACFR.
- For FY 2021-22, the City established Internal Service Funds for Information Technology (IT), Fleet and Equipment, and Risk Management activities. An internal service fund is used to report any activity that provides goods or services to other funds, departments, or agencies of the primary government. For example, IT provides services to each of the City's general fund departments as well as the enterprise funds. Previously, IT-related expenses were accounted for in many areas including the City Manager's Office expenditures (IT was part of the City Manager's Office Department), accounted for in the IT Replacement Fund, accounted for in each of the enterprise funds as an "operating expense" or "capital outlay" as well as some costs directly charged to a specific department. By this methodology, it was very difficult to determine what the total IT needs are of the City as a whole. Incorporating internal services funds allows for better transparency as to what the total cost of IT, fleet maintenance, and risk management functions are, as well as how much of each fund is contributing towards these services. The Internal Service Funds are presented in the accompany Proprietary Fund financial statements and related combining statements.
- In accordance with GASB Statement No. 31, the City accounts for cash investments with maturities of one year or more at its fair value. On June 30, 2022, the Local Agency Investment Fund (LAIF), the City's largest investment holding, had a fair value factor of 98.7%; similar factors were realized amongst the remaining City investments. This resulted in a \$4.5 million fair market value adjustment in the current year and reported as an investment loss in most city funds (certain funds, such as the

Airport Fund, realized positive investment income due to direct leasing of certain facilities and the implementation of GASB Statement No. 87).

- In 2012, the voters of the City approved Measure E-12, a one half-cent supplemental sales tax override. The main purpose of these funds is for street repair and maintenance. On February 4, 2020, City Council approved a “Street Maintenance Plan” which outlines which residential streets, arterials, and collectors will be maintained over the next six years. For FY 2021-22, approximately \$5.9 million of these funds were expended on the following street segments:

Measure E-12	Expended in Fiscal Year
Creston Road	\$ 46,403
Spring Street (24 th Street – 36 th Street)	5,702
West Side Streets	64,864
Jardine Road	366,840
24 th Street Bridge	140,945
Dry Creek Road	1,042,725
Rambouillet/Nicklaus-Area	2,508,489
Olive/16 th -20 th Streets	1,486,722
Appaloosa Drive	21,313
Melody Drive/Patricia Lane	67,321
Rolling Hill Estates	24,365
Country Club-Area	86,710
Total J-20 Expenditures	<u>\$ 5,862,399</u>

Fiscal Impact

None

Recommendation

Receive and file the Annual Comprehensive Financial Report, which includes the Independent Auditor’s Report on the City’s financial statements, for the fiscal year ended, June 30, 2022.

Attachments

1. Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2022