



CITY of CALABASAS

CITY COUNCIL AGENDA REPORT

DATE: JANUARY 28, 2021

TO: HONORABLE MAYOR AND COUNCILMEMBERS

FROM: RON AHLERS, CHIEF FINANCIAL OFFICER

**SUBJECT: CONSIDER COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR)
AND OTHER AUDIT REPORTS FOR FISCAL YEAR ENDED JUNE 30,
2020**

MEETING DATE: FEBRUARY 10, 2021

SUMMARY RECOMMENDATION:

The following reports are submitted to the Council for your review and approval:

- Comprehensive Annual Financial Report (CAFR)
- Required Communication in Accordance with Statement on Auditing Standards No. 114
- Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards
- Best Practices Letter
- Independent Accountant's Report on Agreed-Upon Procedures Applied to Appropriations Limit Worksheets
- Independent Accountant's Report on Agreed-Upon Procedures on the City of Calabasas Municipal Code Chapter 3.4 Purchasing System and Standard Policy and Procedure 151-601 Credit Card Processing.

BACKGROUND:

The City is required to conduct an annual independent audit of its financial statements. The City selected a new audit firm this past year. The audit firm of Rogers, Anderson, Malody & Scott (RAMS), Certified Public Accountants conducted the annual audit and with staff assistance prepared the required financial statements. For the fiscal year ended June 30, 2020, the City received an unqualified opinion.

The City currently has three bond issues for which it is responsible (one Certificate of Participation bonds and two Community Facilities District (CFD) bonds). The bond proceeds from these three issues have been spent in accordance with the bond documents.

AWARD

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its comprehensive annual financial report for the fiscal year ended June 30, 2019. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program’s requirements and we have submitted it to the GFOA to determine its eligibility for another certificate.

DISCUSSION/ANALYSIS:

Financial Metrics

Listed below are a few key metrics concerning the City of Calabasas’ financial health. The figures below are from page 31 of the CAFR.

CASH	41,896,900	CASH	41,896,900
Current Liabilities	5,205,821	Non-current Liabilities	53,627,816
Cash over by	36,691,079	Cash under by	(11,730,916)
Percentage	705 %	Percentage	(22 %)
Grade: A-		Grade: C	

The City’s cash is greater than the current liabilities by \$36.7 million or 705%. This is excellent and receives a grade of “A-”. The City has plenty of cash to actually pay liabilities that are due in less than one year. The City’s non-current liabilities exceed cash by \$11.7 million or a negative 22%. This receives a grade of “C”. The City should have cash in excess of non-current liabilities (payable in longer than one year). The City has too much debt: bonds \$38.8 million, OPEB (retiree medical insurance) \$7.5 million and Pensions \$7.1 million. The City needs to pay down the OPEB and Pension debt completely in the near future.

The Unrestricted Net Position is \$7,909,775 (page 31) is positive and reflects a portion of the reserves that can be spent for any purpose, net of all liabilities. This amount should be greater and therefore the assigned grade is "B".

The figures below are from pages 34-38 of the CAFR.

GENERAL FUND		GENERAL FUND	
CASH	13,607,322	Revenues	22,771,267
Expenses	24,119,619	Expenses	<u>24,119,619</u>
Percentage	56 %	Net Loss	(1,348,352)
Number of months	6	Percentage	(6 %)
Grade: B		Grade: B	

General Fund cash is about 56% of annual expenses; therefore a six month cash reserve. This is important since the first five months of the fiscal year, the General Fund operates at a significant deficit until the first property tax revenues arrive at the end of December. Even December and January show year to date operating deficits, albeit much smaller. The Grade is B since cash can cover the first six months of the year. Ideally, this should be around eight months. The General Fund had a loss of about \$1.3 million which is pretty good considering the Governor severely restricted business activity in the State and certain businesses were ordered to close. The Governor's stay at home order dramatically reduced the Transient Occupancy Tax revenues generated by the three hotels located in the City.

Please note on page 35 & 38, the Disaster Recovery Fund which has \$4 million in cash. The Southern California Edison (SCE) settlement monies were posted to this newly created fund. Recall the City has spent about \$500,000 of this money in FY 2020-21 to assist small businesses located within the City.

TENNIS & SWIM CENTER		TENNIS & SWIM CENTER	
CASH	686,741	Revenues	3,525,984
Expenses	3,792,345	Expenses	<u>3,792,345</u>
Percentage	18 %	Net Loss	(266,361)
Number of months	2	Percentage	(7 %)
Grade: C-		Grade: B	

The Proprietary Fund, Tennis & Swim Center (T&SC), is found on pages 40-42. The cash balance of \$686,741 reflects just two months' worth of expenses; cash is way too low. The net loss for the year of \$266,361 is decent, considering the operations were completely shut down from middle of March to end of May 2020.

TENNIS & SWIM CENTER		TENNIS & SWIM CENTER	
CASH	686,741	CASH	686,741
Asset depreciation	4,020,797	Equipment depreciation	668,946
Under funded	(3,334,056)	Variance	17,795
Percentage	(83 %)	Percentage	3 %
Grade: D		Grade: D	

However, cash should be greater than the depreciation of the assets of the T&SC. In other words, there should be sufficient cash to replace the buildings, improvements, machinery and equipment at the T&SC at this point in their useful life. The depreciation is \$4,020,797 (page 66); therefore underfunded by \$3.3 million. There is barely sufficient cash to just replace the machinery and equipment at T&SC, \$668,946.

PENSION LIABILITY		OPEB LIABILITY	
6/30/2019	6,374,629	6/30/2019	1,906,919
6/30/2020	7,123,267	6/30/2020	7,507,814
Increase	748,638	Increase	5,600,895
Percentage	11 %	Percentage	75 %
Grade: D		Grade: F +	

The City liability for the Pension Plan, page 74, increased \$748,638 or 11% this past year. The City needs to pay down this unfunded liability before it begins to grow at ever increasing rates. The OPEB liability, page 82, for retiree medical was not accurately measured in the prior years. This past year the City enlisted the services of a new actuarial firm and they performed a correct analysis of this liability. The liability is very large at \$7.5 million. The City also needs to pay down the OPEB liability.

CAFR Document

Attached for your approval are the annual financial statements for the year ended June 30, 2020 for the City of Calabasas (City). The financial statements are comprehensive and include all of the fund types in the City.

The City Council engaged an independent certified public accounting firm, RAMS, to perform the annual audit of the City of Calabasas and its component units. The results of the audit performed are formally published in the CAFR. This report must satisfy both Generally Accepted Accounting Principles (GAAP) and applicable legal requirements. Additionally, the CAFR is sent out to numerous government agencies and financial institutions in order to comply with various reporting, financial and

subsequent bond disclosure requirements. The overall financial picture of the City is presented, in accordance to the Governmental Accounting Standards Board (GASB) pronouncements, on a Government-wide basis. This is designed to provide readers with a broad overview of the City's finances similar to a private-sector business. These statements show the June 30, 2019 fiscal year balances and overall results of operations for the period then ended, for all City funds.

The CAFR statements are as follows:

Management's Discussion and Analysis (MD & A) (page 15). This discussion and analysis starts the financial section of the CAFR and serves as an executive summary. GAAP requires that management provide this narrative introduction, overview and analysis to accompany the basic financial statements. The *Letter of Transmittal* (page 1), which precedes the MD & A in the introductory section, is designed to supplement the MD & A and should be read in conjunction with it. The MD & A is found immediately following the report from the independent auditors (page 12). The report from the auditors contains an opinion letter in which an entity can receive basically three opinions; unqualified, qualified, and adverse. An unqualified opinion from the auditors is the highest given. For the fiscal year ended June 30, 2020 audit, the City of Calabasas received an unqualified opinion.

The Statement of Net Position (page 31) presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities (page 32) presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cashflows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation and sick leave). An increase in net position of about \$3.1 million was reported for the fiscal year ended June 30, 2020 (page 33).

The government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities). The governmental activities of the City include general government, public safety, public services, parks and recreation, streets and roads and interest on long-term debt.

Following the government-wide statements in the CAFR, the *Balance Sheet* (page 34), and *the Statement of Revenues, Expenditures and Changes in Fund Balances* (page 37) are presented for all major and non-major governmental funds. A major fund is one of material significance and is determined through prescribed calculations.

The General Fund is always considered a major fund by definition. Other governmental funds can be declared major funds by management due to other factors, even if they fail the qualifications resulting from the calculations. Non-major funds are all combined together for presentation. Reconciliations between these governmental statements and the government-wide statements are also presented.

The Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position and the Statement of Cash Flows (pages 40-42) are for the City's only enterprise operation, Tennis and Swim Center.

The Statement of Fiduciary Net Position (page 43) records the City's deposit fund.

The statements are followed by the *Notes to the Financial Statements* on pages 44-86.

The Required Supplementary Information begins at page 87 and details the City's Pension liability, Other Post Employment Benefits (OPEB) along with budget to actual comparisons for all the major funds of the City, beginning with the General Fund.

Supplementary Information is the next section of the CAFR which provides statements for each individual non-major governmental fund. The governmental funds are presented in their various categories: special revenue funds and capital project funds. Additionally, there is the budget to actual comparisons for each non-major fund.

The *Statistical Section* of the CAFR contains data about the City of Calabasas. This section is prepared by staff and not reviewed by the auditors. All of the tables and schedules present numerous facts about the City, many for the last ten years. The statistical facts include population figures, principal taxpayers, and assessed valuations of taxable property to name a few.

The CAFR is posted on the City's website:

<http://www.cityofcalabasas.com/departments/finance/cafrs.html>

Required Communication in Accordance with Statement on Auditing Standards No. 114

This report discusses RAMS responsibility, planning and timing of the audit. It talks about accounting policies and estimates and any difficulties encountered with the audit. The report states there were no disagreements between RAMS and City management. Attached to the report is the City's representation letter regarding the audit for the fiscal year ended June 30, 2020.

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

The independent auditors noted four findings in this report for the fiscal year ended June 30, 2020. The first finding deals with "Segregation of Duties" and the City is currently implementing the changes recommended. The second finding is "Bank Reconciliation Review" and the City is catching-up with the bank reconciliations and we anticipate being current by within a couple of months. The third finding is "Purchasing Policy and Contract Support" is a citywide issue and involves all the departments. The City expects to implement the recommendations by the end of April 2021. The fourth finding, "Investment Policy", concerns reporting and this will be implemented by the end of February.

Best Practices Letter

The auditors have made four best practice recommendations for the City: Accounts Payable Procedures, Payroll Processing Procedures, Credit Cards and Budgeted Transfers. Staff agrees with the recommendations and will be implementing each one.

Independent Accountant's Report on Agreed-Upon Procedures Applied to Appropriations Limit Worksheets

No exceptions were noted in regard to the Appropriations Limit calculation.

Independent Accountant's Report on Agreed-Upon Procedures on the City of Calabasas Municipal Code Chapter 3.4 Purchasing System and Standard Policy and Procedure 151-601 Credit Card Processing

The City Council directed staff to engage RAMS to perform a review of the City's credit card policy and procedures. This report is the result of the policy and procedural review. RAMS recommends a few changes. Specifically that the City reduce the number of credit cards and have the department heads grant approval prior to purchases. Staff will review this report with the new permanent City Manager and will implement the changes that will improve internal control while still maintaining operational and purchasing efficiency.

Single Audit Report

The City did not conduct a Single Audit this year due to not meeting the annual minimum dollar threshold of \$750,000 in expenditures.

FISCAL IMPACT/SOURCE OF FUNDING:

None.

REQUESTED ACTION:

Staff recommends the City Council receive and file the followings reports for fiscal year ended June 30, 2020:

- Comprehensive Annual Financial Report (CAFR)
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ATTACHMENTS:

1. Comprehensive Annual Financial Report (CAFR)
2. Required Communication in Accordance with Statement on Auditing Standards No. 114
3. Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*
4. Best Practices Letter
5. Independent Accountant’s Report on Agreed-Upon Procedures Applied to Appropriations Limit Worksheets
6. Independent Accountant’s Report on Agreed-Upon Procedures on the City of Calabasas Municipal Code Chapter 3.4 Purchasing System and Standard Policy and Procedure 151-601 Credit Card Processing