



**CITY of CALABASAS**

**CITY COUNCIL AGENDA REPORT**

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**DATE: FEBRUARY 2, 2021**

**TO: HONORABLE MAYOR AND COUNCILMEMBERS**

**FROM: RON AHLERS, CHIEF FINANCIAL OFFICER**

**SUBJECT: CONSIDER ANNUAL COMPREHENSIVE FINANCIAL REPORT (ACFR)  
AND OTHER AUDIT REPORTS FOR FISCAL YEAR ENDED JUNE 30,  
2021**

**MEETING DATE: FEBRUARY 9, 2021**

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**SUMMARY RECOMMENDATION:**

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

- Annual Comprehensive Financial Report (ACFR)
- 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

**BACKGROUND:**

The City is required to conduct an annual independent audit of its financial statements. 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, 2021, 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, 2020. 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 annual comprehensive 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 32 of the ACFR.

CASH	42,491,382	CASH	42,491,382
Current Liabilities	5,833,042	Non-current Liabilities	54,494,089
Cash over by	<u>36,658,340</u>	Cash under by	<u>(12,002,707)</u>
Percentage	628 %	Percentage	(22 %)

The City’s cash is greater than the current liabilities by \$36.7 million or 628%. The City has plenty of cash to actually pay liabilities that are due in less than one year. The City’s non-current liabilities (greater than one year) exceed cash by \$12 million or a negative 22%. Non-current liabilities are: bonds \$37.6 million, OPEB (retiree medical insurance) \$8.8 million and unfunded Pension liabilities \$7.9 million. The Council Budget sub-committee is reviewing options to pay down the OPEB and unfunded Pension liability.

The Unrestricted Net Position is \$6,076,469 (page 32) is positive and reflects a portion of the reserves that can be spent for any purpose, net of all liabilities.

The figures below are from pages 35-39 of the ACFR.

GENERAL FUND		GENERAL FUND	
CASH	13,801,636	Revenues	24,180,166
Expenses	22,390,116	Expenses	<u>22,390,116</u>
Percentage	62 %	Net Change	1,790,050
Number of months	7	Percentage	8 %

General Fund cash is about 62% of annual expenses; therefore, a seven-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 General Fund had a gain of about \$1.8 million. The Governor's stay at home order dramatically reduced the Transient Occupancy Tax revenues generated by the three hotels located in the City. Sales Tax revenue greatly increased from the prior year due to auto sales and leasing activity along with increases in on-line shopping.

TENNIS & SWIM CENTER		TENNIS & SWIM CENTER	
CASH	659,673	Revenues	3,920,443
Expenses	4,304,941	Expenses	<u>4,304,941</u>
Percentage	15 %	Net Loss	(384,498)
Number of months	1	Percentage	(9 %)

The Proprietary Fund, Tennis & Swim Center (T&SC), is found on pages 41-43. The cash balance decreased to \$659,673, reflecting just one month's worth of expenses. The net loss for the year grew to **(\$384,498)**. The net loss was expected considering that operations were decreased. The Council Budget sub-committee will be considering options on ways to improve the cash position of the T&SC.

TENNIS & SWIM CENTER		TENNIS & SWIM CENTER	
CASH	659,673	CASH	659,673
Asset depreciation	<u>4,115,269</u>	Equipment depreciation	<u>689,136</u>
Under funded	(3,455,596)	Variance	(29,463)
Percentage	(84 %)	Percentage	(4 %)

The T&SC depreciation is \$4,115,269 (page 68); therefore, underfunded by \$3.5 million. There is almost sufficient cash to replace the machinery and equipment at T&SC, \$689,136. The Council Budget sub-committee will be reviewing options to create a "depreciation fund" in order to repair, maintain and replace the buildings,

improvements, machinery and equipment at the T&SC and the other properties of the City.

UNFUNDED PENSION LIABILITY	OPEB (RETIREE MEDICAL) LIABILITY
6/30/2020 7,123,267	6/30/2020 7,507,814
6/30/2021 <u>7,920,057</u>	6/30/2021 <u>8,756,453</u>
Increase 796,790	Increase 1,248,639
Percentage 10 %	Percentage 14 %

The City’s unfunded pension liability (page 76) increased \$796,790 or 10% this past year. The OPEB liability (page 84) for retiree medical insurance was not accurately measured in the prior years. These past two years the City enlisted the services of a new actuarial firm and they performed a correct analysis of this liability. The liability is \$8.8 million. The Council Budget sub-committee will be considering options on how to decrease the unfunded pension liability and the OPEB liability.

**ACFR Document**

Attached for your approval are the annual financial statements for the year ended June 30, 2021 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 ACFR. This report must satisfy both Generally Accepted Accounting Principles (GAAP) and applicable legal requirements. Additionally, the ACFR 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, 2021 fiscal year balances and overall results of operations for the period then ended, for all City funds.

The ACFR statements are as follows:

*Management's Discussion and Analysis (MD & A)* (page 16). This discussion and analysis start the financial section of the ACFR 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, 2021 audit, the City of Calabasas received an unqualified opinion.

*The Statement of Net Position* (page 32) 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 33) 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). A decrease in net position of about **(\$327,350)** was reported for the fiscal year ended June 30, 2021 (page 34).

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 ACFR, the *Balance Sheet* (page 35), and *the Statement of Revenues, Expenditures and Changes in Fund Balances* (page 38) 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 41-43) are for the City's only enterprise operation, Tennis and Swim Center.

*The Statement of Fiduciary Net Position* (page 44) records the City's deposit fund.

The statements are followed by the *Notes to the Financial Statements* on pages 46-89.

*The Required Supplementary Information* begins at page 90 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 ACFR 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 ACFR 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 ACFR is posted on the City's website:

<https://www.cityofcalabasas.com/government/finance/comprehensive-annual-financial-reports-cafr>

***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, 2021.

***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, 2021. These findings are a repeat of last year's findings. 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 fourth finding, "Investment Policy", concerns reporting and this will be implemented within the coming months.

**Best Practices Letter**

The auditors have made two best practice recommendations for the City: Credit Cards and Budgeted Transfers. Subsequent to the completion of the audit, staff began decreasing the number of credit cards issued and will continue to do so. Staff agrees with the recommendations and will be implementing each one. These are repeat findings from last year.

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

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

**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, 2021:

- Comprehensive Annual Financial Report (ACFR)
- 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

**ATTACHMENTS:**

1. Comprehensive Annual Financial Report (ACFR)
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