



CITY of CALABASAS

CITY COUNCIL AGENDA REPORT

DATE: FEBRUARY 8, 2023

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 (FY) ENDED JUNE 30, 2022

MEETING DATE: FEBRUARY 22, 2023

SUMMARY RECOMMENDATION:

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

- Annual Comprehensive Financial Report (ACFR) for Fiscal Year ended June 30, 2022
- 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, 2022, the City received an unqualified opinion. The City currently has three bond issues for which

it is responsible (one Certificate of Participation bond 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) did not award a Certificate of Achievement for Excellence in Financial Reporting to the City for its annual comprehensive financial report for the fiscal year ended June 30, 2021. The City did not meet the award criteria regarding “major funds”. The City did not submit for the award for this current year, June 30, 2022. We may submit for the award next year.

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 ACFR.

CASH	46,498,204	CASH	46,498,204
Current Liabilities	<u>9,903,385</u>	Total Liabilities	<u>56,446,848</u>
Cash over by	36,594,819	Cash under by	(9,948,644)
Percentage	370 %	Percentage	(18 %)

The City’s cash is greater than the current liabilities by \$36.6 million or 370%. The City has plenty of cash to actually pay liabilities that are due in less than one year. The City’s Total liabilities exceed cash by \$9.9 million or a negative 18%. Total liabilities include: bonds \$37.6 million, OPEB (retiree medical insurance) \$6.8 million and unfunded Pension liabilities \$3.1 million.

The Unrestricted Net Position is \$12,977,162 (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 35-38 of the ACFR.

GENERAL FUND		GENERAL FUND	
CASH	12,108,936	Revenues	24,742,765
Expenses	23,792,928	Expenses	<u>23,792,928</u>
Percentage	51 %	Net Change	949,837
Number of months	6	Percentage	4 %

General Fund cash is about 51% 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 General Fund had a gain of about \$949,837. Sales Tax revenue greatly increased from the prior year due to auto sales and leasing activity along with increases in on-line shopping. The re-opening of the economy allowed for more travel which is reflected in the increase in the Transient Occupancy Tax.

TENNIS & SWIM CENTER		TENNIS & SWIM CENTER	
CASH	712,815	Revenues	4,511,704
Expenses	4,413,561	Expenses	<u>4,413,561</u>
Percentage	16 %	Net Income / (Loss)	98,143
Number of months	1	Percentage	2 %

The Proprietary Fund, Tennis & Swim Center (T&SC), is found on pages 41-43. The cash balance increased to \$712,815, reflecting just one months' worth of expenses. The net income for the year grew to a positive \$98,143. The net income was expected considering the re-opening of the economy. 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	712,815	CASH	712,815
Asset depreciation	<u>4,800,210</u>	Equipment depreciation	<u>768,730</u>
Under funded	(4,087,395)	Variance	(55,915)
Percentage	(85 %)	Percentage	(7 %)

The T&SC depreciation is \$4,800,210 (page 68); therefore, underfunded by \$4.1 million. There is almost sufficient cash to replace the machinery and equipment at T&SC, \$768,730.

UNFUNDED PENSION LIABILITY		OPEB (RETIREE MEDICAL) LIABILITY	
6/30/2020	7,920,057	6/30/2020	8,756,453
6/30/2021	<u>3,151,283</u>	6/30/2021	<u>6,796,344</u>
Increase	(4,768,774)	Increase	(1,960,109)
Percentage	(151 %)	Percentage	(29 %)

The City's unfunded pension liability (page 77) decreased \$4.8 million or 151% this past year. The OPEB liability (page 86) for retiree medical insurance is \$6.8 million; a decrease of almost \$2 million from the prior year.

ACFR Document

Attached for your approval are the annual financial statements for the year ended June 30, 2022 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, 2022 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 15). 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 11). 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, 2022 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 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). An increase in net position of about \$4.6 million was reported for the fiscal year ended June 30, 2022 (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 46-90.

The Required Supplementary Information begins at page 91 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, 2022.

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 three findings in this report for the fiscal year ended June 30, 2022. These findings are a repeat of last year's findings. The first 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 second finding is "Purchasing Policy and Contract Support" is a citywide issue and involves all the departments. The fourth finding, "Investment Policy", concerns reporting in a timely manner and this has been implemented beginning October 2022.

Best Practices Letter

The auditors have made one best practice recommendation for the City: Budgeted Transfers. Staff agrees with the recommendation and will be implementing each one. This is repeat finding 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 conduct a Single Audit this year due to meeting the annual minimum dollar threshold of \$750,000 in expenditures. The Single Audit report will be presented to the City Council upon completion; estimated to be end of March 2023.

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, 2022:

- Annual Comprehensive Financial Report (ACFR)
- Required Communication in Accordance with Statement on Auditing Standards No. 114
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- Best Practices Letter
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ATTACHMENTS:

1. Annual Comprehensive 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