



**CITY of CALABASAS**

**CITY COUNCIL AGENDA REPORT**

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**DATE: MARCH 25, 2024**

**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, 2023**

**MEETING DATE: APRIL 10, 2024**

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**SUMMARY RECOMMENDATION:**

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

- Annual Comprehensive Financial Report (ACFR) for Fiscal Year Ended (FYE) June 30, 2023
- Required Communication in Accordance with Statement on Auditing Standards No. 114
- Report on 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
- Independent Accountant's Report on Agreed-Upon Procedures Applied to Appropriations Limit Worksheets
- Report on Compliance for the U.S. Department of Treasury Coronavirus State and Local Fiscal Recovery Funds Program (CSLFRF) Requirements for an Alternative CSLFRF Compliance Examination Engagement

**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, 2023, 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.

**DISCUSSION/ANALYSIS:**

**FINANCIAL METRICS**

General Fund

Listed below are a few key metrics concerning the City of Calabasas’ financial health. The figures below are from pages 31-32 of the ACFR.

|                     |            |                   |              |
|---------------------|------------|-------------------|--------------|
| CASH                | 48,686,135 | CASH              | 48,686,135   |
| Current Liabilities | 11,776,025 | Total Liabilities | 64,265,695   |
| Cash over by        | 36,910,110 | Cash under by     | (15,579,560) |
| Percentage          | 313 %      | Percentage        | (24 %)       |

The City’s cash is greater than the current liabilities by \$36.9 million or 313%. 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 \$15.6 million or a negative 24%. Total liabilities include: bonds payable \$36.3 million, net pension liability \$9.9 million and OPEB (retiree medical insurance) \$7.3 million.

The Unrestricted Net Position is \$11,236,979 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.

| G E N E R A L F U N D |            | G E N E R A L F U N D |            |
|-----------------------|------------|-----------------------|------------|
| CASH                  | 6,002,645  | Revenues              | 28,275,473 |
| Expenses              | 27,733,314 | Expenses              | 27,733,314 |
| Percentage            | 22 %       | Net Change            | 542,159    |
| Number of months      | 2          | Percentage            | 2 %        |

General Fund cash is about 22% of annual expenses; therefore, a two-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 \$542,159. Sales Tax revenue greatly increased from the prior year. The economy is growing which allowed for more travel and is reflected in an increase for Transient Occupancy Tax.

Tennis & Swim Center Fund

| TENNIS & SWIM CENTER |           | TENNIS & SWIM CENTER |           |
|----------------------|-----------|----------------------|-----------|
| CASH                 | 379,170   | Revenues             | 4,649,153 |
| Expenses             | 4,949,705 | Expenses             | 4,949,705 |
| Percentage           | 8 %       | Net Income / (Loss)  | (300,552) |
| Number of months     | 0         | Percentage           | (6 %)     |

The Proprietary Fund, Tennis & Swim Center (T&SC), is found on pages 41-43. The cash balance decreased to \$379,170, reflecting less than one months' worth of expenses. The net loss for the year is \$300,552. The net loss was expected considering increased operating costs from inflation and utilities. 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                 | 379,170     | CASH                   | 379,170   |
| Asset depreciation   | 4,268,834   | Equipment depreciation | 725,664   |
| Under funded         | (3,889,664) | Variance               | (346,494) |
| Percentage           | (91 %)      | Percentage             | (48 %)    |

The T&SC accumulated depreciation is \$4,268,834 (page 68); therefore, underfunded by \$3.9 million. There is insufficient cash to replace the machinery and equipment at T&SC, \$725,664.

Pension & OPEB Liabilities

| UNFUNDED PENSION LIABILITY |           | OPEB (RETIREE MEDICAL) LIABILITY |           |
|----------------------------|-----------|----------------------------------|-----------|
| 6/30/2021                  | 3,151,283 | 6/30/2021                        | 6,796,344 |
| 6/30/2022                  | 9,891,853 | 6/30/2022                        | 7,255,690 |
| Increase                   | 6,740,570 | Increase                         | 459,346   |
| Percentage                 | 68 %      | Percentage                       | 6 %       |

The City's unfunded pension liability (page 78) increased \$6.7 million or 68% this past year. The OPEB liability (page 87) for retiree medical insurance is \$7.3 million; an increase of \$0.5 million from the prior year.

## **ACFR Document**

Attached for your approval are the annual financial statements for the year ended June 30, 2023 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, 2023 fiscal year balances and overall results of operations for the period then ended, for all City funds.

The ACFR statements are as follows:

The *Letter of Transmittal* (page 1), begins the ACFR in the introductory section, is designed to supplement the MD & A and should be read in conjunction with it. The report from the independent auditors (page 11) 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, 2023 audit, the City of Calabasas received an unqualified opinion. *Management's Discussion and Analysis (MD & A)* (page 15) is the third report in the ACFR. This discussion and analysis starts 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 MD & A is found immediately following the report from the independent auditors.

*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). Net Position increased \$7.2 million for the fiscal year ended June 30, 2023 (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*, pages 46-91.

*The Required Supplementary Information* begins at page 92 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/annual-comprehensive-financial-reports-acfr>

## **OTHER REPORTS from the AUDITORS**

### **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, 2023.

### **Report on 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 one finding in this report for the fiscal year ended June 30, 2023. This one finding is a repeat of one of last year's findings. The 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.

### **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**

There is no Single Audit Report this year. It is incorporated into the following report.

### **Report on Compliance for the U.S. Department of Treasury Coronavirus State and Local Fiscal Recovery Funds Program (CSLFRF) Requirements for an Alternative CSLFRF Compliance Examination Engagement**

This is a new report as mandated by the U.S. Federal Government. The auditors wrote in the report, "In our opinion, the City complied, in all material respects, with the specified requirements referenced above during the year ended June 30, 2023."

## **FISCAL IMPACT/SOURCE OF FUNDING:**

None

## **REQUESTED ACTION:**

Staff recommends the City Council receive and file the following reports for fiscal year ended June 30, 2023:

- 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
- Independent Accountant’s Report on Agreed-Upon Procedures Applied to Appropriations Limit Worksheets
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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. Independent Accountant’s Report on Agreed-Upon Procedures Applied to Appropriations Limit Worksheets
5. Report on Compliance for the U.S. Department of Treasury Coronavirus State and Local Fiscal Recovery Funds Program (CSLFRF) Requirements for an Alternative CSLFRF Compliance Examination Engagement
6. PowerPoint Presentation