



Legislation Text

File #: 23-0005, **Version:** 1

TO:

Honorable Mayor and Members of the City Council

THROUGH:

Bruce Moe, City Manager

FROM:

Steve S. Charelian, Finance Director
Julie Bondarchuk, Financial Controller
Libby Bretthauer, Financial Services Manager

SUBJECT:

Fiscal Year 2021-2022 Annual Comprehensive Financial Report (Finance Director Charelian).

RECEIVE AND FILE

RECOMMENDATION:

Staff recommends that the City Council receive and file this report.

FISCAL IMPLICATIONS:

There are no fiscal implications associated with the recommended action. The results of fiscal year (FY) 2021-2022 are summarized below, and are included in the attached Annual Comprehensive Financial Report (ACFR).

BACKGROUND:

The City's financial policies require an annual audit performed by an external auditor. An audit is also required to obtain the Certificate of Achievement for Excellence in Financial Reporting from the Government Financial Officers Association (GFOA) and is oftentimes a requirement for grants or federal awards. This year, the annual audit consists of the interim audit (completed in April 2022) and the final audit (completed in October 2022). During these audits, the external auditors prepare audit working papers in compliance with the General Accepted Government Auditing Standards (GAGAS). These working papers document the information gathered during an audit and provide evidence that sufficient information was obtained by the auditor to support the audit opinion.

The audit results and the FY 2021-2022 ACFR financial statements were presented and discussed with the Finance Subcommittee at the December 15, 2022, meeting.

The audit firm of Lance, Soll and Lunghard (LSL) issued the City an unmodified opinion on the FY 2021-2022 financial statements, which are prepared in all material respects and complying with governmental accounting practice. The opinion is issued once auditors obtain sufficient and appropriate audit evidence to the financial statements due to their testing. An unmodified opinion is the best possible outcome.

DISCUSSION:

Attached to this report is the City's ACFR for the fiscal year ended June 30, 2022. This independent audit report is prepared with the assistance of the City's auditor, Lance, Soll and Lunghard (LSL), the certified public accountancy firm selected by the City Council. Staff would like to take this opportunity to acknowledge the auditor's professionalism and diligence in the completion of the audit.

The attached report contains detailed information about the City's financial results for FY 2021-2022. The document, which is in an industry-standard format, is organized as follows:

Introductory Section

The Introductory Section includes the City's transmittal letter providing an executive summary of the financial and economic events characterizing FY 2021-2022. A review of the transmittal letter will help the reader understand the City's organizational structure and provides performance highlights of the City's most significant funds and operations.

Financial Section

The Financial Section presents the independent auditor's report and Financial Statements. The auditor's report contains two main sections: the Audit Opinion and the Management Discussion & Analysis (MD&A).

Audit Opinion

The Audit Opinion, worded in an industry standard format, provides a statement by the auditor attesting to the fair presentation of financial data in conformity with generally accepted accounting principles and government accounting standards.

Management Discussion & Analysis (MD&A)

The required MD&A is intended to serve as an introduction to the City's basic financial statements, which comprise three components: 1) Government-wide financial statements, 2) Fund Financial statements, and 3) notes to the financial statements, which is an overview and analysis of the financial activities of the City of Manhattan Beach for the fiscal year ended June 30, 2022.

Government-wide Financial Statements

The Government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. These statements utilize full accrual accounting (which recognizes revenue in the period it is earned, and expenses in the period occurred) as is done in private industry. The statements included in this section are the statement of net position and the statement of activities. Both government-wide statements are designed to show the annual increase or decrease in net assets and, in doing so, distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, planning, building and safety, and recreation. The City's business-type activities include water, wastewater, stormwater, and parking.

Fund Financial Statements

The Fund Financial Statements include governmental funds reported on a budgetary modified accrual basis (which recognizes revenues when they become available and measurable and, with a

few exceptions, recognizes expenditures when liabilities are incurred), and proprietary funds reported on a full accrual basis. Major governmental funds (General Fund) and major enterprise funds (Water, Wastewater, Parking) are shown individually, while non-major funds are aggregated into a single column (full details are listed later in the document). Internal service funds are considered minor proprietary funds and are aggregated following enterprise funds.

The Notes to the Financial Statements section follows, which provides financial disclosures about the City's financial statements. That section is followed by the Combining Financial Statements & Schedules and the Statistical Section. The combining statements are presented in the traditional fund manner and report on the details of all non-major funds which appear on a combined basis in the front of the document. The Statistical Section, not subject to audit review and testing, provides general trend information presenting financial and economic data over time.

The first attachment to this report is the Letter of Transmittal, which has been extracted from the FY 2021-2022 ACFR. The Letter of Transmittal provides an overview of the financial information contained in the statements. In addition, there is discussion of:

- Profile of the Government
- Budget Process
- Financial Policies
- Major Initiatives
- Factors Affecting Financial Condition
- Executive Financial Overview

Staff recommends that the reader, at a minimum, review the Letter of Transmittal and MD&A portion of the report. Both the Letter of Transmittal and MD&A can be referenced in the introductory sections of the ACFR.

Highlights and Trends

As of June 30, 2022, the City's net position totaled \$273.7 million government-wide, a decrease of \$70.7 million from the prior year. This increase is attributed to a net operating surplus \$71.2 million across all funds. The large surplus is due the City recording a net pension asset, which offset expenses in each function.

Governmental Funds

Total net position in Governmental Activities (General, Capital Improvements, and Special Revenue) was \$156.4 million, an increase of \$65.2 million from the prior year. Revenue in the Governmental Activities totaled \$102.3 million, an increase of \$11.9 million (13.1%) from the prior year driven by the recovery from the pandemic which resulted in an operating surplus of \$7.0 million across the governmental funds. Expenditures totaled \$35.4 million, down \$66.3 million (65.2%) compared to the prior year due the prior year payment of the pension liability from the issuance of pension obligation bonds. Total fund balances increased \$65.2 million to \$156.4 million.

General Fund balance was at \$39.8 million, up \$7.2 million compared to the prior year. Contributing to the increase were American Rescue Plan Act funds totaling \$4.2 million and higher revenues across all tax categories due to the recovery from the pandemic. Transfers out totaled \$4,365,153, which included \$2,183,688 to the Stormwater Fund and \$113,869 to the Street Lighting Fund to

relieve deficit fund balances due to operations. General Fund support to the Stormwater Fund and Street Lighting Fund will continue unless a Proposition 218 assessment vote can be passed to fund operations going forward. Additional transfers included \$1,400,000 to the Bond Construction Fund for Fire Station #2 and \$667,596 to the Capital Improvement Project Fund (\$492,596 according to the pension policy and \$175,000 to fund additional projects).

Enterprise Funds

The total Business-Type Activities net position totaled \$117.3 million, up \$5.4 million from the prior year. Fund revenues totaled \$24.7 million, a decrease of \$375,686. Operating expenses totaled \$20.4 million, a decrease of \$1.2 million from the prior year. Operating income totaled \$5.9 million, up \$2.8 million from the prior year. Although the fund balance increased, unrestricted net position of \$41.3 million decreased \$10.2 million compared to the prior year due to the construction of capital projects that absorb working capital and increase investments in capital assets.

Pension Contributions

In May 2021, the City issued pension obligations bonds, which virtually eliminated its unfunded liability with CalPERS by replacing it with bonded debt. By issuing the POBs, the City was able to finance 100% of the current net pension liability (NPL) at a true interest cost of 2.72%, 4.43% lower than the CalPERS discount rate of 7.15% at the time of issuance. Moreover, the POBs allow the City to budget level debt service payments at \$5.5 million annually rather than trying to balance the budget for escalating Net Pension Liability (NPL) payments that would have eventually risen up to \$10 million by 2032. The City is estimated to save \$43.5 million in NPL payments over 25 years.

CalPERS investment returns were 21.3% for FY 2020-21, which resulted in a \$51.9 million net pension asset on the FY 2021-22 ACFR. The pension income offsets a significant amount of expenses in the functional categories, primarily in Public Safety. It is also important to approach yearly CalPERS returns with a long-term outlook as CalPERS published a preliminary return of negative 6.1% in FY 2021-22, which will be reflected in next year's financial statements.

Managing pension liabilities and meeting retirement obligations remain one of the City's biggest challenges. Over 95% of retirement costs are attributable to the City's Governmental Funds and growing pension costs have the potential to crowd out other funding needs. The City has therefore developed an Unfunded Pension Liability Policy to provide a guideline on addressing future NPL. Future pension costs and liabilities will be monitored continuously and addressed to ensure they do not grow substantially.

In closing, staff is pleased to report that the FY 2021-2022 financial audit resulted in the City once again receiving an unmodified opinion. Furthermore, City Council General Fund policy reserves remain fully funded at the end of FY 2021-2022.

The City Manager and Finance Director wish to recognize the dedication, hard work, and attention to detail of all departments during the year that enables the City to achieve the unmodified opinion. Special recognition is in order for Finance staff, particularly Julie Bondarchuk and Libby Bretthauer. Mr. Brian Gruber, CPA & Partner with the audit firm of LSL, will also be present during the City Council meeting on January 17, 2023 to answer questions.

LEGAL REVIEW:

The City Attorney has reviewed this report and determined that no additional legal analysis is

necessary.

ATTACHMENT/ATTACHMENTS:

1. Fiscal Year 2021-2022 Annual Comprehensive Financial Report (ACFR)
2. Report on Internal Control (Management Letter)
3. Audit Communication Letter