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Title: Report regarding a resolution accepting the Annual Comprehensive Financial Report (ACFR) and other related Miscellaneous reports for Fiscal Year 2021-22 (Karen Chang, Finance Director)
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Report regarding a resolution accepting the Annual Comprehensive Financial Report (ACFR) and other related Miscellaneous reports for Fiscal Year 2021-22 (Karen Chang, Finance Director)

RECOMMENDATION

Staff recommends that the City Council review and accept the Audited Financial Statements for the City of South San Francisco for the fiscal year ended June 30, 2022.

BACKGROUND/DISCUSSION

Summary

Each year the City of South San Francisco is required to prepare audited financial statements in addition to a number of related reports. This action requests that City Council formally accept these reports. A copy of the Annual Comprehensive Financial Report (ACFR) is available for public inspection at the City's website.

For FY 2021-22, the City has received an unmodified or clean opinion on the financial statements from its auditors Maze & Associates (Maze). In addition, all requirements have been met to achieve the highest standard in government accounting and financial reporting: the Certificate of Achievement for Excellence in Financial Reporting issued by the Government Finance Officers Association (GFOA) of the United States and Canada. The City of South San Francisco has received this certificate annually for the last 20 consecutive years.

Background

The City's independent auditors, Maze, have completed the audit of the City's financial transactions and internal controls for FY 2021-22. The following reports are prepared by the City of South San Francisco and audited by the City's independent auditors. Maze also reviewed the City's Appropriations Limit Calculation for fiscal year 2021-22.

- Annual Comprehensive Financial Report (ACFR) is the overall financial report for the entire city

organization and provides information about the financial results of operations and numerous required disclosures. This is the financial report prepared by the City and audited by the independent auditors to provide reasonable assurance that the financial statements are fairly presented in accordance with generally accepted accounting principles (GAAP) in the United States. This report contains the Independent Auditors' Report, which is prepared by the auditors based on their examination of the City's financial transactions for the fiscal year ending June 30, 2022.

The ACFR shows the total of all financial accounting for the fiscal year. The financial reporting provided in the ACFR is in greater detail than the basic financial statements and is made up of three primary sections:

- **Introductory Section:** provides general information about the City including the letter of transmittal, list of principal officers, and an organization chart.
 - **Financial Section:** provides the overall financial information for the City including the report of the independent auditor, management's discussion and analysis (MD&A), the basic financial statements, notes to the basic financial statements, required supplementary information, and other supplementary statements and schedules.
 - **Statistical Section:** provides a broad range of operational, economic, and historical data providing context for assessing the City's fiscal condition. This section provides information about general financial trends, revenue and debt capacities, economic and demographic trends, and operating information.
- **The City of South San Francisco Transportation Development Act Article III Fund Financial Statements and Independent Auditors' Reports (TDA)** is the required audit report for the grant funds received by the City for local streets and roads, construction and maintenance, sidewalk ramp and pedestrian trail projects. Copies of the report are submitted to the Metropolitan Transportation Commission and State Controller's Office for their review to show that the City is in compliance with the requirements governing expenditures of MTC funds for the year ending June 30, 2022.
 - **San Mateo County Measure A Funds financial statements and Independent Auditors' Report** is required by San Mateo County Transportation Authority. Measure A funds, the one-half of one percent sales and use tax approved by the San Mateo County voters in 1988 to provide funding for improvements of local transportation. Copies of the report are submitted to SamTrans to show that the City is in compliance with the requirements governing expenditures of Measure A funds for the year ending June 30, 2022.
 - **San Mateo County Measure W Funds financial statements and Independent Auditors' Report** is required by San Mateo County Transportation Authority. Measure W funds, the one-half of one percent sales and use tax approved by the San Mateo County voters in 2018 to provide funding for local safety, pothole and congestion relief improvement program that includes transportation and public transit. Copies of the report are submitted to SamTrans to show that the City is in compliance with the requirements governing expenditures of Measure W funds for the year ending June 30, 2022.
 - **Independent Accountants' Report on Agreed-Upon Procedures Applied to Appropriations Limit Schedule** is required by the State of California in Section 1.5 of Article XIII B of the California Constitution. Article XIII B of the California Constitution limits the amount that governmental agencies can annually appropriate from proceeds of taxes. An annual calculation, factoring in population and inflation changes, is performed each year to determine the new appropriation limit. The appropriation

limit for the FY 2022-23 was approved by Council by resolution in June 2022.

- **The Auditors' Required Communications Letter** includes the auditors' letter, addressed to the City, communicating their responsibilities in performing the audit and if any, significant findings, and issues detected during the course of the audit. The report references the City of South San Francisco Management Representation Letter, addressed to the auditors, communicating management's opinion of the City's financial condition, internal controls, and adherence with laws and regulations.
- **The Independent Auditors' Memorandum on Internal Control** report includes a review of the City's internal controls, based on the audits of the ACFR and Measure A and W financial reports. If the auditor identifies deficiencies, they identify recommendations to improve internal controls.

Discussion

Financial Highlights

Maze found the City's financial statements present fairly, in all material ways, the respective financial position of the City as of as of June 30, 2022 (Independent Auditor's Report, Opinions).

The audited financial statements include the statement of net position, statement of activities and changes in net position, balance sheets, statement of revenues, expenditures, and changes in fund balance, and statements of cash flows.

Please refer to the Management's Discussion and Analysis section in the ACFR for detailed discussion regarding the City's financial performance and position. All references to the General Fund within the ACFR include Measure W. Please refer to pages 116-118 for financials relating only to the main general purpose fund. Key financial highlights for the year ended June 30, 2022 are as follows:

- Total Net Position for Governmental activities in FY 2021-22 increased by \$64.7 million, or 19.5%, from \$332.1 million in the prior year, to \$396.8 million. The increase is primarily due to further investment in City assets through bond issuance, an increase in cash and investments due to stronger revenues in the year, as well as a greater restricted cash balance due to the 2022A bond issuance prior to year-end. The growth in assets of \$146.5 million is partially offset by a \$66.3 million increase in long-term debt liabilities but this offset is reduced by lower "other liabilities" (\$47.6 million lower than prior year) due to a significant drop in the net pension liability at year-end.
- Total Net Position for Business-Type activities, which includes Wastewater treatment (or Sewer), Parking and Storm Water Funds, in FY 2021-22 increased by \$7.1 million, or 5.4%, from \$130.8 million in the prior year, to \$137.9 million. The growth in Net Position is due to a \$10 million increase in capital assets due to construction work underway at the City's Water Quality Control Plant (WQCP), lower accounts payable at year-end and a drop in the net pension liability. This is partially offset by lower cash and investments, and accounts receivable balances at year-end.
- The City's Governmental Funds reported combined fund balances of \$343.7 million, an increase of \$33.6 million, or 10.8%, compared to the prior year. This was primarily due to the creation of new governmental funds for the capital improvement projects at Orange Memorial Park funded by the series 2022A bond issuance. The General Fund ending fund balance, which includes Measure W, was \$76.6 million, reflecting an increase of \$0.9 million, or 1.2%, over the prior year primarily due to stronger revenues in most major revenue categories.

- The combined General Fund balance was \$76.6 million, of which \$11.9 million was attributable to Measure W. Of the remaining fund balance of \$64.7 million, \$25.1 million was held in reserve in accordance with the city policy which is aligned with the Governmental Finance Officers Association (GFOA) recommended reserve practice. The remaining \$39.6 million was held in designation/reserve accounts for various purposes such as encumbrances, capital projects, land held for development and unassigned fund balances.
- Combined General Fund revenues, excluding transfers in and special items, were \$140.9 million which was \$15.3 million, or 12.2% higher than the final amended budget. The increase was largely due to higher-than-expected Vehicle Licensing Fee (VLF) payments, higher sales tax revenue, including Measure W, and higher than expected transient occupancy taxes. The increases were offset by reduced intergovernmental revenue, licenses and permits. The general purpose General Fund revenues, excluding transfers in and special items, were \$125.5 million.
- Combined General Fund expenditures, excluding transfers and including encumbrances, were \$129.5 million, which was \$3.7 million, or 2.9%, higher than final budget due to overspends in various departments and carry over of a significant number of purchase orders. However, if we excluded the \$7.5 million encumbrances carried over, the combined General Fund expenditure for FY 2021-22 was \$122.0 million. The general purpose General Fund expenditures, excluding transfers and special items and including encumbrances was \$129.2 million.
- Overall, the general purpose General Fund experienced a \$3 million deficit in FY 2021-22, including all transfers and one-time special items but excluding encumbrances, compared with a projected \$2.8 million in the original adopted budget.
- The Sewer Enterprise fund reported operating revenue (before non-operating revenues and operating transfers) of \$28.4 million in FY2021-22, a decrease of \$5.4 million, or 16.0%, from \$33.8 million in the prior year. This substantial reduction in revenue is a direct impact from the COVID-19 pandemic during which many commercial locations closed for long periods of time. Since charges are always based on the prior year water use, revenues for FY2021-22 were lower than normal. Operating expenses decreased \$0.3 million, or 1.0%, from \$ 26.1 million to \$25.8 million, due to lower payroll-related expenses from vacancies, partially offset by increases in professional services, program supplies and utilities.

Auditors' Communication with Those Charged with Governance

Professional auditing standards require the auditors to communicate in writing to management and those charged with governance. Maze and Associates has issued the Memorandum on Internal Control and Required Communications, and the memorandum is attached to this staff report for your review.

Staff is pleased to inform the Council that there were no findings that resulted from the audit.

Staff and Maze will issue a Single Audit Report in March 2022. The Single Audit Report is the audit report required by the Single audit Uniform Guidance. This report contains a schedule of Federal Financial Assistance that summarizes Federal grant activity in the City of South San Francisco for the fiscal year.

CONCLUSION

In Summary, Maze found the general-purpose financial statements present fairly the City's financial position as of June 30, 2022. This is the highest-level opinion that can be rendered by the auditors. This opinion assures that the City's financial statements are in conformity with accounting principles generally accepted in the United States and was rendered on all City funds. Other reports such as TDA, Measure A and W also meet the compliance requirements.

Staff recommend that the City Council formally accepts these reports.

Attachments:

1. City's Presentation
2. Auditor's Presentation