

## MEMORANDUM

**TO:** City Council

**FROM:** Nicole Valentine, Director of Administrative Services

**BY:** Megan Schotborgh, Accounting Manager

**SUBJECT:** Acceptance of the Annual Comprehensive Financial Report, Single Audit, and Audit Report for the Transportation Development Act Transportation Fund Reports

**DATE:** April 8, 2025

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### **RECOMMENDATION:**

- 1) Receive and file the Annual Comprehensive Financial Report (ACFR), Single Audit, and Audit Report for the Transportation Development Act Transportation Fund for the fiscal year ended June 30, 2024; and;
- 2) Determine that receiving and filing the ACFR, Single Audit and Audit Report for the Transportation Development Act Transportation Fund is not a project subject to the California Environmental Quality Act ("CEQA") because it has no potential to result in either a direct, or reasonably foreseeable indirect, physical change in the environment. (State CEQA Guidelines, §§ 15060, subd. (c)(2)-(3), 15378.)

### **IMPACT ON FINANCIAL AND PERSONNEL RESOURCES:**

Preparation of the City's financial reports requires approximately 250 hours per year of personnel resources and auditing services costing approximately \$30,735 annually.

### **BACKGROUND:**

State law requires that every general-purpose local government publish an annual comprehensive financial report (the "ACFR") on its financial position and activity, and that the report be audited by an independent firm of certified public accountants. The goal of the independent audit is to provide a reasonable assurance that the City's financial statements are free of material misstatements. In addition, the auditing firm is responsible for providing an independent review of the City's internal financial controls. The City's financial statements, internal documents, and financial controls have been audited by the certified public accountant firm of Moss, Levy & Hartzheim, LLP for the fiscal year ending June 30, 2024. The City's ACFR is included herein as Attachment 1.

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The Single Audit is an organization-wide audit of a non-federal entity that expends \$750,000 or more in federally-awarded funds in one year. In fiscal year 2023-24, the City expended \$1,639,575 in federal funds. The \$1,639,575 was combined funding for the Traffic Way Bridge project and American Rescue Plan Act (ARPA) funds. As a result, the City has completed a Single Audit for the fiscal year ending June 30, 2024, which is included with this report as Attachment 2.

The Transportation Development Act (TDA) provides a state funding source for use by local jurisdictions at the county level to improve existing public transportation and to encourage regional public transportation coordination. It also provides some funding for bicycle and pedestrian projects and, when certain conditions are met, streets and roads. The main purpose and priority of TDA, however, is to provide funding for public transportation. The Local Transportation Fund (LTF) is a local fund into which the State deposits sales tax revenue to be used for transportation purposes as defined by the TDA. The State Department of Tax and Fee Administration, based on sales tax collected in each county, returns the general sales tax revenues to each county's LTF. The City has completed the TDA Audit report every year and posts the reports on the City's website. Though not formally presented to the City Council in some prior years, this audit report contains the results of the TDA audit for the Council's information and review as Attachment 3.

#### **ANALYSIS OF ISSUES:**

##### **Annual Comprehensive Financial Report (ACFR)**

Generally accepted accounting principles (GAAP) provide the criteria for judging whether a financial report is presented fairly. In defining the minimum standard of acceptable basic financial reporting for state and local governments, GAAP mandates a complete set of basic financial statements, including accompanying note disclosures, as well as the presentation of certain required supplementary information. GAAP encourages government agencies to present this information within the ACFR.

The ACFR provides a more detailed financial report beyond the basic financial statements. The ACFR is made up of three sections:

- The introductory section: provides general information on the City which includes the letter of transmittal, list of principal officials, and organizational chart.
- The financial section: provides the overall financial information of the City which includes the report of the independent auditor, management's discussion and analysis (a narrative of the City finances), the basic financial statements, required supplementary information and other supplementary schedules and statements.
- The statistical section: provides a broad range of operational, economic, and historical data that provides a context for assessing the City's economic condition. This section provides information about the City's general financial trends, revenue capacity, debt capacity, economic and demographic trends, and operating information.

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The City's external auditors at Moss, Levy & Hartzheim, LLP conducted testing of the City's internal financial controls in July 2024, October 2024, and February 2025. The testing included reviewing the City's procedures for receiving and disbursing cash, the accounting methodology used to record transactions, the separation of duties to avert collusion, and the City's asset securities. As a result of this testing, there were no internal control issues/events noted by the auditors.

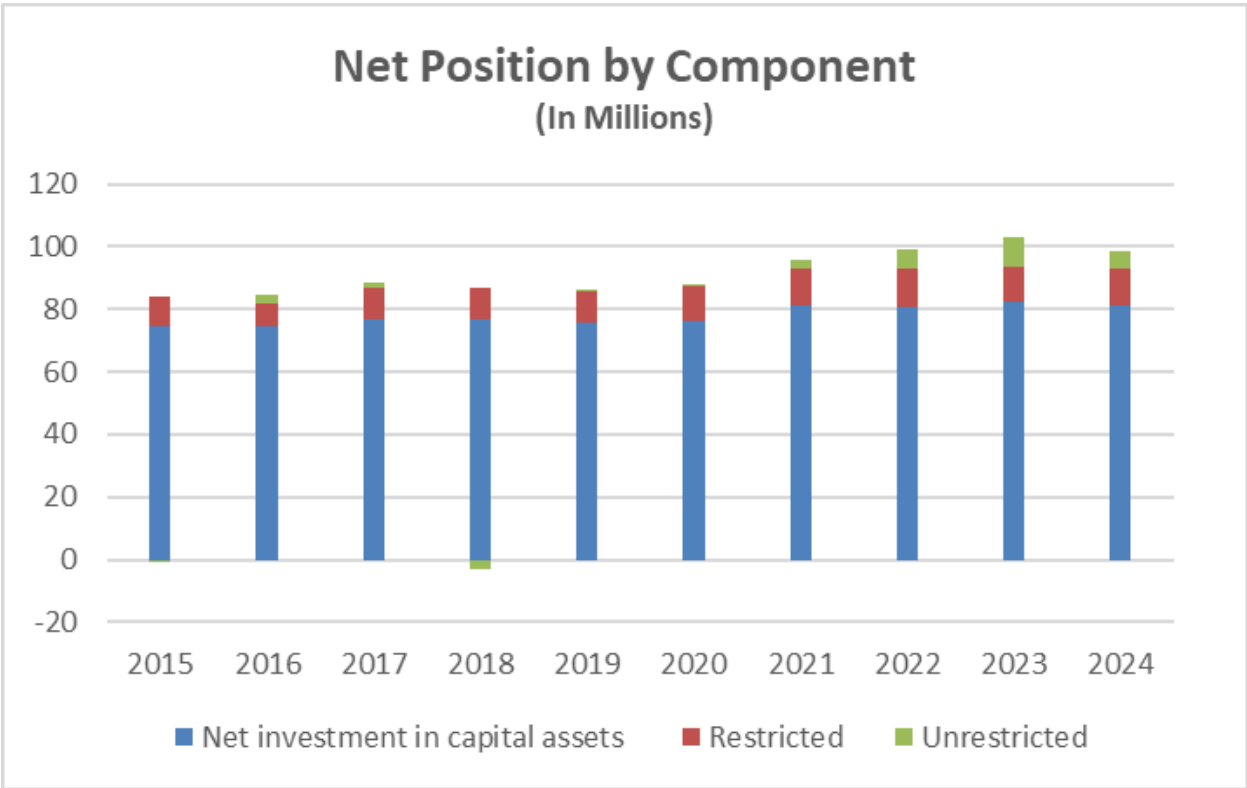
An audit was also conducted on the net position of the City for the financial period ending June 30, 2024. Documentation in support of the assets, liabilities, and fund balance of all the funds in the City were examined and verified. This process assures an impartial review and substantiation of the City's net position. The result of this review is documented in the City's ACFR. The City's ACFR complies with newly effective Government Accounting Standards Board pronouncements, as detailed in the Notes to the Financial Statements (see Page B-46 of Attachment 1).

Auditors may issue three different types of opinions at the conclusion of an audit; an unmodified, modified, or adverse opinion. An unmodified opinion assures the reader that the information presented in the ACFR fairly represents the financial position of the City. A modified opinion states that the information is fairly presented except for a particular issue. An adverse opinion indicates that the agency has major accounting and/or internal control issues and no reliance may be placed on the financial statements. The Administrative Services Department staff is proud to report that for the fiscal year ended June 30, 2024, the City of Arroyo Grande received an unmodified opinion, reflecting that the information presented in the ACFR fairly represents the financial position of the City.

As presented in the ACFR, the City's combined net position on June 30, 2024, decreased by \$4.2 million or -4.06% from \$102.9 million to \$98.7 million. This overall decrease is due to a decrease in governmental activities (\$2.6 million) and a decrease in business-type activities (\$1.6 million). The largest portion of the City's net position, \$81 million, reflects investments in capital assets net of depreciation (e.g. land, buildings, infrastructure, and machinery & equipment). The City uses these capital assets to provide services to the public; consequently, these assets are not available for future spending.

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The description of the City’s net position of all funds reflects all the assets and liabilities of the City. It includes the City’s investment in capital assets such as parks, bridges, and roads as well as the liabilities or obligations to pay vendors, employees, and debt service payments. The net position is the mathematical difference between assets and liabilities, but it does not necessarily reflect the economic health of an organization. In the City’s case, about 82% of the total net position reflects capital assets. While these assets are important, they cannot be used to fund the day-to-day operations of the City and, therefore, may not be the most useful measure of the City’s liquidity.

For financial reporting purposes, the half percent Measure O-2006 Local Sales Tax revenue and Other Post-Employee Benefits funds (OPEB) are combined with the General Fund in the ACFR. However, the City’s quarterly and year-end reporting is based on the General Fund exclusively and does not include the OPEB funds. The combined funds, as shown in the table below, reports total revenues of \$26.4 million and expenditures of \$29.2 million. As a result, there was an overall decrease to the fund balance of \$2.8 million during the 2023-24 fiscal year.

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	Measure O-2006			
	General Fund	Local Sales Tax Fund	OPEB	Total
Beginning Fund Balance 7/1/23	\$ 11,862,259	\$ 7,625,337	\$ 1,134,004	\$ 20,621,600
Revenues	22,677,374	3,545,223	154,898	26,377,496
Expenditures	(23,045,487)	(6,152,688)	-	(29,198,175)
Net Change in Fund Balance	\$ (368,112)	\$ (2,607,466)	\$ 154,898	\$ (2,820,680)
Fund Balance:				
Nonspendable	\$ 804,261	\$ -	\$ -	\$ 804,261
Assigned for capital projects	-	3,522,243	-	3,522,243
Assigned for post employment benefits	-	-	1,288,901	1,288,901
Unassigned	10,689,886	1,495,629	-	12,185,514
Ending Fund Balance, 6/30/24	\$ 11,494,147	\$ 5,017,872	\$ 1,288,901	\$ 17,800,920

The ACFR reports a General Fund total fund balance of \$17.8 million. However, a small amount of the fund balance is considered non-spendable because it is held as inventory and lease receivable (\$804,261). Additionally, \$4.8 million is designated for completing capital projects or meeting other commitments in the future, including post-employment benefits. This leaves an unassigned balance of \$10.7 million in the General Fund and \$0.51 million in the Measure O-2006 Local Sales Tax fund. The City’s Fiscal Policy establishes the maintenance of a fund balance reserve goal of 20% of expenditures with a minimum of 15% in the General Fund. At the conclusion of Fiscal Year 2023-24, the reserve, based on available General Funds, was 42% and exceeded the City’s reserve goal. A discussion item related to expending the excess fund balance and a review of the fund balance policy will be brought to the Council at a future meeting.

**Single Audit**

The City’s independent auditor completed the Single Audit of federal awards for fiscal year ended June 30, 2024. The auditors opined that the City complied, in all material respects, with requirements that could have a direct and material effect on each of its major federal programs for the fiscal year ended June 30, 2024. The City provided the following list of federal funding expenditures as of June 30, 2024:

City of Arroyo Grande  
List of Federal funding of expenditures  
As of June 30, 2024

Project Name	Total Expenditures
Traffic Way Bridge	458,447
AMERICAN RESCUE PLAN ACT (ARPA)	1,121,731
	<u>1,580,178</u>

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**Audit Report for the Transportation Development Act Transportation Fund**

The City's independent auditor, Moss, Levy & Hartzheim, LLP also completed the Audit Report for the Transportation Development Act Transportation Fund Report (the "TDA Transportation Fund Report"). The auditors opined that the City complied, in all material respects, with requirements that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2024. There were no findings issued or questioned costs.

The TDA Transportation Fund Report is for the Transportation Fund, which is a special revenue fund of the City. The California Code of Regulations, Title 21, sections 6661 and 6751, required Local Transportation Fund and State Transit Assistance Fund recipients such as the City to submit a fiscal audit report to the State Controller's Office annually. The Transportation Fund Audit reflected that the City's allocations under Article 8, Section 99400(a), which relates to projects for local streets and other multimodal transportation, for the fiscal year ended June 30, 2024, was \$397,945. The City's allocations under Public Utilities Code Article 3, Section 99233.3, which relates to funding facilities for use of pedestrians and bicycles or other local transportation projects, for the fiscal year ended June 30, 2024, was \$22,564. The City's allocation of the TDA Funds are used to support the Streets program that maintains all city streets, rights-of-way, and sidewalks.

**ALTERNATIVES:**

The following alternatives are provided for the Council's consideration:

1. Receive and file the Annual Comprehensive Financial Report, Single Audit, and Audit Report for the Transportation Development Act Transportation Fund Report;  
or
2. Provide other direction to staff.

**ADVANTAGES:**

By receiving and filing these reports, the City will be accepting the auditors' unmodified opinion. As discussed above, an unmodified opinion assures the reader that the information presented in the reports fairly represents the financial position of the City.

**DISADVANTAGES:**

There are no disadvantages in relation to the recommended action.

**ENVIRONMENTAL REVIEW:**

No environmental review is required for this item. Receiving and filing the ACFR, Single Audit, and Audit Report for the Transportation Development Act Transportation Fund Report is not a project subject to the California Environmental Quality Act ("CEQA") because it has no potential to result in either a direct, or reasonably foreseeable indirect, physical change in the environment. (State CEQA Guidelines, §§ 15060, subd. (c)(2)-(3), 15378.)

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**PUBLIC NOTIFICATION AND COMMENTS:**

The Agenda was posted at City Hall and on the City's website in accordance with Government Code Section 54954.2.

**ATTACHMENTS:**

1. Annual Comprehensive Financial Report for the Fiscal Year Ending June 30, 2024
2. Single Audit Report for the Fiscal Year Ended June 30, 2024
3. Audit Report of the Transportation Development Act Transportation Fund, June 30, 2024 and June 30, 2023