



MEMORANDUM

TO: City Council

FROM: Nicole Valentine, Administrative Services Director

BY: Lynda Horejsi, 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 11, 2023

SUMMARY OF ACTION:

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, 2022.

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 \$28,000 annually.

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, 2022. 2) Determine that ratifying the cash disbursements and filing of the reports 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. (b)(2)-(3), 15378.)

BACKGROUND:

State law requires that every general-purpose local government publish an annual report on its financial position and activity, and that the report be audited by an independent firm of certified public accountants (the "Annual Comprehensive Financial Report"). 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

Item 9.c.

City Council

Acceptance of the Annual Comprehensive Financial Report, Single Audit, and Audit Report for the Transportation Development Act Transportation Fund Reports April 11, 2023

Page 2

certified public accountant firm of Moss, Levy & Hartzheim, LLP for the fiscal year ending June 30, 2022.

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 2020-21, the City expended \$6.3 million in federal funds. The majority of the \$6.3 million was funding for the Bridge Street Bridge project totaling \$5.5 million. For the 2021-22 fiscal year, the City expended \$844,750 in federal funds. As a result, the City has completed a Single Audit for the fiscal year ending June 30, 2022, which is included with this report.

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 defined by 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 Council's information and review.

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 Annual Comprehensive Financial Report (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.

City Council

Acceptance of the Annual Comprehensive Financial Report, Single Audit, and Audit Report for the Transportation Development Act Transportation Fund Reports April 11, 2023

Page 3

- 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.

The City's external auditors at Moss, Levy & Hartzheim, LLP conducted testing of the City's internal financial controls in July 2022, October 2022, and January 2023. 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.

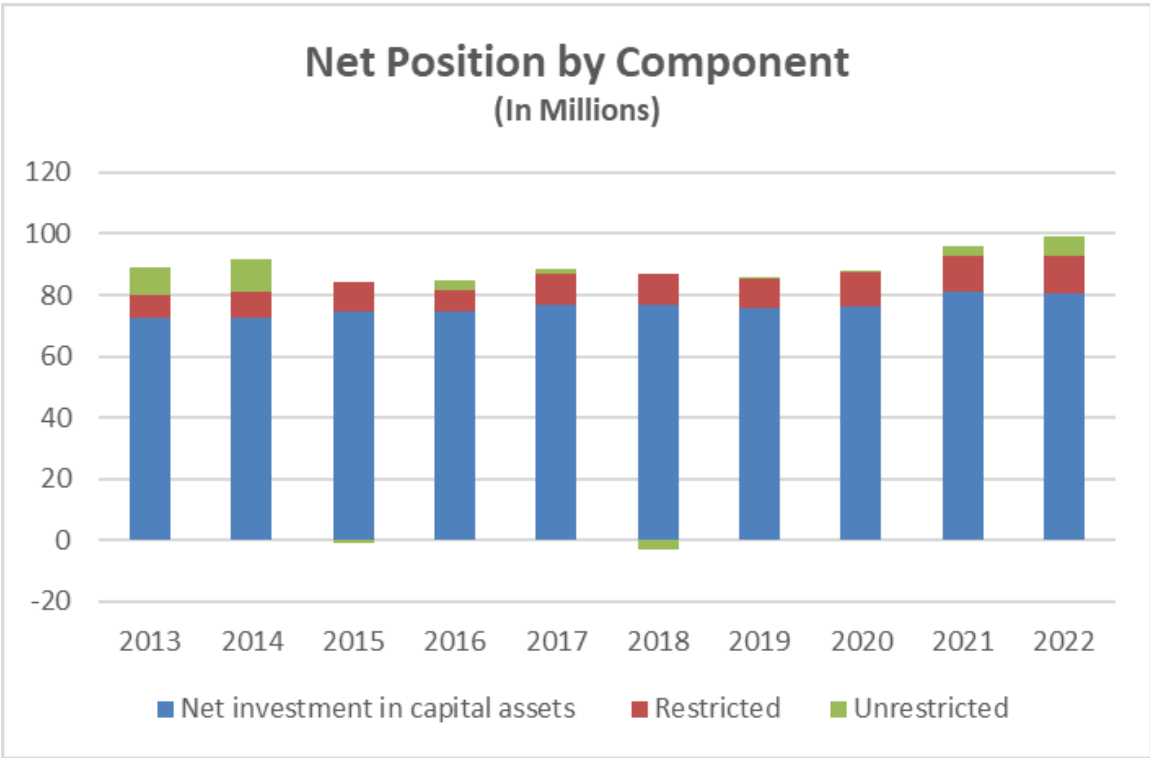
An audit was also conducted on the net position of the City for the financial period ending June 30, 2022. Documentation in support of the assets, liabilities, and fund balance of all the funds in the City were examined and verified. This process assures an impartial review and substantiation of the 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 (GASB) pronouncements, as detailed in the Notes to the Financial Statements.

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, 2022, 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 at June 30, 2022, increased by \$3.4 million or 3.54% from \$95.9 million to \$99.3 million. This overall increase is due to an increase in governmental activities (\$4.8 million) offset by a smaller decrease in business-type activities (\$1.4 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.

City Council

Acceptance of the Annual Comprehensive Financial Report, Single Audit, and Audit Report for the Transportation Development Act Transportation Fund Reports April 11, 2023



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 84% 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 Local Sales Tax revenue approved by voters in 2006 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 Local Sales Tax or OPEB funds. The combined funds, as shown in the table on the following page, reports total revenues of \$24.3 million and expenditures of \$20.5 million. As a result, there was an overall increase to the fund balance of \$3.8 million during the 2021-22 fiscal year.

City Council

Acceptance of the Annual Comprehensive Financial Report, Single Audit, and Audit Report for the Transportation Development Act Transportation Fund Reports April 11, 2023

	General Fund	Local Sales Tax Fund	OPEB	Total
Beginning Fund Balance 7/1/21	\$ 7,972,786	\$ 4,761,493	\$ 914,777	\$ 10,462,750
Revenues	21,397,622	2,840,596	96,757	24,334,975
Expenditures	(18,845,646)	(1,634,948)	-	(20,480,594)
Net Change in Fund Balance	<u>\$ 2,551,977</u>	<u>\$ 1,205,648</u>	<u>\$ 96,757</u>	<u>\$ 3,854,381</u>
Fund Balance:				
Nonspendable	\$ 37,020	\$ -	\$ -	\$ 37,020
Assigned for capital projects	-	3,522,243	-	3,522,243
Assigned for post employment benefits	-	-	1,011,630	1,011,630
Unassigned	10,786,172	2,444,897	-	13,231,069
Ending Fund Balance, 6/30/22	<u>\$ 10,823,192</u>	<u>\$ 5,967,140</u>	<u>\$ 1,011,630</u>	<u>\$ 17,801,962</u>

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 (\$37,020). Additionally, \$4.5 million is designated for completing capital projects or meeting other commitments in the future, including post-employment benefits. This leaves an unassigned balance of \$10.8 million in the General Fund and \$2.4 million in the Local Sales Tax fund. Of the \$10.8 million in unassigned General Fund, Council assigned \$1.35 million at the June 14, 2022, meeting for additional 2022 Sidewalk Repairs project utilization and for the Employee Retention Incentive Program. 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 2021-22, the reserve, based on available General Funds, was 57% and exceeded the City’s reserve goal.

Single Audit

The City’s independent auditor, Moss, Levy & Hartzheim, LLP, completed the Single Audit of federal awards for fiscal year ended June 30, 2022. 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, 2022.

The City provided the following list of federal funding expenditures as of June 30, 2022:

City of Arroyo Grande
List of Federal funding of expenditures
As of June 30, 2022

Project Name	Total Expenditures
Bridge Street Habitat	52,411.15
Traffic Way Bridge	188,094.74
AMERICAN RESCUE PLAN ACT (ARPA)	604,245.78
	<u>\$ 844,751.67</u>

City Council

Acceptance of the Annual Comprehensive Financial Report, Single Audit, and Audit Report for the Transportation Development Act Transportation Fund Reports April 11, 2023

Page 6

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, 2022. 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, 2022, was \$653,702. 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, 2022, was \$17,869. 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
2. Provide other direction to staff.

ADVANTAGES:

By receiving and filing these reports, the City will be accepting the auditors' unqualified opinion. As mentioned above, an unqualified 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. Ratifying the cash disbursements and filing of the reports 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. (b)(2)-(3), 15378.)

Item 9.c.

City Council

**Acceptance of the Annual Comprehensive Financial Report, Single Audit, and Audit Report for the Transportation Development Act Transportation Fund Reports
April 11, 2023**

Page 7

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 and 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
2. Single Audit
3. Transportation Development Act (TDA) Transportation Fund Report