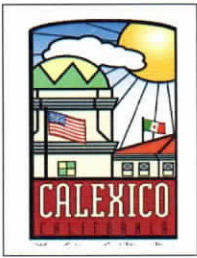


**AGENDA
ITEM
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AGENDA STAFF REPORT

DATE: March 30, 2021

TO: Mayor and City Council

APPROVED BY: Miguel Figueroa, City Manager *MF by KL*

PREPARED BY: Karla Lobatos, Finance Director *Kp*

SUBJECT: Receive and File 2019-20 Audited Financial Statements

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Recommendation:

This report transmits the City's 2019-20 audited financial statements. It is recommended that the City Council receive a presentation from the City's independent auditor with the results of their audit. This report is for information only.

Background:

Each year the City contracts with a Certified Public Accountant to conduct an independent audit of the City's financial statements. The Pun Group has conducted the 2019-20 audit. The 2019-20 audit is now complete and the financial statements have been published.

The City's annual financial statements meet the requirements of Muni Code Section 2.14.050 which requires the Finance Director to submit "a complete financial statement and report for the preceding year." City bond covenants and grant programs also require an annual independent audit of the City's financial statements. The City's financial report is prepared using generally accepted accounting principles established by the Government Accounting Standards Board.

Discussion & Analysis:

The City's auditors have issued the following reports which are included as attachments to this staff report:

1. Basic Financial Statements and Independent Auditor's Report, June 30, 2020
This report includes the City's financial position as of June 2020 and the results of 2019-20 operations for the General Fund and other individual City program funds. The report also includes City-wide financial statements which are presented on the full accrual basis of accounting which includes long-term bond, pension, and retiree medical obligations.



2. Transportation Development Act Article 3 and 8e (Non-Transit), June 30, 2020 and 2019

This annual report is required by the State Transportation Development Act. This document reports on the status of the City's Article 3 (pedestrian and bicycle) and Article 8e (other street/non-transit) state grant programs.

3. Report to Those Charged with Governance

This report provides the auditor's annual communication with the City Council about the audit process, accounting policies, use of estimates, and reports issued.

This year's audit reports do not include a Single Audit with information about the City's federal grant expenditures and compliance with Federal grant requirements. No Single Audit report was required for 2019-20 since the City's annual federal grant expenditures did not exceed the \$750,000 minimum federal audit threshold.

Fiscal Impact

General Fund

The audited General Fund balance improved during 2019-20 to \$1,000,000 and has reached a 6% contingency reserve of annual expenditures. The City has completed its workout-plan established in 2016 to rebuild a positive fund balance and has retired its long-term advance from the Wastewater Fund. This audited General Fund fund balance is consistent with the information previously presented to City Council during the 2020-21 2nd quarter report on January 20, 2021.

Other Significant Long-term Liabilities

The June 30, 2020 financial statements report the following balances for several significant long-term liabilities. These liabilities have arisen over time and are not short-term budget issues but can be expected to impact future year budgets as payments become due. Each of these obligations has an annual amortization schedule to pay down the debt over time with the exception of the Retiree Medical Liability. Long-term funding options for the Retiree Medical liability are being developed for City Council consideration during the upcoming 2021-22 budget cycle. A long-term plan to pay down each of these liabilities will position the City to continue to restore its financial position and build long-term sustainability over time.

Obligations for Past Service/Operating Costs

\$ 0.8 million	JPIA - Retrospective installment insurance charges (matures 2021)
\$27.6 million	Net Pension Liability – Unfunded portion of earned service credit
\$27.9 million	Retiree Medical – Unfunded portion of earned medical benefits

Obligations for Capital-related Long-Term Debt

\$ 7.7 million	Measure H Bond Principal (matures 2030)
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\$22.5 million	Measure D Bond Principal (matures 2038)
\$16.2 million	Water Bond Principal (matures 2051)
\$22.7 million	Wastewater Bond Principal (matures 2051)
\$23.2 million	Successor Agency Bond Principal (matures 2033)

Attachments:

1. Basic Financial Statements and Independent Auditor's Report, June 30, 2020
2. Transportation Development Act Article 3 and 8e (Non-Transit), June 30, 2020 and 2019
3. Report to Those Charged with Governance, March 25, 2021
4. Appropriations Limit Schedule