



Agenda Item Staff Report

To: Honorable Mayor and Members of City Council
For the Meeting of December 10, 2024

From: Brad McKinney, City Manager

Prepared by: Michael O'Brien, Director of Administrative Services

Subject: Receive and File the City's Annual Independent Audited Financial Statements.

SUMMARY

The City's Independent Audited Annual Comprehensive Financial Report is submitted as an informational item for the City Council.

RECOMMENDATION

City staff recommends the City Council:

- Receive and File the City's Independent Audited Annual Comprehensive Financial Report.

FISCAL IMPACT

The 2023-24 fiscal year financial activity resulted in an increase to the city-wide net position of \$3,428,313 for a total Net Position of \$130,939,119.

The General Fund consists of funding that is not restricted for a specific purpose and may be used to fund the priorities of its residents, increased by \$2,945,762. The following is a breakdown of the changes in the General Fund Balance.

Description	2024	2023	Difference
Unassigned	17,812,239	16,652,393	1,159,846
Assigned Fund Balance	9,836,592	8,130,290	1,706,302
New Equipment Reserve (070)	929,412	1,186,817	(257,405)
Capital Asset Replacement (100)	7,695,743	6,500,000	1,195,743
Non-spendable (Outstanding Loans Due to City)	8,700,732	9,559,456	(858,724)
Total Fund Balance	44,974,718	42,028,956	2,945,762

The General Fund balance increase of \$1,128,895 of the \$2,945,762 were budgeted expenditures not offset by budgeted revenues that were carried over into the 2024-25 fiscal year.

The difference in the increase in the funds balance and the carryovers results in a true net increase of \$1,816,867 to the General Fund.

BACKGROUND

At the end of each fiscal year, an audit of the City's financial records is conducted by an outside auditing firm. Within six months of the close of each fiscal year, State law requires that all general-purpose local governments publish a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. The City of San Dimas contracts with Rogers, Anderson, Malody & Scott, LLP to conduct the audit and produce our annual report.

DISCUSSION/ANALYSIS

In Accordance with Government Auditing Standards a review of Internal Control Over Financial Reporting, Compliance and Other Matters was conducted. The Auditors consideration of internal control was for the limited purpose as described in their letter. Given those limitations during our audit they did not identify deficiencies in internal control that they consider to be a material weakness.

Additionally, during the tests performed to ensure compliance with certain provisions of laws, regulations, contracts, and grant agreements, the results disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Based upon the audit, there was a reasonable basis for rendering an unmodified opinion of the City of San Dimas' financial statements for fiscal year ended June 30, 2024. Specifically, the financial statements are deemed to be fairly presented in conformity with Generally Accepted Accounting Principles (GAAP) and present the results of the operations and financial position of the City for fiscal year 2022-23. Management asserts that to the best of our knowledge and belief, these financial statements are complete and reliable in all material respects.

The following is an explanation for some of the major financial highlights found in the Management's Discussion and Analysis.

FINANCIAL HIGHLIGHTS

The City's net position, also known as the City's total value of available assets (including cash and capital assets such as land, buildings, infrastructure, and equipment), increased from \$127,510,806 to \$130,939,119 an increase of \$3,428,313 from the prior year.

The detail that makes up the increase in net position that caused revenues to be higher than expenditures in the amount of \$3,428,313 can be found in the Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds, as recorded in

the Statement of Activities (page 17) and flows from the Statement of Net Position (page 16). The total revenues for all governmental activities were \$45,419,342 (page 17).

The cost of governmental activities was \$41,991,029 (refer to page 17 for detail). Transfers In and Transfers Out between funds are not shown as revenues and expenditures for financial statement presentation, but they are recorded on the City books and for budget purposes as revenues and expenditures.

The General Fund, as stated on the financial statements, includes Fund 70 New Equipment Fund and Fund 100 Capital Asset Reserve in the total (page 18). The General Fund Balance of \$44,974,718 is comprised of:

DESCRIPTION	2024
NON-SPENDABLE	8,700,732
ASSIGNED FUND BALANCE	9,836,592
NEW EQUIPMENT RESERVE (070)	929,412
CAPITAL ASSETS REPLACEMENT (100)	7,695,743
UNASSIGNED FUND BALANCE	17,812,239
TOTAL FUND BALANCE	44,974,718

Capital Assets at the end of the fiscal year 2023-24 totaled \$56,510,980, invested in a broad range of capital assets, including land, buildings, infrastructure, equipment, and right-to-use assets. This amount represents a net increase of \$57,881 over last year. The increase was mainly due to the completion of road projects and the wilderness trail.

As part of GASB 87, which went into effect in the 2021-22 fiscal year, and GASB 96, which went into effect in fiscal year 2022-23, long-term leases and subscriptions are displayed on the financial statements. Long-term lease values, less accumulated amortization, totaled \$7,876, and remaining subscription values, less accumulated amortization, totaled \$256,673.

Total long-term debt decreased from \$3,858,446 to \$2,795,530 for the City (page 19). The net pension and OPEB liabilities, which amount to \$16,610,478 and \$2,261,530 respectively, can also be found on (page 19).

The long-term debt for the Successor Agency; a separate entity for the former Redevelopment Agency is \$11,947,507, which consists of the previously mentioned City loans, and Bond principal. (page 61). The major factor in the decrease in debt is due to the repayment of loan principal.

City Financial Outlook: Budget and Economic Considerations for Next Year

The City utilized the final year of American Recovery Plan Act (ARPA) funds to supplement \$4,034,277.35 of expenditures that would have been budgeted as General Fund expenditures. The use of these funds allowed the City to have funding available to transfer \$3,000,000 to the infrastructure fund in order to fund the San Dimas Loop Repair as well as continue to fund the capital asset replacement reserve.

Going forward into the 2024-25 fiscal year, ARPA funds have been fully expensed and no longer available to help support City operations. The adopted 2024-25 budget estimates a deficit as increases to the Sheriff contract, pension liabilities and personnel costs continue to put a strain on the cities ability to provide its current level of services with the amount of revenues being generated through taxes and fees.

Fee increases to be more in line with the true cost to deliver services, property tax revenue increases due to rising property values and investment returns derived from high interest rates have helped generate additional revenue, however sales tax revenues have been declining as inflation has taken its toll on consumer spending.

The 2024-25 fiscal year will provide excellent insight into how the city's financial future may look as major projects are being completed and its cash base for investing is being decreased. If the City manages to generate a surplus under these financial conditions then the City may be in a much better financial condition then believed, however a deficit year may mean that the City is heading in the financial direction that has been predicted for the past few years, but has been avoided thanks to unanticipated grant funding, land sales, legal settlements and employment vacancies.

Additionally, in fiscal year 2024-25, the City will be providing additional evidence to the Department of Finance to justify the approval of two loans between the General Fund and the former Redevelopment Agency which if approved will continue the payments we have been receiving of approximately one million a year until all principal and interest owed has been received. If the Department of Finance once again denies the loans, then those payments will cease to be made once the final interest payments owed on the Walker House loan is paid, putting further strain on the City to balance the General Funds budget.

The 2024-25 results will include a unique one time transfer that will have to be taken into consideration, when deciding if the General Fund had a structural surplus or deficit for the year. This unique transfer involves cash received from a fund exchange between the City and Foothill Transit Authority. The exchange included Proposition A dollars for General Fund dollars that are identified to be used for future Downtown Specific Plan projects on Public and Quasi Public land. This exchange increased the net General Fund Assigned Fund Balance totals by \$3,400,000.

The true impact of the 2024-25 financial results will be seen in the changes to the unassigned fund balance of the General Fund.

The past several years has seen the City's financial reserves grow year after year, allowing the City to set aside funding for capital replacement, a General Plan update, emergency uses, risk management, new equipment, infrastructure improvements and other post employment benefits.

The City has invested wisely by making additional payments towards its pension liability to decrease the growth of annual pension costs as well as taking advantage of rising interest rates by investing its cash reserves in high yielding investments. The City has also invested in technology that has increased efficiencies and productivity allowing the City to operate without having to significantly increase its workforce to meet the rising demands on staff to meet the additional reporting requirements and regulations imposed on the City.

The City has created reserves that will sustain our operations over the next several years, however we must pay close attention to our ongoing annual operations and begin to make the

necessary choices to balance our operational budget to assure long term financial stability for the City and its residents.

ALTERNATIVES

The City Council could elect not to adopt the Annual Comprehensive Financial Report until a later date. Adopting the Annual Comprehensive Financial Report at this time allows the City to submit for excellence in financial reporting award consideration.

ENVIRONMENTAL REVIEW

Pursuant to CEQA guidelines Section 15061 (b)(3), CEQA does not apply to this item because there is no potential for causing a significant effect on the environment. Therefore, no additional environmental review is needed at this time.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Michael O'Brien", with a stylized, cursive script.

Michael O'Brien
Director of Administrative Services

Attachments:

1. 2023-24 City of San Dimas Annual Financial Report
2. Report on Internal Controls