



## **CITY OF GLENDALE, CALIFORNIA REPORT TO THE CITY COUNCIL**

### **AGENDA ITEM**

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Report: Annual financial reports for the City of Glendale as of June 30, 2020

- 1) Motion to accept City of Glendale's Comprehensive Annual Financial Report, Report on Internal Control over Financial Reporting, and Communication with Those Charged with Governance for the fiscal year ended June 30, 2020.
- 2) Motion to note and file the Financial Status Report for the year ended June 30, 2020.

### **COUNCIL ACTION**

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**Item Type:** Action Item

**Approved for** December 15, 2020 **calendar**

### **ADMINISTRATIVE ACTION**

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**Submitted by:**

Michele Flynn, Director of Finance

**Prepared by:**

Shu-Jun Li, Deputy Director of Finance

Mari Karamyan, Budget Manager

**Reviewed by:**

Adrine Isayan, Deputy Director of Finance

Michael J. Garcia, City Attorney

**Approved by:**

Roubik R. Golanian, P.E., Interim City Manager

## RECOMMENDATION

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It is requested that the City Council approve the following:

- 1) Motion to accept City of Glendale's Comprehensive Annual Financial Report, Report on Internal Control over Financial Reporting, and Communication with Those Charged with Governance for the fiscal year ended June 30, 2020.
- 2) Motion to note and file the Financial Status Report for the year ended June 30, 2020.

## BACKGROUND/ANALYSIS

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The Comprehensive Annual Financial Report (CAFR) is the City's audited financial statements. The CAFR is prepared and compiled by City staff after many months of work and audited by the City's independent certified public accountant, CliftonLarsonAllen LLP. The Auditors began their preliminary fieldwork for the June 30, 2020 year end CAFR during June 2020. The final fieldwork for the auditors continued in October 2020 with the issuance of the Independent Auditors' Report at the end of November 2020. The Comprehensive Annual Financial Report for the City of Glendale as of June 30, 2020 is hereby submitted for City Council approval.

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

A Comprehensive Annual Financial Report (CAFR) is a set of government financial statements comprising the financial report of the City at the end of the fiscal year. The CAFR complies with the accounting requirements promulgated by the Governmental Accounting Standards Board (GASB), Generally Accepted Accounting Principles (GAAP), and applicable legal requirements. These standards, principles and regulations provide the framework and rules which the City follows to produce this financial report. The CAFR is compiled by City staff and audited by an external certified public accountant pursuant to Article IV, Section 16 of the City's Charter. The CAFR is used by numerous government agencies, financial institutions (primarily bond rating agencies), and financial information repositories in order to comply with various reporting, financial, and continuing bond disclosure requirements.

In February 2020, after an open Request for Proposal process was conducted, City Council approved the selection of White Nelson Diehl Evans LLP to be the City's external auditor to perform the annual audit of the City of Glendale and its component units for fiscal years ending 2019-20 through 2024-25. In November 2020, White Nelson Diehl Evans LLP merged with CliftonLarsonAllen LLP (CLA), one of the nation's leading professional services firm. CLA has a national presence in the state and local government sector, and CLA has 120 locations, 6,200 employees, serves approximately 3,400 governmental entities, and is the largest Single Audit provider in the nation.

The results of the annual audit performed by the Auditors are formally published in the CAFR. For fiscal year ended June 30, 2020, the City of Glendale received an *Unmodified Opinion*. This is the "cleanest" opinion an entity can receive. The Auditors express an *Unmodified Opinion* when they can conclude that the financial statements are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.

The June 30, 2020 CAFR will be submitted to the Government Finance Officers' Association (GFOA) for an annual national achievement award. In order to qualify for this award, the City must publish an easily readable and effectively organized CAFR. Furthermore, the contents of the CAFR must conform to the standards established by the award program. The City has received this national achievement award for 25 consecutive years, and staff believes that the June 30, 2020 CAFR also conforms to the standards established by this award program.

The CAFR is organized into the following three main sections:

**Introductory Section** – The Transmittal Letter from the Director of Finance, listing of the Administration and Executive Management Team members, and the City's Organization Chart are located in the Introductory Section.

**Financial Section** – This section is the main section of the CAFR and includes the Independent Auditors' Report, Management's Discussion and Analysis (MD&A), the City's government-wide statements, governmental, proprietary and fiduciary fund-level statements, notes to the basic financial statements, and the required supplementary information (RSI). The remainder of the Financial Section presents the financial statement information for non-major governmental and enterprise funds and all internal service funds.

**Statistical Section** – Located towards the end of the CAFR, this section provides readers with a variety of information, all of which is unaudited.

Below is a discussion of the key areas of the CAFR.

### **Management's Discussion and Analysis (MD&A)**

The MD&A starts the Financial section of the CAFR and serves as an executive summary. GAAP requires that management provide this narrative to accompany the basic financial statements. The *Letter of Transmittal*, which precedes the MD&A in the Introductory section, is designed to complement the MD&A and should be read in conjunction with it. The MD&A is located immediately following the Independent Auditors' Report.

### **Government-wide statements**

The overall financial picture of the City is presented, in accordance with the Governmental Accounting Standards Board (GASB) pronouncements, on a Government-wide basis. Exhibits A-1 and A-2 are designed to provide readers with a broad overview of the City's finances similar to a private-sector business consolidated financial statement. These statements show the June 30, 2020 fiscal year end balances and overall results of operations for the period then ended, for all City funds. These two government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from those primarily supported by a user charge (*business-type activities*). The *governmental activities* of the City include general government, police, fire, public works, transportation, housing, health and community development, employment programs, public service, parks, recreation and community

services, library, and interest and fiscal charges. The *business-type activities* of the City include electric, water, sewer, refuse disposal, fire communication and fiber optic. The two government-wide statements presented at Exhibit A-1 and Exhibit A-2 are:

- **The Statement of Net Position** presents information on all of the City's assets and deferred outflows of resources as well as liabilities and deferred inflows of resources, with the difference reported as net position. This is similar to a Balance Sheet in private sector accounting. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

**Exhibit A-1 Statement of Net Position**  
(in millions)

	Government	Business	Total
Assets	\$ 1,614	\$ 1,077	\$ 2,691
Deferred outflows of resources	69	17	86
Liabilities	(726)	(363)	(1,089)
Deferred inflows of resources	(15)	(3)	(18)
<b>Net position June 30, 2020</b>	<b>\$ 942</b>	<b>\$ 728</b>	<b>\$ 1,670</b>

- **The Statement of Activities** presents information showing how the City's net position changed during the most recent fiscal year. Similar to an Income Statement in private sector accounting, all changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation and sick leave).

**Exhibit A-2 Statement of Activities**  
(in millions)

	Government	Business	Total
Expenses	\$ 376	\$ 314	\$ 690
Revenues:			
Charges for services	78	313	391
Operating and capital grants	101	-	101
Taxes	172	-	172
Investment income/Other	6	33	39
Transfers	20	(20)	-
Total revenues	377	326	703
Increase in net position	1	12	13
Net position July 1, 2019, as restated	941	716	1,657
<b>Net position June 30, 2020</b>	<b>\$ 942</b>	<b>\$ 728</b>	<b>\$ 1,670</b>

## **Fund Level Statements**

Following the government-wide statements, the fund-level financial statements are presented for governmental funds, proprietary funds and the fiduciary fund. These statements are presented for each major fund and in total for nonmajor funds. Funds can be declared major funds by management if various factors are met, even if they fail the qualifications resulting from calculations. The General Fund is always considered a major fund by definition. Major fund requirements do not apply to internal service funds.

Major governmental funds include the General Fund, the Housing Assistance Fund and the Capital Improvement Fund. The *Balance Sheet* and the *Statement of Revenues, Expenditures and Changes in Fund Balances* are presented for individual major governmental funds and in total for nonmajor governmental funds. Reconciliations between the governmental fund-level statements and the governmental government-wide statements are also presented in this section, as well as a budget to actual comparisons for the major governmental funds. All of these statements are at Exhibit B-1 thru D-2.

Proprietary funds include enterprise funds and internal service funds. Major enterprise funds include the Sewer Fund, the Electric Fund and the Water Fund. The *Statement of Net Position*, the *Statement of Revenues, Expenses and Changes in Net Position*, and the *Statement of Cash Flows* are presented for individual major enterprise funds, in total for nonmajor enterprise funds and in total for internal service funds. All of these statements are at Exhibit E-1 thru E-3.

The Glendale Successor Agency is considered a Fiduciary Fund. The *Statement of Net Position* and the *Statement of Changes in Net Position* for this fund are presented in Exhibit F-1 and F-2.

## **Notes to the Basic Financial Statements**

Immediately following the fund-level statements are the Notes to the Basic Financial Statements. This section provides a significant amount of disclosure requirements that supplement the financial data presented in the statements. Some of the note disclosures include more detailed information about cash and investments, long-term debt and liabilities, the City's pension plan, and contingent liabilities and commitments to name a few.

## **Nonmajor Funds and Internal Service Funds**

This section of the CAFR provides information on each individual nonmajor special revenue, debt service, capital projects and enterprise fund. Special revenue funds are used to account for the proceeds of the specific revenue resources that are nonspendable, restricted or committed to expenditures for specified purposes, as required by law or administrative regulation. Debt service funds are used to account for financial resources that are committed to expenditures for principal and interest of the City's general long-term debt. Capital projects funds are used to account for financial resources that are restricted or committed to expenditures for capital outlays of major capital facilities other than those financed by proprietary funds. Enterprise funds are used to account for operations that provide goods or services to the general public that are financed primarily by a user charge or where the periodic measurement of net income is deemed appropriate.

The City's three development impact fee funds are part of the nonmajor governmental funds, and their annual results are stated for each fee type (Parks, Library, and Quimby).

In addition, all internal service funds are included towards the end of this section, and they are used by the City to centralize certain services and then allocate the cost of those services to the user departments on a cost reimbursement basis.

## **Statistical Section**

The last section of the CAFR, which is unaudited, contains statistical data about the City of Glendale. There are 20 schedules in total and most of them have 10 years of history. These schedules are broken down in five distinct categories:

1. **Financial Trends** are schedules with trend information to help the reader understand how the City's financial performance and well-being have changed over time.
2. **Revenue Capacity** are schedules that contain information to help the reader assess the City's two most significant local revenue sources, the electric revenue and the property tax.
3. **Debt Capacity** are schedules that present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.
4. **Demographic and Economic Information** are schedules that offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.
5. **Operation Information** are schedules that contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and activities it performs.

## **Report on Internal Control over Financial Reporting**

The Report on Internal Control over Financial Reporting summarizes the auditors' comments and recommendations regarding opportunities for strengthening internal controls and operating efficiency. For the June 30, 2020 fiscal year end, the auditors identified three significant deficiencies: supervision of closing procedures, construction in progress, and inventory. Finance, Glendale Water and Power and Public Works departments have reviewed the auditors' comments and recommendations, and provided proper responses on corrective actions.

## **Communication with Those Charged with Governance**

The Communication with Those Charged with Governance is for the auditors to communicate the scope of audit procedures performed, significant audit matters and findings, and other matters, that are not communicated in the audited financial statements. Several significant audit matters are (1) all significant transactions have been recognized in the financial statements in the proper period; (2) the key factors and assumptions used to develop the most sensitive estimates were reasonable in relation to the financial statement taken as whole; (3) the financial statement disclosure are neutral, consistent

and clear; (4) the auditors encountered no significant difficulties in dealing with management in performing and completing the audit; (5) the auditors had no disagreement with the management.

The letter also presents the corrected journal entries recommended by the auditors and the waived adjusting journal entries. The effects of the waived entries are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

### **Fiscal Year 2019-20 General Fund Year-End Results**

For the year ended FY 2019-20, the General Fund had a net use of fund balance of approximately \$798 thousand, inclusive of the income from the Glendale Successor Agency (GSA) Loan Repayment totaling to \$2.8 million (net of the 20% transfer into the Low and Moderate Housing Fund). Total revenues received were \$225.6 million and total expenditures recorded were \$229.2 million, excluding the GSA Loan Repayment and Measure S transactions.

### **General Fund Revenues**

The final actual revenues received as of June 30, 2020 are \$225.6 million (not inclusive of Measure S revenues). Adding the gross amount of the GSA Loan Repayment of \$3.6 million, brings the total General Fund resources to \$229.1 million compared to the revised revenue budget of \$225.5 million. Although the revenues received in the final quarter of FY 2019-20 were substantially impacted by COVID-19, the revenues in various categories came in higher than what was anticipated.

The sales tax revenues received were higher than revised projections. The City experienced strong online sales and the autos and transportation industry for Glendale although still impacted, did continue to generate sales taxes through auto lease transactions during the pandemic. Property Tax revenues received continue to show strong assessed valuations for Glendale properties and owners made their payments timely through the pandemic. Revenues received in the Charges for Services category were up nearly 15% over the revised estimates mainly due to Emergency Medical Response fees and the Scholl Canyon Landfill tipping fees. On the other hand, the Occupancy & Other Taxes category revenues received were lower than the revised forecast. This is primarily due to the commercial franchise negotiations still being in progress and not yet finalized, as well as Transient Occupancy Tax revenues coming in lower than anticipated, as the hospitality industry had not been able to recover from the stay-at-home orders as was projected.

The table below illustrates the General Fund Revenues as of June 30, 2020, by major category.

**General Fund Revenues**  
**Budget to Actuals, June 30, 2020**  
(In Thousands)

<b>Category</b>	<b>Adopted</b>	<b>Revised</b>	<b>Actuals</b>	<b>% Received</b>
Property Taxes	\$ 64,043	\$ 64,043	\$ 65,169	101.8%
Sales Taxes*	45,403	42,537	43,348	101.9%
Utility Users' Tax	28,162	25,129	26,455	105.3%
Occupancy & Other Taxes	16,690	15,590	14,172	90.9%
Licenses & Permits	10,685	8,821	8,808	99.9%
Rev. from Other Agencies	204	398	419	105.3%
Charges for Services	16,270	15,003	17,223	114.8%
Interfund Revenue	19,310	19,310	19,310	100.0%
Fines & Forfeitures	3,260	3,260	3,285	100.8%
Interest/Use of Money	2,289	2,289	4,800	209.7%
Misc. & Non-Operating**	4,546	5,289	2,081	39.3%
Transfers	21,427	20,070	20,503	102.2%
<b>Total Revenues</b>	<b>\$ 232,289</b>	<b>\$ 221,739</b>	<b>\$ 225,574</b>	<b>101.7%</b>
GSA Loan Repayment***	3,733	3,733	3,572	95.7%
<b>Grand Total Resources</b>	<b>\$ 236,022</b>	<b>\$ 225,472</b>	<b>\$ 229,146</b>	<b>101.6%</b>

\* Excludes Measure S sales tax revenues

\*\*Misc & Non-Operating Revenue budget includes \$3.0 million of vacancy savings which is realized within expenditures.

\*\*\*The GSA Loan Repayment amount is no longer being recorded as earned revenues but will be reflected in the unassigned fund balance category for the City's General Fund. The interest earned in the amount of \$161 thousand is however recorded as earned revenue and is included in the Interest/Use of Money category.

## General Fund Expenditures

The actual expenditures as of June 30, 2020 are \$229.2 million, reflecting 94.8% of total General Fund budget. Adding in the 20% GSA Loan Repayment transfer in the amount of \$747 thousand brings the total to \$229.9 million compared to the revised budget of \$242.4 million. This variance is mainly due to savings within the salaries & benefits, contractual services, and utilities categories across each General Fund department. An attributable factor to this variance includes savings generated from vacant positions, and other operational cost savings due to various city facilities being closed to the Public during the COVID-19 pandemic and certain programs not being able to occur.



The table below reflects the General Fund expenditures by major category as of June 30, 2020.

**General Fund Expenditures**  
**Budget to Actuals, June 30, 2020\***  
(In Thousands)

<b>Category</b>	<b>Adopted Budget</b>	<b>Revised Budget</b>	<b>Actuals</b>	<b>% Expensed</b>
<u>Salaries &amp; Benefits</u>				
Salaries	\$ 98,972	\$ 97,487	\$ 88,266	90.5%
Overtime	10,181	10,181	16,155	158.7%
Hourly Wages	7,342	7,322	5,472	74.7%
Benefits (Net salary charges out)	28,487	29,127	30,423	104.4%
PERS (Net of cost-share)	43,029	43,029	39,646	92.1%
<b>Total Salaries &amp; Benefits</b>	<b>\$ 188,011</b>	<b>\$ 187,146</b>	<b>\$ 179,962</b>	<b>96.2%</b>
<u>Maintenance &amp; Operation</u>				
Contractual Services	\$ 8,805	\$ 11,067	\$ 8,230	74.4%
Supplies	2,685	2,599	2,790	107.3%
Utilities	7,003	7,003	6,649	94.9%
Other M&O	27,226	29,360	27,496	93.7%
<b>Total Maintenance &amp; Operation</b>	<b>\$ 45,719</b>	<b>\$ 50,029</b>	<b>\$ 45,164</b>	<b>90.3%</b>
Capital Outlay	-	740	376	50.8%
Transfers Out	2,492	3,774	3,694	97.9%
<b>Total General Fund Expenditures</b>	<b>\$ 236,222</b>	<b>\$ 241,689</b>	<b>\$ 229,197</b>	<b>94.8%</b>
GSA Loan Repayment 20% Transfer**	\$747	\$747	\$747	100.0%
<b>Grand Total</b>	<b>\$ 236,969</b>	<b>\$ 242,436</b>	<b>\$ 229,944</b>	<b>94.8%</b>

\* Excludes Measure S expenditures

\*\* The 20% transfer of the GSA Loan Repayment to the Low and Moderate Housing Fund is no longer being recorded as a transfers out in the General Fund but will be directly reflected in the Low and Moderate Housing Fund.

## General Fund Summary Update

Based on the FY 2019-20 final resources and appropriations, the General Fund recorded a net use of fund balance of approximately \$3.6 million. Adding in the GSA Loan Repayment in the amount of \$2.8 million (net of the 20% transfer into the Low & Moderate Housing Fund), brings the total General Fund use of fund balance to \$798 thousand.

The table below illustrates a summary of the FY 2019-20 General Fund resources and expenditures.

### General Fund General Fund Summary Update (In Thousands)

	<b>Final Actuals FY 2019-20*</b>
Total Revenues	\$ 225,574
Total Expenditures	\$ 229,197
<b>Net Surplus/(Use of Fund Balance)</b>	<b>\$ (3,623)</b>
GSA Loan Repayment (Net of the 20% Transfer to the Low & Mod Housing Fund)	2,825
<b>Ending Net Surplus/(Use of Fund Balance)</b>	<b>\$ (798)</b>

*\*Excludes Measure S revenues and expenditures*

## General Fund Ending Fund Balance, June 30, 2020

The City's beginning adjusted General Fund unassigned & charter reserve fund balance for FY 2019-20 was \$82.8 million, a reserve of 34.9%. Factoring in the net use of fund balance for the year of \$798 thousand, and \$95 thousand of various changes in Fund Balance categories, the ending unassigned & charter reserve fund balance as of June 30, 2020 was \$81.9 million, a reserve of 34.6%. Considering the budget carryovers into FY 2020-21 in the amount of \$769 thousand brings the net ending unassigned & charter reserve fund balance to \$81.1 million, a reserve of 34.2%. The City Council's current General Fund Reserve policy is a minimum of 25% of the annual adopted operating budget, with a target of 35%.

The table below displays the fund balance of the City's General Fund as of June 30, 2020.

**General Fund**  
**Ending Fund Balance, June 30, 2020**  
(In Thousands)

	<b>Unassigned &amp; Charter Reserve</b>	<b>% of Budget*</b>
<b>Beginning Adjusted Unassigned &amp; Charter Reserve, 7/1/2019</b>	<b>\$ 82,802</b>	<b>34.9%</b>
FY 2019-20 Use of Fund Balance	(3,623)	
GSA Loan Repayment Balance (Net of Transfers out)	2,825	
Changes in Fund Balance categories	(95)	
<b>Ending Unassigned &amp; Charter Reserve, 6/30/2020</b>	<b>\$ 81,909</b>	<b>34.6%</b>
Final Carryovers into FY 2020-21	(769)	
<b>Ending Unassigned &amp; Charter Reserve net Carryovers 6/30/2020</b>	<b>\$ 81,140</b>	<b>34.2%</b>

**Measure S**

The Measure S revenue received for FY 2019-20 is \$22.7 million. Although the revenue in the final quarter of FY 2019-20 was substantially impacted by COVID-19, the Measure S sales tax revenues received were higher than anticipated. The final expenditures for the Measure S programs totaled to \$13.6 million.

The table below shows the Measure S adopted and revised resources and final expenditures, as of June 30, 2020.

**Measure S Resources and Appropriations  
As of June 30, 2020**

	Adopted FY 2019-20	Revised FY 2019-20	Actuals FY 2019-20
<b><u>Revenues</u></b>	\$ 30,000	\$ 22,140	\$ 22,706
<u>Housing</u>			
Affordable Housing Development*	\$ 20,000	\$ 20,000	\$ 12,134
Rental Rights Program	410	410	313
Monthly Housing Rental Subsidy*	4,170	4,170	259
First Time Home Buyer Program	750	750	-
<u>Infrastructure</u>			
Seismic Upgrades – Fire Stations*	\$ 3,500	\$ 3,500	\$ 84
<u>Recreation</u>			
Aquatics Program Expansion	\$ 560	\$ 560	\$ 356
<u>Holiday</u>			
Ice Rink	\$ 458	\$ 458	\$ 432
<u>Economic Recovery</u>			
Al Fresco Glendale*	\$ -	\$ 150	\$ 64
<b><u>Total Appropriations</u></b>	<b>\$ 29,848</b>	<b>\$ 29,998</b>	<b>\$ 13,642</b>

\*The unspent budget will be carried over into FY 2020-21

The Measure S balance as of July 1, 2019 was \$5.2 million. With the FY 2019-20 revenues received in the amount of \$22.7 million and expenditures recorded in the amount of \$13.6 million, there is a surplus of \$9.1 million, bringing the ending balance to \$14.2 million as of June 30, 2020.

The table below shows the ending balance assigned to Measure S.

**Measure S  
Ending Balance, June 30, 2020  
(In Thousands)**

	<b>Measure S Balance</b>
<b>Beginning Balance, 7/1/2019</b>	<b>\$ 5,184</b>
FY 2019-20 Surplus	9,064
<b>Ending Balance, 6/30/2020</b>	<b>\$ 14,248</b>

## **FISCAL IMPACT**

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There is no fiscal impact associated with this report.

## **ALTERNATIVES**

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Alternative 1: The City Council may approve

- 1) Motion to accept City of Glendale's Comprehensive Annual Financial Report, Report on Internal Control over Financial Reporting, and Communication with Those Charged with Governance for the fiscal year ended June 30, 2020.
- 2) Motion to note and file the Financial Status Reports for the fiscal year ended June 30, 2020.

Alternative 2: The City Council may consider any other alternative not proposed by staff.

## **CAMPAIGN DISCLOSURE**

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Not applicable.

## **EXHIBITS**

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- 1) City of Glendale Comprehensive Annual Financial Report
- 2) Report on Internal Control over Financial Reporting
- 3) Communication with Those Charged with Governance