



## **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, 2021

- 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, 2021.
- 2) Motion to note and file the Financial Status Report for the year ended June 30, 2021.

### **COUNCIL ACTION**

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**Item Type: Action Item**

**Approved for** December 7, 2021 **calendar**

### **EXECUTIVE SUMMARY**

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The Comprehensive Annual Financial Report, the Report on Internal Control over Financial Reporting, the Communication with Those Charged with Governance, and the General Fund update for the fiscal year ended June 30, 2021 are presented in this report. The City received an unmodified opinion from the external auditors for the financial audit. As of June 30, 2021, the City has a net position of more than \$1.6 billion for all funds, and the General Fund has a fund balance of more than \$147 million, of which the unassigned & charter reserve fund balance is almost \$86 million, a reserve of 36% of the original FY 2020-21 budget of \$238.8 million (not inclusive of Measure S). 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%.

## **COUNCIL PRIORITIES**

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**Fiscal Responsibility:** The annual audit and General Fund update show the City's financial transactions are conducted in a prudent and responsible manner to ensure adequate resources are available to meet current obligations and long-term stability.

## **RECOMMENDATION**

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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, 2021.
- 2) Motion to note and file the Financial Status Report for the year ended June 30, 2021.

## **BACKGROUND**

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The Comprehensive Annual Financial Report (Report) is the City's audited financial statements. The Report 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 in June 2021. The final fieldwork continued in October 2021 with the issuance of the Independent Auditors' Report on November 16, 2021. The Comprehensive Annual Financial Report for the City of Glendale as of June 30, 2021 is hereby submitted for City Council approval.

A Comprehensive Annual Financial Report is a set of government financial statements comprising the financial report of the City at the end of the fiscal year. The Report 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 Report 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 Report 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.

## **ANALYSIS**

### **Comprehensive Annual Financial Report**

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The results of the annual audit performed by the Auditors are formally published in the Report. For fiscal year ended June 30, 2021, 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, 2021 Report 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 Report. Furthermore, the contents of the Report must conform to the standards established by the award program. The City has received this national achievement award for 26 consecutive years, and staff believes that the June 30, 2021 Report also conforms to the standards established by this award program.

The Report 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 Report 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, all internal service funds and fiduciary custodial funds.

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

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

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

The MD&A starts the Financial section of the Report 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 end balances and overall results of operations 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 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	\$ 1,664	\$ 1,067	\$ 2,731
Deferred outflows of resources	75	20	95
Liabilities	(784)	(369)	(1,153)
Deferred inflows of resources	(4)	(1)	(5)
<b>Net position June 30, 2021</b>	<b>\$ 951</b>	<b>\$ 717</b>	<b>\$ 1,668</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	\$ 384	\$ 335	\$ 719
Revenues:			
Charges for services	68	326	394
Operating and capital grants	112	-	112
Taxes	185	-	185
Investment income/Other	6	20	26
Transfers	19	(19)	-
Total revenues	390	327	717
Increase in net position	6	(8)	(2)
Net position July 1, 2020, as restated	945	725	1,670
<b>Net position June 30, 2021</b>	<b>\$ 951</b>	<b>\$ 717</b>	<b>\$ 1,668</b>

## **Fund Level Statements**

Following the government-wide statements, the fund-level financial statements are presented for governmental funds, proprietary funds and the fiduciary funds. These statements are presented for each major fund and in total for non-major funds. Funds can be declared major funds by management if various factors are met, even if they fail the qualifications resulting from calculations.

Major governmental funds include the General Fund, the Housing Assistance Fund and the Capital Improvement Fund. Proprietary funds include enterprise funds and internal service funds. Major enterprise funds include the Sewer Fund, the Electric Fund and the Water Fund. Major fund requirements do not apply to internal service funds. All of these statements are at Exhibit B-1 thru E-3.

Due to the implementation of GASB 84 – *Fiduciary Activities* in fiscal year 2021, the City has two additional fiduciary funds, in addition to the Glendale Successor Agency. The *Statement of Net Position* and the *Statement of Changes in Net Position* for Fiduciary Funds are presented in Exhibit F-1 thru 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.

## **Non-major Funds and Internal Service Funds**

This section of the Report provides information on each individual nonmajor special revenue, debt service, capital projects and enterprise fund.

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 Report, 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, 2021 fiscal year end, the auditors did not identify any significant deficiency or material weakness.

## Communication with Those Charged with Governance

The Communication with Those Charged with Governance is for the auditors to communicate the significant audit matters and findings, and other information, 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 list of most sensitive estimates affecting the financial statements; (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 2020-21 General Fund Year-End Results**

For the year ended FY 2020-21, the General Fund had a net surplus of approximately \$4.0 million.

#### **General Fund Revenues**

The final actual revenues received as of June 30, 2021 were \$229.4 million (not inclusive of Measure S revenues). Adding the gross amount of the GSA Loan Repayment of \$8.2 million, brings the total General Fund resources to \$237.6 million compared to the revised revenue budget of \$228.4 million. It is important to note that the actual General Fund receipts include \$4.7 million in interest revenue recorded for the PERS Section 115 Pension Stabilization Trust, which is restricted and unbudgeted. Although most of the City's revenues continued to be substantially impacted by the COVID-19 pandemic, the actual revenues received in some of the categories were much higher than anticipated.

The sales tax revenues received were \$4.6 million or 10.8% higher than the revised projections. The City has continued to experience strong online sales, along with a return of in-person shopping & dining with loosened pandemic restrictions, and the rise in automobile demand and prices generating high revenues for the autos and transportation industry. Property Tax revenues received were \$1.4 million or 2.0% higher than the revised projection, illustrating strong assessed valuations for Glendale properties and payments being made on time throughout the pandemic. Revenues collected for charges for services also came in higher than the revised projection by \$551 thousand or 4.0%, due to higher than anticipated activity and public participation for various programs and services offered by the City.

On the other hand, the Occupancy & Other Taxes category revenues received were slightly lower than the revised projections by \$677 thousand or 5.2%. Although the Transient Occupancy Tax revenues collected in the amount of \$4.1 million, came in as projected, the revenues received for the Scholl Canyon Landfill host assessment fees were lower than anticipated resulting in a net decrease for this category.

The table below illustrates the General Fund resources as of June 30, 2021, by major category.

**General Fund Resources  
Budget to Actuals, June 30, 2021  
(In Thousands)**

<b>Category</b>	<b>Adopted</b>	<b>Revised</b>	<b>Actuals</b>	<b>% Received</b>
Property Taxes	\$ 69,809	\$70,358	\$ 71,738	102.0%
Sales Taxes*	42,547	42,547	47,138	110.8%
Utility Users' Tax	24,224	25,784	26,114	101.3%
Occupancy & Other Taxes	18,201	12,951	12,274	94.8%
Licenses & Permits	9,147	8,879	8,249	92.9%
Rev. from Other Agencies	220	2,755	3,451	125.3%
Charges for Services	17,552	13,771	14,322	104.0%
Interfund Revenue	18,223	18,223	18,102	99.3%
Fines & Forfeitures	3,330	3,005	2,982	99.2%
Interest/Use of Money**	1,811	1,811	5,373	296.7%
Misc. & Non-Operating	1,497	1,497	1,034	69.1%
Transfers	18,594	18,594	18,653	100.3%
<b>Total Revenues</b>	<b>\$ 225,156</b>	<b>\$ 220,176</b>	<b>\$ 229,430</b>	<b>104.2%</b>
GSA Loan Repayment***	8,210	8,210	8,200	99.9%
<b>Grand Total Resources</b>	<b>\$ 233,366</b>	<b>\$ 228,386</b>	<b>\$ 237,630</b>	<b>104.0%</b>

\* Excludes Measure S sales tax revenues

\*\*Interest/Use of Money category includes PERS Section 115 Pension Stabilization Trust interest in the amount of \$4.7 million, which is restricted and unbudgeted.

\*\*\*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 \$10 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, 2021 are \$227.2 million, reflecting 96.0% of total General Fund revised budget. Adding in the 20% GSA Loan Repayment transfer in the amount of \$1.6 million brings the total to \$228.8 million compared to the revised budget of \$238.2 million. An attributable factor to this variance includes additional salaries & benefits savings in the net amount of \$3.3 million in addition to the anticipated \$5.0 million in projected vacancy savings due to the citywide hiring freeze, and other operational cost savings from city facilities being closed to the Public during the

COVID-19 pandemic and certain programs not being able to occur. In addition, the maintenance and operations category was underspent by approximately \$6.0 million compared to the revised budget. Contractual services for various departments were not completed by the end of the fiscal year as well as savings in other operational costs such as supplies and travel and training due to pandemic restrictions on travel and congregating occurred. There was also savings in the Liability Insurance rate cost in the amount of \$1.9 million due to the lowering of the Liability Insurance rate during the year to better align with actual needs of the Liability Fund.

The table below reflects the General Fund expenditures by major category as of June 30, 2021.

**General Fund Expenditures  
Budget to Actuals, June 30, 2021\***  
(In Thousands)

Category	Adopted Budget	Revised Budget	Actuals	% Expensed
Salaries & Benefits	\$ 188,155	\$ 185,772	\$ 182,486	98.2%
Maintenance & Operations	47,421	48,930	42,926	87.7%
Capital Outlay	-	308	192	62.3%
Transfers Out	1,585	1,585	1,585	100.0%
<b>Sub-Total General Fund Expenditure Budget</b>	<b>\$ 237,160</b>	<b>\$ 236,595</b>	<b>\$ 227,188</b>	<b>96.0%</b>
GSA Loan Repayment 20% Transfers Out**	1,642	1,642	1,642	100%
<b>Grand Total Expenditures</b>	<b>\$ 238,802</b>	<b>\$ 238,237</b>	<b>\$ 228,831</b>	<b>96.1%</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 Income Housing Asset Fund.

**General Fund Ending Fund Balance, June 30, 2021**

The City's beginning General Fund unassigned & charter reserve fund balance for FY 2020-21 was \$81.9 million, a reserve of 34.3%. Factoring in the net surplus for the year of \$2.2 million, GSA Loan Repayment Net Balance of \$6.6 million, and removing the restricted PERS Section 115 Pension Stabilization Trust interest earned of \$4.7 million and other non-spendable and assigned category adjustments of \$113 thousand, the ending unassigned & charter reserve fund balance as of June 30, 2021 was \$85.9 million, a reserve of 36.0%. Considering the final budget carryovers into FY 2021-22 in the amount of \$491 thousand brings the ending unassigned & charter reserve fund balance

to \$85.4 million, a reserve of 35.8%. 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 General Fund as of June 30, 2021.

<b>General Fund</b> <b>Ending Fund Balance, June 30, 2021</b> (In Thousands)		
	<b>Unassigned &amp; Charter Reserve</b>	<b>% of Budget</b>
<b>Beginning Unassigned &amp; Charter Reserve, 7/1/2020</b>	<b>\$ 81,909</b>	<b>34.3%</b>
<b>Changes to Unassigned &amp; Charter Reserve</b>		
FY 2020-21 Net Surplus	2,242	
GSA Loan Repayment Balance (Net of Transfers Out)	6,558	
PERS Section 115 Pension Stabilization Trust Interest Earned	(4,660)	
Other Changes in Fund Balance categories	(113)	
<b>Net Change to Unassigned &amp; Charter Reserve</b>	<b>\$ 4,027</b>	
<b>Ending Unassigned &amp; Charter Reserve, 6/30/2021</b>	<b>\$ 85,936</b>	<b>36.0%</b>
Final Carryovers into FY 2021-22	(491)	
<b>Ending Unassigned &amp; Charter Reserve Net of Carryovers</b>	<b>\$ 85,445</b>	<b>35.8%</b>

## Measure S

The Measure S revenue received for FY 2020-21 is \$27.4 million. Although there was economic uncertainty throughout FY 2020-21 due to COVID-19, the Measure S sales tax revenues received were \$3.4 million, or 14.0% higher than projected. The final expenditures for the Measure S programs totaled to \$5.2 million, with various programs and projects that were not completed being carried over into FY 2021-22.

The table below shows the Measure S adopted and revised revenues and final expenditures, as of June 30, 2021.

**Measure S Resources and Appropriations**  
**As of June 30, 2021**  
(In Thousands)

	Adopted FY 2020-21	Revised FY 2020-21	Actuals
<b><u>Revenues</u></b>	<b>\$ 22,170</b>	<b>\$ 24,075</b>	<b>\$ 27,440</b>
<u>Housing</u>			
Assistance Programs (Unallocated)	\$ 6,250	\$ 3,376	\$ -
New Affordable Housing Land Acquisition	6,000	6,000	-
Affordable Housing Development Tobinworld*	-	591	103
Affordable Housing Develop. 900 E. Broadway	-	7,275	-
Monthly Housing Rental Subsidy Program*	-	3,911	1,687
Rental Rights Program*	445	475	451
Homeless Services	-	250	2
Low Income Student Rental Assist Program	-	1,309	300
Low Income Fam Employ & Rental Assist Program	-	1,315	36
<u>Infrastructure</u>			
Citywide Traffic Study	\$ 500	\$ 500	\$ -
Verdugo Wash Greenway Feasibility Study	250	250	-
Seismic Upgrades – Fire Stations*	-	3,416	150
<u>Parks &amp; Recreation</u>			
Park Land Acquisition	\$ 1,000	\$ 1,000	\$ -
Year-Round Aquatics Program	582	582	538
Child Care Support	250	25	2
After School Youth Sports Program	-	225	-
Glendale Fireworks	-	40	-
<u>Economic Recovery – Commercial</u>			
Small Business Recovery	\$ 1,600	\$ 2,425	\$ 1,500
Personal Protective Equipment	1,000	150	86
Restaurant Relief/Al Fresco*	150	386	159
Support the Arts	500	100	76
Business Association Support	150	75	75
<u>Other Quality of Life Items</u>			
COVID Vaccination Sites	-	200	74
<b><u>Total Appropriations</u></b>	<b>\$ 18,677</b>	<b>\$ 33,877</b>	<b>\$ 5,238</b>

\* The Revised FY 2020-21 amounts include carryovers from FY 2019-20.

The Measure S beginning balance as of July 1, 2020 was \$14.2 million. With the FY 2020-21 revenues received in the amount of \$27.4 million and expenditures recorded in the amount of \$5.2 million, there is a net surplus of \$22.2 million, bringing the ending balance to \$36.5 million as of June 30, 2021. Accounting for the \$24.3 million in carryovers into FY 2021-22, brings the total adjusted ending balance to \$12.1 million.

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

**Measure S**  
**Ending Fund Balance, June 30, 2021**  
(In Thousands)

	<b>Measure S Balance</b>
<b>Beginning Balance, 07/01/2020</b>	<b>\$ 14,249</b>
FY 2020-21 Surplus	22,202
<b>Ending Balance, 06/30/2021</b>	<b>\$ 36,451</b>
Carryovers into FY 2021-22*	(24,324)
<b>Adjusted Ending Balance 06/30/2021</b>	<b>\$ 12,127</b>

\*Carryovers are processed on 07/01/2021.

## **STAKEHOLDERS/OUTREACH**

Not applicable.

## **FISCAL IMPACT**

There is no fiscal impact associated with this report.

## **ENVIRONMENTAL REVIEW**

This item is considered a ministerial activity and therefore, not subject to CEQA review.

## **CAMPAIGN DISCLOSURE**

This item is exempt from campaign disclosure requirements.

## **ALTERNATIVES**

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Alternative 1: 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, 2021.
- 2) Motion to note and file the Financial Status Reports for the fiscal year ended June 30, 2021.

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

## **ADMINISTRATIVE ACTION**

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**Submitted by:**

Michele Flynn, Director of Finance

**Prepared by:**

Adrine Isayan, Deputy Director of Finance

Shu-Jun Li, Deputy Director of Finance

**Reviewed by:**

Michael J. Garcia, City Attorney

**Approved by:**

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

## **EXHIBITS / ATTACHMENTS**

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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