

CITY OF NATIONAL CITY

Presentation to the City Council
For the Fiscal Year Ended June 30, 2022

June 20, 2023



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REQUIRED COMMUNICATIONS (AU-C 260)

Required Communications (AU-C 260)

- **Independence**
 - We complied with ALL relevant requirements regarding independence
- **Significant Accounting Policies**
 - The City disclosed all significant accounting policies in Note 1 to the financial statements.
 - The City implemented GASB Statement No. 87, *Leases*
- **Significant Estimates**
 - Fair value on investments
 - Depreciation on capital assets
 - Net pension liability actuarial inputs
 - Net other postemployment benefit liability actuarial inputs

Required Communications (AU-C 260)

- **Sensitive Disclosures**

- Note 1 – Reporting Entity and Summary of Significant Accounting Policies
- Note 3 – Leases Receivable
- Note 4 – Loans Receivable
- Note 11 – Pension Plans
- Note 12 – Other Postemployment Healthcare Benefits
- Note 14 – Classification of Fund Balances
- Note 15 – Prior Period Adjustments
- Note 17 – Subsequent Events

- **Misstatements**

- There were no uncorrected misstatements reported.

- **Consultation with Other Accountants**

- Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and other matters.

Required Communications (AU-C 260)

- **Significant Difficulties**
 - We encountered no significant difficulties in dealing with management.
- **Disagreements with Management**
 - We did not have any disagreements with management in terms of accounting treatments or audit procedures performed.

AUDIT RESPONSIBILITIES

Management's Responsibilities

- Responsible for the financial statements
- Present the financial statements in accordance with accounting principles generally accepted in the United States of America
- Adopt sound accounting policies
- Establish and maintain internal controls over financial reporting and compliance
- Provide evidence supporting the amounts and disclosures in the financial statements
- Prevent and detect fraud

OUR RESPONSIBILITY IN ACCORDANCE WITH PROFESSIONAL STANDARDS

- Form and express an opinion about whether the financial statements that have been prepared by management with Board oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America
- Plan and perform the audit to obtain “reasonable” assurance (not “absolute” assurance) about whether the financial statements are free of material misstatements.
- Consider internal control over financial reporting. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

OVERVIEW OF THE FINANCIAL STATEMENTS

City of National City
Government-Wide
Condensed Statement of Net Position
June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>	<u>\$ Change</u>	<u>% Change</u>
Assets	<u>\$ 364,732,363</u>	<u>\$ 354,673,653</u>	<u>\$ 10,058,710</u>	2.84%
Deferred Outflows of Resources	<u>98,478,194</u>	<u>16,088,043</u>	<u>82,390,151</u>	512.12%
Liabilities	<u>209,383,827</u>	<u>154,988,361</u>	<u>54,395,466</u>	35.10%
Deferred Inflows of Resources	<u>32,947,598</u>	<u>339,273</u>	<u>32,608,325</u>	9611.23%
Net Position:				
Net investment in capital assets	161,453,603	162,195,929	(742,326)	-0.46%
Restricted	100,825,314	111,040,107	(10,214,793)	-9.20%
Unrestricted (deficit)	<u>(41,399,785)</u>	<u>(57,801,974)</u>	<u>16,402,189</u>	-28.38%
Total Net Position	<u><u>\$ 220,879,132</u></u>	<u><u>\$ 215,434,062</u></u>	<u><u>\$ 5,445,070</u></u>	2.53%

City of National City
Government-Wide Summary
Statement of Activities
For the Years Ended June 30, 2022 and 2021

	2022	2021	\$ Change	% Change
Expenses	<u>\$ (102,429,004)</u>	<u>\$ (99,729,654)</u>	<u>\$ (2,699,350)</u>	2.71%
Program Revenues				
Charges for services	28,356,650	23,356,710	4,999,940	21.41%
Operating grants and contributions	18,533,739	17,685,441	848,298	4.80%
Capital grants and contributions	<u>3,514,394</u>	<u>6,109,734</u>	<u>(2,595,340)</u>	-42.48%
Total program revenues	<u>50,404,783</u>	<u>47,151,885</u>	<u>3,252,898</u>	6.90%
Net Cost of Services	(52,024,221)	(52,577,769)	553,548	-1.05%
General Revenues - Taxes	62,318,372	57,124,566	5,193,806	9.09%
Investment earnings (loss)	(3,007,949)	2,339,978	(5,347,927)	-228.55%
Miscellaneous	<u>97,010</u>	<u>156,976</u>	<u>(59,966)</u>	-38.20%
Change in Net Position	<u>\$ 7,383,212</u>	<u>\$ 7,043,751</u>	<u>\$ 339,461</u>	4.82%

**City of National City
General Fund
Condensed Balance Sheet
June 30, 2022 and 2021**

	<u>2022</u>	<u>2021</u>	<u>\$ Change</u>	<u>% Change</u>
Assets	\$ 67,687,041	\$ 56,171,365	\$ 11,515,676	20.50%
Liabilities	7,131,452	5,078,314	2,053,138	40.43%
Deferred Inflows of Resources	3,491,986	200,000	3,291,986	100.00%
Fund Balance				
Nonspendable	3,966,629	3,964,435	2,194	0.06%
Restricted	9,546,733	10,833,351	(1,286,618)	-11.88%
Committed	15,680,000	14,945,000	735,000	4.92%
Assigned	8,400,718	7,193,969	1,206,749	16.77%
Unassigned	19,469,523	13,956,296	5,513,227	39.50%
Total Fund Balance	57,063,603	50,893,051	6,170,552	12.12%
Total Liabilities and Fund Balance	\$ 67,687,041	\$ 56,171,365	\$ 11,515,676	20.50%

City of National City
General Fund
Condensed Statement of Revenues, Expenditures and Changes in Fund Balance
For the Years Ended June 30, 2022 and 2021

	2022	2021	\$ Change	% Change
Revenues	\$ 65,556,521	\$ 65,018,006	\$ 538,515	0.83%
Expenditures	(56,525,463)	(60,694,222)	4,168,759	-6.87%
Revenues over Expenditures	9,031,058	4,323,784	4,707,274	108.87%
Other Financing Sources and Uses				
Transfers (Net)	(2,858,489)	(2,363,019)	(495,470)	20.97%
Proceeds from sale of property	-	3,890	(3,890)	100.00%
Pass-through payments to other agencies	(2,017)	-	(2,017)	-100.00%
Total other financing sources/uses	(2,860,506)	(2,359,129)	(501,377)	21.25%
Change in Fund Balance	<u>\$ 6,170,552</u>	<u>\$ 1,964,655</u>	<u>\$ 4,205,897</u>	-214.08%

FINANCIAL INDICATORS AND KEY PENSION AND OPEB INFORMATION

**City of National City
Governmental Activities
Net Cost of Services to Tax Revenues**

	<u>2022</u>	<u>2021</u>
Net Cost of Services	\$ (52,024,221)	\$ (52,577,769)
Tax Revenues	<u>62,318,372</u>	<u>57,124,566</u>
Ratio	<u>83.48%</u>	<u>92.04%</u>
Excess/(Shortfall)	<u>\$ 10,294,151</u>	<u>\$ 4,546,797</u>

City of National City General Fund Unassigned Fund Balance to Annual Expenditures

	<u>2022</u>	<u>2021</u>
Unassigned Fund Balance	\$ 19,469,523	\$ 13,956,296
Annual Expenditures *	<u>56,525,463</u>	<u>60,694,222</u>
Ratio	<u>34.44%</u>	<u>22.99%</u>
Unassigned Fund Balance - PY	\$ 13,956,296	\$ 16,413,570
Net Change in Unassigned Fund Balance	<u>\$ 5,513,227</u>	<u>\$ (2,457,274)</u>

* includes capital outlay of \$1.8M for 2022 and \$1.5M for 2021

GASB 68 – The Pension Standard As of June 30, 2021 (Measurement Date)

	Miscellaneous Plan	Safety Plan	Total
Net Pension Liabilities @ 6.15%	\$ 42,792,978	\$ 84,816,902	\$ 127,609,880
Net Pension Liabilities @ 7.15%	\$ 24,045,221	\$ 53,602,936	\$ 77,648,157
Net Pension Liabilities @ 8.15%	\$ 8,503,393	\$ 27,997,749	\$ 36,501,142

Plan's Proportionate Share of the
Fiduciary Net Position as a Percentage
of the Total Pension Liability

<u>83.64%</u>	<u>76.79%</u>
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Prior year

<u>72.42%</u>	<u>66.10%</u>
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GASB 75 – The OPEB Standard As of June 30, 2021 (Measurement Date)

	<u>OPEB</u>
Total OPEB Liability @ 3.09%	\$ 5,219,008
Total OPEB Liability @ 4.09%	\$ 4,786,498
Total OPEB Liability @ 5.09%	\$ 4,406,591

Fiduciary Net Position as a Percentage of the Total OPEB Liability	<u>0.00%</u>
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AUDIT RESULTS

Audit Results

- Opinions
 - *Unmodified Opinions issued to all Opinion Units*
 - Financial statements are fairly presented in all material respects
 - Accounting policies have been consistently applied
 - Estimates used are reasonable
 - Disclosures are properly reflected in the financial statements

Audit Findings

2022-001 –Accounting Close and Accuracy in Financial Reporting (Material Weakness)

- **Condition:** The City did not complete year-end closing procedures before presenting the trial balance to auditors, resulting in journal entries being presented to correct or to reclassify balances in financial statements in order to conform with accounting principles generally accepted in the United States.
- **Effect:** A significant number of journal entries, both client provided and audit adjustments were necessary in order to get the financial statements to a point where they were materially fairly stated in accordance with U.S. GAAP.

Audit Findings

2022-002 – Internal Control Over Financial Reporting – Prior Period Adjustments in Capital Assets (Material Weakness)

- **Condition:** During the audit, as discussed in Note 15 to the basic financial statements, the City restated its beginning net position of the government-wide governmental activities by \$(1,938,142) and the fiduciary activities by \$(450,000) in order to transfer general capital assets from the fiduciary activities to governmental activities and to adjust infrastructure in the governmental-activities by \$(2,388,142).
- **Effect:** Restatements of beginning net position as of July 1, 2021 for both the government-wide financial statements \$(1,938,142) and fiduciary activities \$(450,000) were necessary.

Management Response

Financial Audit Findings

- Took deep dive into past practices and accounting entries during FY22 & FY23, which resulted in identification of past errors that needed to be fixed
- Have been focused on filling accounting team vacancies and reorganizing their duties to provide capacity to complete the year end close process in a timely manner for FY23 and beyond
 - 1 Accountant hired Spring 2022 and 1 hired Spring 2023
- Staff is committed to these audit findings being a one-time event

Audit Findings

2022-003 – Internal Control Over the Preparation of the Schedule of Expenditures of Federal Awards (Significant Deficiency)

- **Condition:** During our review of the Schedule of Expenditures of Federal Awards (“Schedule”) provided by the City, we noted that the City originally incorrectly identified federal assistance listing number 97.039 for the Hazard Mitigation Grant Program as federal assistance listing number 20.205 for the Highway Planning and Construction Cluster.
- **Effect:** The change to the schedule meant a reassessment of the City’s major programs for fiscal year 2022 needed to be performed. This resulted in additional programs that needed to be tested as major programs according to the Uniform Guidance.

Audit Findings

2022-004 – Delay in Financial Reporting (Significant Deficiency)

- **Condition:** The City experienced delays in the issuance of the 2022 Single Audit required under Uniform Guidance.
- **Effect:** Delays in processing year-end closing procedures caused the financial statements release to be delayed. In addition, the City is neither in compliance with Uniform Guidance nor is it meeting its current demands for external financial reporting.

Management Response

Single Audit Findings

- Incorrect labeling of columns on a spreadsheet had a large ripple effect, resulting in additional sampling and testing to meet single audit thresholds
- Additional sampling and testing pushed back audit completion date, causing the delay in financial reporting
- Short-term Solution: After one staff member prepares the schedule, another staff member will double check the column labels and federal grant ID numbers before the spreadsheet is provided to the auditors
- Long-term Solution: Our new financial software system (Munis) will include grant accounting capabilities for on-going tracking & reporting of all grants and reduce the probability of manual data entry errors. The grant accounting portion of the system will go live in Spring 2024.

Other Results

- No disagreements with management
- No material weaknesses/significant deficiencies were identified in internal control over financial reporting or compliance
- No accounting issues where there was a question on authoritative guidance noted
- No inappropriate activities were noted



Thank you!

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