

# **Livermore Area Recreation and Park District Staff Report**

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TO: Chair Faltings and Finance Committee

FROM: Mathew Fuzie, General Manager

PREPARED BY: Jeffrey Schneider, Administrative Services Manager

DATE: January 27, 2020

SUBJECT: 2018-2019 District Audit

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RECOMMENDATION: That the Finance Committee Recommend that the Board of Directors accept the Fiscal Year 2018-2019 District Audit.

BACKGROUND: District auditors, James Marta & Company, LLP, conducted an annual audit of the District's financial reporting and processes for fiscal year 2018-19 and their work is reflected in documents included in the January 29, 2020 Board meeting packet ("Independent Auditor's Report", "Communication with Those Charged with Governance") along with staff's "Management Representation Letter".

AUDIT RESULTS:

1. James Marta & Company conducted a comprehensive and thorough examination of our financial records, policies and procedures and did so in an open, constructive manner in working with LARPD Finance.
2. The District received a clean audit. No deficiencies in internal controls were identified and the financial statements included in Attachment A represent, fairly, the financial position of the District.
3. The most noteworthy component of the attached Auditor's Report is the District's growing Pension and Other Post Employment Benefits (OPEB) liabilities: the Pension Liability now stands at \$15,804,862, more than double the previous year's figure of \$7,228,288, while the OPEB liability sits at \$950,150, nearly five times the balance as of June 30, 2018. The primary driver of this material increase in retirement liabilities is a change made, during Fiscal 2018-19, to isolate LARPD from the rest of the ACERA pool due to the declining active payroll in relation to the District's retiree population for its Tier 1 ACERA participants, which drove up the District's share of the overall net Pension liability as well as its contribution rates. Also contributing to the increase in our retirement-related liabilities is lower-than-expected return on the plan's investment portfolio.
4. Also of note is the impact of the significant Capital Improvement Program (CIP) activity that occurred in FY18-19, and which continued into the following fiscal

- year. This activity is reflected in numerous places throughout the Auditor's report, including capital expense and "Capital Contributions and Grants" in relation to AB1600 funding;
5. While the Auditor's report reflects the use of full accrual accounting, the District's regular budget and actual reporting to its Board is based upon Fund Accounting (eg, focused on both operating and capital items that impact the District's General Fund). As such, the following bullet points outline the District's results for the year-ended June 30, 2019 using the same Fund Accounting methods:
    - a. The District's operating surplus for 2018-19 was \$1,355,456 (excluding Capital Improvement Program (CIP) related income and outlays and extraordinary items), a result that exceeded the Final Budget (reflecting mid-year Budget adjustments and that reflected a \$560,230 net operating surplus) by \$795,226 for the year.
    - b. Operating revenue was \$22,572,539, or \$206,924 (0.9%) above the Final FY18-19 Budget. Revenue from Programs and Services of \$10,550,679 was \$51,393 (0.5%) above the Final Budget, while Tax revenues of \$12,021,860 were \$155,531 (1.3%), above the Final Budget.
    - c. Operating expense, including capital equipment but not CIP, was \$21,217,083, or \$588,302 (2.7%) below the Final Budget, a result of lower than budgeted spending across all expense categories.
  6. One of the fundamental purposes of an audit is to have an independent qualified third party (auditor) examine our financial records and procedures and to attest to their reliability. Our auditor's opinion for fiscal year ending June 30, 2019, is at the top of page two of the Independent Auditor's Report: "In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the general fund and the aggregate remaining fund information of the Livermore Area Recreation & Park District as of June 30, 2019, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America."
  7. James Marta & Company's audit included assessing the District's internal controls for the purpose of expressing their opinion on the financial statements. In this regard, the auditor's comment is favorable: "...during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified."

Attachments sent separately as a component of the 012920 Board Package:

- A. Financial Statements with Independent Auditor's Report
- B. Communication with Those Charged with Governance
- C. Management Representation Letter