

# ALAMEDA-CONTRA COSTA TRANSIT DISTRICT



## STAFF REPORT

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**MEETING DATE:** 11/12/2020

**Staff Report No.** 20-441

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**TO:** AC Transit Board of Directors

**FROM:** Michael A. Hursh, General Manager

**SUBJECT:** Year-End Financial Statements and Independent Auditor's Report for June 30, 2020

### BRIEFING ITEM

#### **RECOMMENDED ACTION(S):**

Consider receiving the Year-End Financial Statements and Independent Auditor's Report for Fiscal Year Ended June 30, 2020.

#### **STRATEGIC IMPORTANCE:**

Goal - Financial Stability and Resiliency

Initiative - Financial Efficiency and Revenue Maximization

With this staff report and its attendant financial reports, the District officially closes out its fiscal year ended June 30, 2020. These timely financial reports provide the final reference point to review its financial performance of the past fiscal year and helps to provide a fully informed basis to assist in planning for future periods.

#### **BUDGETARY/FISCAL IMPACT:**

During Fiscal Year 2019-20, the District had revenues earned during the period of \$503.4 million over expenses (not including depreciation) of \$493.7 million or an operating surplus (modified) of \$9.7 million. After applying depreciation expense of \$44.3 million and capital revenues of \$36.3 million, as of June 30, 2020 the increase to net position was \$0.7 million, or \$71.1 million. However, due to an accounting rule change (related to revenue recognition) there was a prior period adjustment of \$1.5 million to increase to the District's net position to \$72.6 million as of June 30, 2020. It can be noted that without the \$30.0 million of Federal Cares Act funds received during the period, the District's Net Position would have been eroded, without the prior period adjustment, by \$29.3 million as of June 30, 2020.

#### **BACKGROUND/RATIONALE:**

The Statement of Fund Net Position (formerly Statement of Net Assets) presents information about assets and liabilities with the difference between the two reported as net position. In accordance with Board Policy 340, Accounting Policies, the annual audit of the financial statements has been completed and the report prepared by Crowe Horwath LLP has been issued to the District. The auditors have rendered a clean opinion and "found the District's Financial Statements presented, in all material respects, the financial position of the District at June 30, 2020 and the results of its operations and cash flows of enterprise funds for the year ended in

conformity with the generally accepted accounting principles in the United States of America” (Crowe, 2020). Staff encourages readers to consider the financial information presented in the attached financial statements.

### **Financial Highlights**

- At June 30, 2020, total assets and deferred outflow of resources were \$754.2 million, a decrease of \$23.6 million, or 3 percent, compared to June 30, 2019, when it was \$777.8 million. Total current assets at June 30, 2020 were \$234.6 million, an increase of \$4.5 million, or 2 percent, primarily related to year over year increases in receivables, prepaids and inventory at yearend. Capital assets, net of accumulated depreciation increased by \$14.3 million or 3 percent, to \$459.9 million due to ongoing District capital programs. Other Non-Current Assets were stable at \$1.1 million. Deferred outflows decreased by \$42.4 million, or 42 percent, to \$58.5 million at June 30, 2020 primarily due to the pension related net of investment gains/losses, and the amortization of investment losses from prior periods.
- At June 30, 2020, total liabilities and deferred inflow of resources were \$681.6 million, a decrease of \$25.9 million, or 4 percent, compared to June 30, 2019 when they were \$707.5 million. Total current liabilities increased by \$0.2 million, or 0 percent, over fiscal year 2019 when they were \$92.1 million. due to a net increase in related subcategories at year end, most notably in Salary & Wages and fringe, including paid time off liabilities. These were mostly offset by decreases in unearned revenue, accounts payables and in other accrued liabilities. Non-current liabilities decreased by \$61.2 million, or 11 percent, from June 30, 2019 when they were \$564.2 million. This was primarily due to the decrease in the net pension and OPEB liabilities, partially offset by \$15.0 million credit line obligation as of June 30, 2020. This change in Pension and OPEB liabilities are attributable to net investment and actuarial activity. The decrease in deferred inflows of \$35.2 million is the product of the net activity of expected and actual experience as reflected in the pension GASB 68 and GASB 75 actuarial studies.
- For Fiscal Year 2020, operating revenues decreased by \$14.5 million, or 19 percent, to \$62.0 million. While there were some slight trends during the course of the year, once the “COVID 19” pandemic started in mid-March 2020 the District stopped collecting passenger fares for the safety its employee’s and the riding public, creating this year over year result. However, it can be noted that contract fares remained stable at \$14.2 million, a reduction of 4 percent over June 30, 2019, when they were \$14.8 million. As of June 30, 2019, operating revenues were \$76.5 million.
- In Fiscal Year 2020, total expenses were \$538.0 million, an increase of \$32.3 million, or 6 percent, compared to \$505.6 million at June 30, 2019. The largest year over year increases occurred in fringe benefits of \$13.5 million largely due to carrier increases, paid time off taken related to the pandemic, and actuarial results, Services of \$11.6 million primarily due to “Pass Through” expenditures (“Pass Through” revenues and expenditures are generated from projects belonging to other agencies, which may directly or indirectly benefit the District’s operations) Other Wages had increases in the maintenance and salaried categories contributing to the \$5.6 million increase, and a \$4.5 million increase in “Other” due to facility leases at the Salesforce Transbay terminal. Notable year over year decreases occurred in Insurance of \$3.0 Million due to actuarial results, fuel, due to service reductions during the pandemic period, and Expenses of Joint Venture, again due to service curtailment related to the pandemic.

- For Fiscal Year 2020, non-operating revenues were \$441.4 million, an increase of \$37.3 million, or 9 percent, compared to Fiscal Year 2019 when it was \$404.1 million. The most notable increases occurred in Federal funds of \$24.8 million or 182 percent due to the receipt of federal CARES Act funding during the period, Property tax of \$9.0 million or 6 percent, and state funds of 10.4 million or 50 percent primarily due to the receipt of “pass through” funds which are not available to fund District operations. There was year over year decreases in Sales Taxes of \$ 6.6 million or 6 percent, and a reduction in Local Funds of \$1.9 million, or 2 percent, both related to the pandemic.
- At June 30, 2020, net position was \$72.6 million, an increase of \$2.2 million, or 3 percent, from June 30, 2019 when it was \$70.3 million. This 2020 increase in net position was driven by the net result of total operating and non-operating revenues during the fiscal year of \$503.4 million, combined with capital funds earned during the period of \$35.3 million, totaling \$538.7 million, over total expenses of \$538.0 million, along with an prior period adjustment of \$1.5 million, attributable to the mandatory adoption of compliance statement “19-01”.

**ADVANTAGES/DISADVANTAGES:**

Receipt by the Board of Directors of the Annual Audited Financial Statements formally closes the 2019-20 Fiscal Year.

**ALTERNATIVES ANALYSIS:**

This report does not recommend an action.

**PRIOR RELEVANT BOARD ACTION/POLICIES:**

Board Policy No. 340 Accounting Policies (Adopted 4/1992, most recently revised 1/2016)

**ATTACHMENTS:**

1. Audited Basic Financial Statements for the Fiscal Year Ended June 30, 2020
2. Measure B
3. Measure BB
4. Measure J
5. Measure VV
6. Prop 111 (Gann Limit)
7. Evaluation of Board of Director Expenses
8. Special Transit Service District 1/District 2
9. Single Audit

10. Prop 1B - (PTMISEA &TDA)
11. Memorandum on Internal Control
12. LCTOP

**Prepared by:**

Ralph Martini, Controller

**Approved/Reviewed by:**

Claudia L. Allen, Chief Financial Officer

Ralph Martini, Controller