STAFF REPORT

MEETING DATE: 12/14/2022 **Staff Report No.** 22-568

TO: **AC Transit Board of Directors**

FROM: **Michael A. Hursh, General Manager/Chief Executive Officer**

SUBJECT: **Year-End Financial Statements and Auditor's Report for FY 2021-2022**

BRIEFING ITEM

AGENDA PLANNING REQUEST: ☐

RECOMMENDED ACTION(S):

Consider receiving the Year-End Financial Statements and Independent Auditor's Report for the Fiscal Year Ended June 30, 2022.

Staff Contact:
Chris Andrichak, Chief Financial Officer

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, 2022. These timely financial reports provide the final reference point to review the financial performance of the past fiscal year and help provide a fully informed basis to assist in planning for future periods.

BUDGETARY/FISCAL IMPACT:

During Fiscal Year 2021-22, the District had revenues earned of $537.2 million over expenses (not including depreciation) of $457.1 million or an operating surplus (modified) of $80.1 million. After applying depreciation expense of $54.5 million and capital revenues of $32.5 million, as of June 30, 2022, the increase to net position was $58.1 million, to $172.8 million which includes restricted funds and operating and capital reserves. It is noted that without the $65.5 million of Federal CRRSA and ARP Act funds received during the period, the District's Net Position would have increased modestly to $107.3 million as of June 30, 2022.

BACKGROUND/RATIONALE:

The Statement of Fund Net Position 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, LLP has been issued to the District. The auditors have rendered a clean opinion: "In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and fiduciary activities of the District, as of June 30, 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America." (Crowe, 2022).

The auditors identified a finding of significant deficiency in this year's financial statements, identified in Attachment 11 and Attachment 9. The District's net Other Post-Employment Benefits (OPEB) liability was adjusted down by $3.4 million and OPEB fringe benefits expense was adjusted down by $7.6 million. The District adjusted its measurement date for OPEB last fiscal year and this resulted in an error with timing of when deferred outflows were recorded in this fiscal year. Additionally, the net position calculated by the actuarial consultant did not agree with the statements from CalPERS. The OPEB entries have been corrected and staff will implement further OPEB review controls moving forward.

The auditor also identified three leases covered under the new GASB 87 Lease Accounting Statement that were not correctly recorded. The overall effect on the District's net position was very small at approximately $30,000. This new GASB Statement 87 is complex, and staff acknowledges the issues with its interpretation and application of it, and will undertake a more thorough review of lease terms going forward along with education for staff of what agreements could be covered under these new rules. Fortunately, the District does not have a significant volume of agreements covered by this Statement.

Staff encourages readers to consider the financial information presented in the attached financial statements.

Financial Highlights:

- On June 30, 2022, total assets and deferred outflow of resources were $875.1 million, an increase of $76.0 million, or 10 percent, compared to June 30, 2021, when it was $799.1 million. Total current assets on June 30, 2022, were $339.6 million, an increase of $50.6 million, or 17 percent, primarily related to year over year increases in cash and short-term investments, inventory, local sales taxes, property tax and prepaids at year-end. Capital assets, net of accumulated depreciation, increased by $6.6 to $447.9 million due to the adoption of GASB 87 for leases and to ongoing District capital programs. Other non-current assets increased by $9.1 to $10.3 million, due to the adoption of GASB 87 for leases. Deferred outflows increased by $9.6 million, or 14 percent, to $77.4 million on June 30, 2022, primarily due to the pension related net of investment gains/losses, and the amortization of investment losses from prior periods.
- On June 30, 2022, total liabilities and deferred inflow of resources were$702.3 million, an increase of $17.9 million, or 3 percent compared to June 30, 2021, when they were $684.4 million. Total current liabilities increased by $19.7 million, or 22 percent, over fiscal year 2021 when they were $87.9 million due to a net increase in related subcategories at year-end, most notably in accrued salary and wages, A/P and accrued expenses and accrued liabilities. Non-current liabilities decreased by $13.0 million or 3 percent from June 30, 2021, when they were $492.4 million. This was primarily due to decreases in the net pension liability, OPEB liabilities and Certificates of Participation (COPS). These changes in Pension and OPEB liabilities are attributable to net investment and actuarial activity. The increase in deferred inflows of $11.2 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, and the adoption of GASB 87 for lease

accounting.

- For Fiscal Year 21-22, operating revenues increased significantly by $11.2 million, or 40 percent, to $39.3 million. This increase is due to the resumption of fare collection and increasing service levels and ridership. Contract fares declined by $760 thousand, a reduction of 6 percent over June 30, 2021, when they were $11.8 million. As of June 30, 2021, operating revenues were $28.1 million.
- In Fiscal Year 21-22, total operating expenses were $511.6 million, an increase of $26.1 million, or 5 percent, compared to $485.5 million on June 30, 2021. Fringe benefits decreased by $28.1 million largely due to a reduction in paid time off taken related to the pandemic and actuarial results. Services increased by $1.6 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 $6.7 million increase. Notable year over year increases occurred in insurance of $9.8 million, due to actuarial results and fuel increased by 90 percent, or $7.9 million, due to service resumption and rising fuel costs.
- For Fiscal Year 21-22, non-operating revenues were $497.8 million, an increase of $7.7 million, or 2 percent, compared to Fiscal Year 2021 when it was $490.1 million. The most notable increases occurred in local sales taxes of $17.1 million or 16 percent, joint ventures of $9.7 million or 38 percent, and property taxes of $6.7 million or 4 percent. Federal funds declined by $18.5 million, or 20 percent, and state funds decreased by $3.6 million or 14 percent, primarily due to the receipt of "pass through" funds which are not available to fund District operations. There was also a reduction in local funds of $3.8 million, or 5 percent, related to the pandemic.
- On June 30, 2022, net position was $172.8 million, an increase of $58.1 million, or 58 percent from June 30, 2021, when it was $114.8 million. This 2022 increase in net position was driven by the net result of total non-operating revenues during the fiscal year of $497.8 million combined with Passenger Fares and Other Operating Revenues of $38.3 million, totaling $537.2 million, over total expenses of $511.6 million. It should also be noted that without the receipt of $65.5 million of Federal Coronavirus Response and Relief Supplemental Appropriations (CRRSA) and American Rescue Plan (ARP) Act funding during the period the cumulative net position would have increased modestly to $107.3 at fiscal year-end.

ADVANTAGES/DISADVANTAGES:

Receipt by the Board of Directors of the Annual Audited Financial Statements formally closes the 2021-2022 Fiscal Year.

ALTERNATIVES ANALYSIS:

There are no alternatives to producing Annual Audited Financial Statements.

PRIOR RELEVANT BOARD ACTION/POLICIES:

Board Policy No. 340 Accounting Policies

ATTACHMENTS:

1. Audited Basic Financial Statements for the Fiscal Year Ended June 30, 2022.
2. Measure B
3. Measure BB
4. Measure J
5. Measure VV/C1
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. Management Letter - Internal Controls
12. LCTOP

Prepared by:
Kenneth Myers, Controller

Approved/Reviewed by:
Chris Andrichak, Chief Financial Officer