ALAMEDA-CONTRA COSTA TRANSIT DISTRICT

STAFF REPORT

MEETING DATE: 11/10/2021 **Staff Report No.** 21-520

TO: AC Transit Board of Directors

FROM: Michael A. Hursh, General Manager

SUBJECT: Year-End Financial Statements and Auditor's Report for FY 2020-21

BRIEFING ITEM

RECOMMENDED ACTION(S):

Consider receiving the Year-End Financial Statements and Independent Auditor's Report for the Fiscal Year Ended June 30, 2021.

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, 2021. 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 2020-21, the District had revenues earned of $518.1 million over expenses (not including depreciation) of $442.3 million or an operating surplus (modified) of $75.9 million. After applying depreciation expense of $43.1 million and capital revenues of $9.4 million, as of June 30, 2020 the increase to net position was $42.2 million, to $114.8 million which includes restricted funds and operating and capital reserves. It is noted that without the $84.1 million of Federal CARES Act funds received during the period, the District's Net Position would have been reduced by $42.0 million as of June 30, 2021.

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, 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, 2021, 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, 2021).

The auditors identified one 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 and expense were less than the actuarial valuation by $3.2 million. As identified by the auditor, the District's submitted worksheets containing the correct net OPEB liability, but this did not match what was in the financial system. The difference was due to an incorrect journal posting and has been remedied. Staff acknowledges the error and as required by the audit has identified a corrective action plan consisting of a process improvement for complex OPEB and Pension journal postings to reduce the chance of future errors.

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

Financial Highlights

- At June 30, 2021, total assets and deferred outflow of resources were $799.1 million, an increase of $45.0 million, or 6 percent, compared to June 30, 2020, when it was $754.2 million. Total current assets at June 30, 2021 were $288.0 million, an increase of $54.4 million, or 23 percent, primarily related to year over year increases in cash and short-term investments, receivables, prepaids and inventory at year end. Capital assets, net of accumulated depreciation decreased by $18.6 million or 4 percent, to $441.3 million due to ongoing District capital programs. Other non-Current assets were stable at $1.1 million. Deferred outflows increased by $9.2 million, or 16 percent, to $67.7 million at June 30, 2021 primarily due to the pension related net of investment gains/losses, and the amortization of investment losses from prior periods.

- At June 30, 2021, total liabilities and deferred inflow of resources were $684.4 million, an increase of $2.7 million, or less than 1 percent, compared to June 30, 2020 when they were $681.6 million. Total current liabilities decreased by $4.4 million, or 5 percent, from $92.3 million in Fiscal Year 2019-20 due to a net decrease in related subcategories at year end, most notably in accrued salary & wages, A/P, and accrued expenses and accrued liabilities. These were mostly offset by increases in unearned revenue, pension trust fund, claims liabilities and accrued interest payable. Non-current liabilities decreased by $10.5 million, or 2 percent, from June 30, 2020 when they were $502.9 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 was primarily due to a decrease in the net pension liability, offset by an increase in OPEB liabilities and claims liabilities. These changes in Pension and OPEB liabilities are attributable to net investment and actuarial activity. The increase in deferred inflows of $17.6 million is the product of the net activity of expected and actual experience as reflected in the pension GASB 68 and OPEB GASB 75 actuarial studies.

- For Fiscal Year 2020-21, operating revenues decreased by $33.9 million, or 55 percent, to $28.1 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 nearly seven months for the safety of its employee's and the riding public, creating this year over year result. The pandemic and associated shelter-in-place orders also significantly reduced ridership and fare revenue even once the District resumed fare collection in October 2021. Contract fares also declined to $11.8 million, a reduction of 17 percent over June 30, 2020, when they were $14.2 million. As of June 30, 2020, operating revenues were $61.9 million

- In Fiscal Year 2020-21, total expenses were $485.5 million, a decrease of $52.5 million, or 10 percent, compared to $538.0 million at June 30, 2020. Fringe benefits increased slightly by $1.1 million largely due to carrier increases, paid time off taken related to the pandemic, and actuarial results. Services decreased substantially by $24.7 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 decreases in the maintenance and salaried categories contributing to the $1.5 million decrease, and a 2 percent increase in “Other’ was due to facility leases at the Salesforce Transbay terminal. Notable year over year increases occurred in Insurance of $3.5 million due to actuarial results, while there were decrease in costs of 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 2020/21, non-operating revenues were $490.1 million, an increase of $48.7 million, or 11 percent, compared to Fiscal Year 2019-20 when it was $441.4 million. The most notable increases occurred in Federal funds of $49.9 million or 121 percent due to the receipt of federal CARES Act funding during the period and Property tax of $10.1 million or 7 percent. State funds declined by $5.3 million or 17 percent primarily due to the receipt of "pass through" funds which are not available to fund District operations. There was an increase in Sales Taxes of $4.7 million or 5 percent, and a reduction in Local Funds of $8.2 million, or 9 percent, both related to the pandemic.

- At June 30, 2021, net position was $114.8 million, an increase of $42.2 million, or 58 percent, from June 30, 2020 when it was $72.6 million. This 2021 increase in net position was driven by the net result of non-operating revenues increasing during the fiscal year to $490.1 million, combined with capital funds earned during the period of $9.4 million, totaling $499.5 million, over total expenses which decreased to $485.4 million. It should also be noted that without the receipt of $84.1 million of Federal CARES Act funding during the period, the change in net position would have been a decrease of $42.0 million, and cumulative net position would have been reduced to $30.7 million at year end.

ADVANTAGES/DISADVANTAGES:

Receipt by the Board of Directors of the Annual Audited Financial Statements formally closes the 2020-21 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, 2021
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. Memorandum on Internal Control
12. LCTOP

Prepared by:
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Approved/Reviewed by:
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