STAFF REPORT

MEETING DATE: 12/13/2023 **Staff Report No.** 23-522

TO: AC Transit Board of Directors

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

SUBJECT: Year-End Financial Statements and Independent Auditor's Report FY22-23

ACTION 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, 2023.

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, 2023. 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 2023, the District had revenues earned of $580.7 million over expenses (not including depreciation) of $531.4 million or an operating surplus (modified) of $49.4 million. After applying depreciation expense of $77.1 million and capital revenues of $63.6 million, as of June 30, 2023, the increase to net position was $35.8 million, to $200.3 million which includes restricted funds and operating and capital reserves. It is noted that without the $38.8 million of Federal CRRSA and ARP Act funds received during the period, the District's Net Position would have decreased slightly to $161.5 million as of June 30, 2023.

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, 2023, 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, 2023).

The auditors identified a finding of significant deficiency in this year's financial statements, identified in Attachment 11 (Management Letter). Five audit adjustments were posted by management which resulted in a decrease of noncurrent assets of approximately $0.4 million, a decrease in capital assets of approximately $0.3 million, an increase in current liabilities of approximately $0.8 million, a decrease in noncurrent liabilities of approximately $1.2 million, a decrease in deferred inflows of resources of approximately $1.2 million, an increase in net position of approximately $8.1 million, an increase in non-operating revenues of approximately $1.5 million, an increase in operating expenses of approximately $8.5 million (related to Other Post-Employment Benefits (OPEB) expense classification), an increase nonoperating expenses of approximately $0.4 million, and an overall decrease in change in net position of approximately $7.3 million.

Management agrees with the reclassification entries and going forward will review and determine the best was to adopt the recommendations made by the auditor. The findings related to OPEB entries and Governmental Accounting Standards Board (GASB) statement 87 for Lease Accounting are repeated from the prior year and again are attributable to the complexity of the work in this area. Both areas address future liabilities that the District has and particularly for OPEB the findings relate to when and how the future liability is measured and where it is recorded. The findings for this FY also involve another new GASB statement 96 for Subscription-Based Information Technology Arrangements, which like GASB 87 looks at the possible future liability from existing leases or contracts. The incorporation of GASB 87 and 96 successively over the past two FYs have reduced the amount of time staff has available do the necessary multiple layers of review for audit submittals. Staff attempted to plan in advance for incorporation of both statements and will improve in this area.

Accounting staff levels have been the same for many years while the overall amount of work required for the audit and its complexity have steadily increased. Following this FY audit completion the Chief Financial Officer and Controller will review the overall audit process and Accounting Department staffing to ensure there is a workable plan to address the findings.

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

Financial Highlights:

Assets

- On June 30, 2023, total assets and deferred outflow of resources were $1.02 billion, an increase of $160 million or 19 percent, compared to June 30, 2022, when it was $859.5 million. Current assets on June 30, 2023, were $292.3 million, a decrease of $21.8 million or 7 percent over June 30, 2022, when it was $339.6 million. Cash and investments were higher on June 30, 2023, by $30.5 million, grant receivables increased by $8.8 million. Property tax decreased by $6.7 million and local sales taxes receivable decreased by $2.0 million. Inventory increased by 3.7 million and prepaids increased by $2.1 million. Non-Current assets on June 30, 2023, were $545.5 million, an increase of $77.4 million over June 30, 2022, when they were $468.1 million. This change is attributable to net activity for the year for property plant and equipment and the implementation of GASB 96.

- Deferred outflows, which are primarily related to Pension and OPEB as of June 30, 2023, were $181.9 million. This was an increase of $104.5 million or 135%, over June 30, 2022, when it was $77.4 million. The pension component of deferred outflows increased by $100.5 million compared to June 30, 2022, at $59.8 million. OPEB related deferred outflows on June 30, 2023, were up by $4.1 million an increase of 24 percent over June 30, 2022, when it was $17.1 million. The change in these numbers is the product of changes in actuarial assumptions, and the difference between actuarially projected and actual earnings of pension investments.

Liabilities

- On June 30, 2023, total liabilities and deferred inflows of resources were $819.3 million, increasing moderately when compared to June 30, 2022, when they were $695.1 million. Current liabilities on June 30, 2023, were $92.2 million a decrease of $15.5 million or 17 percent over June 30, 2022, when they were $107.7 million. Several factors contributed to this net result including decreases of $3.8 million in Accrued Salaries and Wages and $4.6 million in Other accrued liabilities. Additional decreases in current liabilities include $8.1 million in Claims Liabilities and $2.3 million due to pension, related to timing.
- Total other non-current liabilities were $638.1 million, an increase of $165.7 million or 26 percent from June 30, 2022, when it was $472.4 million. This result was due to increases in net pension liability. On June 30, 2023, the net pension liability was $384.7 million, an increase of $175.2 million, or 46 percent, over fiscal year 2022 when it was $209.5 million. As of June 30, 2023, the Net OPEB liability was $146.1 million a decrease of $26.8 million, or 18 percent, over fiscal year 2022 when it was $172.9 million. The net decrease in deferred inflows of $25.3 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. Deferred inflows from Pension decreased $54.9 million, or 5,237 percent, while deferred inflows from OPEB increased $29.6 million, or 37 percent.

Net Position

- On June 30, 2023, net position was $200.3 million, an increase of $35.9 million, or 18 percent from June 30, 2022, when it was $164.4 million. During the current fiscal year total revenues grew by $43.3 million, or 8 percent, and expenses increased by $88.2 million or 17 percent. Total operating and non-operating revenues during the fiscal year ended June 30, 2023, were $580.7 million and capital revenues of $164.4 million totaling $745.1 million, over total expenses of $608.5 million. Federal emergency funds of $36.8 million were earned during the period and were instrumental in preserving the District's net position on June 30, 2023.

Operations

Operating Revenues

- For fiscal year 2023, operating revenues increased by $7.7 million, or 19 percent, to $47.2 million over June 30, 2022, when they were $39.5 million. There was an increase in Passenger Fares of $4.8 million in fiscal year 2023, or 20 percent, over fiscal year 2022 with a total of $23.6 million. Contract Services increased by 14 percent or $1.6 million when compared to June 30, 2022, when they were $11.1

million. Joint Ventures increased by 28 percent to $1.3 million. This overall result is attributable to the District's bringing service towards pre-pandemic levels.

Operating Expenses

- In fiscal year 2023, total operating expenses were $608.5 million, an increase of $88.2 million or 17 percent compared to $520.2 million in fiscal year 2022. The most significant increases occurred in Depreciation of $22.6 million, Fringe Benefits of $55.6 million, JPA of $4.7 million, and Services of $3.9 that substantially contributed to the overall increase in total operating expenses. There was a decrease of $6.8 million, or 32 percent, in Insurance. Operator wages totaling $85.3 million, for June 2023, were up $1.7 million, or 2 percent, over the year ending June 2022 when they were $83.5 million. Most of the employees in the Operator wages category did receive CBA scheduled increases. Other salary and wages were $81.1 million on June 30, 2023, an increase of $1.4 million, or 2 percent, over June 30, 2022, when it was $79.8 million. Most of the employees in the other salary and wages category received CBA scheduled increases.

Non-Operating Revenue

- For fiscal year 2023, non-operating revenues were $533.5 million, which is an increase of $43.3 million, or 8 percent, compared to fiscal year 2022 when it was $497.9 million. This overall net increase included year over year increases in local sales taxes, property taxes, as well as local funds, which were offset by decreases in federal funds.
- At fiscal year-end 2023 property taxes were $178.7 million an increase of $12.7 million or 8 percent, over fiscal year 2022 when they were $166.0 million. Local sales tax revenues went from $123.6 million on June 30, 2022, to $131.9 million as of June 30, 2023, an increase of $8.4 million, or 7 percent. These include increases in Measure BB and AB1107 of $35 million and $2.8 million respectively. There was a decrease of $28.8 million, or 100 percent, in Measure B. The half-cent sales tax authorized by Measure B went into effect in April 2002 and ceased in April 2022 when Measure BB was increased by a half-cent.
- Local funds totaling $111.6 million on June 30, 2023, increased by $33 million, or 42 percent over June 30, 2022, when it was $78.7 million. Local funds on June 30, 2023, included Transportation Development Act (TDA) of $103 million. The item of note includes the increase in TDA funds of $29 million. The TDA funds, which are sales tax based, were up approximately 40% in both D1 and D2, due increases in local sales tax. Federal non-operating revenues decreased by $33.7 million, to $38.8 million, or 46 percent, over June 30, 2022, when they were $72.5 million, with Federal ARP Act funds providing $36.8 million of this total.

Net Position

- On June 30, 2023, net position was $200.3 million, an increase of $35.9 million, or 18 percent from June 30, 2022, when it was $164.4 million. During the current fiscal year total revenues grew by $43.3 million, or 8 percent, and expenses increased by $88.2 million or 17 percent. Total operating and non-operating revenues during the fiscal year ended June 30, 2023, were $580.7 million and capital revenues of $164.4 million totaling $745.1 million, over total expenses of $608.5 million. Federal emergency funds of $36.8 million were earned during the period and were instrumental in preserving the District's net position on June 30, 2023.

ADVANTAGES/DISADVANTAGES:

Receipt by the Board of Directors of the Annual Audited Financial Statements formally closes the 2022-2023 Fiscal Year.

ALTERNATIVES ANALYSIS:

There are no alternatives to producing and accepting the 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 BB
3. Measure J
4. Measure VV/C1
5. Prop 111 (Gann Limit)
6. Evaluation of Board of Director Expenses
7. Special Transit Service District 1/District 2
8. Single Audit
9. Prop 1B (PTMISEA & TDA)
10. Management Letter - Internal Controls
11. LCTOP

Prepared by:
Kenneth Myers, Controller

Approved/Reviewed by:
Chris Andrichak, Chief Financial Officer