



STAFF REPORT

AGENDA NO: 9p

MEETING DATE: December 15, 2025

To: Honorable Mayor and City Council

Date: December 15, 2025

From: Helen Yu-Scott, Finance Director – (650) 558-7222

Subject: Acceptance of the City of Burlingame Annual Comprehensive Financial Report and Other Related Annual Audit Reports for the Fiscal Year Ended June 30, 2025

RECOMMENDATION

Staff recommends that the City Council accept the Annual Comprehensive Financial Report (ACFR) and other related annual audit reports for the fiscal year 2024-25.

BACKGROUND

Following the close of each fiscal year, the City's external auditors conduct an audit of the City's financial records and assist in compiling the Annual Comprehensive Financial Report (ACFR) and related reports for that fiscal year. The paramount objective of general-purpose external financial reporting is accountability. The goal of a financial statement audit is to provide users with reasonable assurance from an independent source that the information presented in the statements is reliable. In conjunction with the ACFR for the fiscal year ended June 30, 2025, staff also presents other related annual reports, including the Memorandum on Internal Control (MOIC), Required Communications, and the Agreed Upon Procedures (AUP) Report on Compliance with the Appropriations Limit Increment.

DISCUSSION

The auditing firm of Maze & Associates, Accountancy Corporation performed the audit for fiscal year 2024-25. The firm conducts its audits in accordance with the generally accepted auditing standards applicable to financial audits, as outlined in the Government Auditing Standards issued by the Comptroller General of the United States. The standards require auditors to plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatements. On a sample basis, they examine evidence supporting the amounts and disclosures in the financial statements. The audit also includes assessing the accounting principles used and significant estimates made by management, and evaluating the overall basic financial statement presentation.

The auditor's unmodified ("clean") opinion is presented as the first item in the financial section of the ACFR (page 1). In accordance with Government Auditing Standards, the auditors also issue a report of recommendations to City management identifying any areas for improvement in the City's

internal control over financial reporting. The City's Audit Committee, currently comprised of Mayor Peter Stevenson and Councilmember Donna Colson, met with staff and the audit partner on December 1, 2025, to discuss the audit reports, results, and recommendations.

The City participates in the ACFR award program administered by the Government Finance Officers Association (GFOA) and has been successful in obtaining the award each fiscal year since 1989-90. Staff intends to submit the City's FY 2024-25 ACFR to the GFOA program and is confident that the report will again merit the GFOA Certificate of Achievement for Excellence in Financial Reporting. Upon City Council acceptance, the FY 2024-25 ACFR will be posted to the City's website (Finance Department web page).

ANALYSIS

City-wide Financial Results:

The actual results of the City's financial activities are presented in the attached Annual Comprehensive Financial Report. The report includes government-wide financial statements with governmental activities and business-type activities presented separately. The business-type activities consist of self-supporting functions (primarily comprised of the City's Water and Wastewater utility operations). The government-wide financial statements, which provide a broad overview of the City's finances, indicate that the City's net position increased by nearly \$39.0 million, or 8.7 percent, during the fiscal year ending June 30, 2025. Of this increase, \$29.5 million was from governmental activities and \$9.5 million from business-type activities, resulting from a net increase in assets over liabilities.

The City's total revenues increased by \$12.0 million over the prior year, and total expenses increased by \$9.6 million. Governmental revenues increased by \$10.3 million primarily due to increases in program revenues (charges for services - \$3.0 million, and capital grants and contributions - \$1.9 million), an increase in general revenues (property taxes - \$2.9 million, transient occupancy taxes - \$0.9 million, and investment income - \$1.5 million). Business-type revenues improved by \$1.7 million mainly due to an increase in Water and Sewer revenue, and were offset by the decrease in Building revenue.

General Fund:

The General Fund experienced a surplus for the year, as revenues exceeded expenditures and net transfers by over \$236,000. Most revenue categories reported favorable variances for the year, except sales and use taxes and transient occupancy taxes, which came in \$2.0 million below the combined adjusted budget. Two notable positive revenue budget variances were property taxes (\$504,000 collected over budget) and investment income (\$4.1 million collected more than budget). Overall, actual General Fund revenues were approximately 3.8 percent higher than the adjusted budget and \$4.2 million (4.7 percent) higher than experienced in the prior fiscal year.

Proprietary Funds

Proprietary funds are used to account for activities that are driven by charges for services provided by each fund. *Enterprise funds* account for external activities (largely utilities), while *internal service funds (ISFs)* account for internal (interdepartmental) activities.

The Water and Sewer Funds account for the City's main enterprise activities. The sale of water and provision of wastewater services to customers generate the revenue needed to support these utility operations and capital needs. Both utilities experienced increases in net position in fiscal year 2024-25: \$0.7 million for the Water Fund and \$5.5 million for the Sewer Fund. However, these increases largely represented growth in net investment in capital assets and funding for capital projects.

Other Information

The Management's Discussion and Analysis (MD&A) section, beginning on page five of the attached ACFR, provides additional explanatory information. The MD&A provides readers with an objective and easily readable analysis of the City's financial performance for the year.

The impact of the 2024-25 fiscal year results for the City's General Fund on the current year's budget is being analyzed in conjunction with a monthly budget-to-actual review. A comprehensive review of the City's funds, an update on the status of major projects and priorities, and an update on economic conditions will be presented to the Council with the mid-year report and budget adjustments in March. At that time, the revised long-term financial forecast will also be provided.

Memorandum on Internal Control (MOIC)

Under generally accepted auditing standards, auditors are encouraged to report certain matters regarding an agency's internal control structure. The City's auditors provided such a report in their Memorandum on Internal Control for the year ended June 30, 2025. The audit did not identify any material weaknesses or significant deficiencies.

Required Communications Report

The City's auditors are required to identify any communication issues and present new accounting standards pronouncements that may affect the audit. The auditors did not report any difficulties in performing the audit or any disagreement with management in their Required Communications for the year ended June 30, 2025.

Agreed Upon Procedures Report on Compliance with Appropriations Limit Increment

The appropriations limitation imposed by Proposition 4 (1979), and later amended by Proposition 111 (1990), creates a restriction on the amount of government revenues that may be appropriated in any fiscal year. The appropriations limit is based on actual appropriations during the base year (1986-87 or the first full year of operation) and increases each year using specified growth factors. The appropriations limit applies only to those revenues defined as "proceeds of taxes." Certain expenditures of tax proceeds do not count as Appropriations Subject to the Limit, including those for voter-approved debt, qualified capital outlay, and the costs of complying with court orders and

federal mandates. Staff prepares an updated Appropriations Limit each year and presents it to Council for review and approval during the budget preparation process. The AUP report shows the City auditor applied specific procedures to validate the City Appropriations Limit (Gann limit) calculations, including testing the accuracy of the calculations and comparing the information presented. No exceptions were noted in these procedures for compliance with Proposition 111 for the fiscal year 2024-25 Appropriations Limit calculation.

Annual Assessment of Internal Controls

On June 27, 2024, the 2023-24 San Mateo County Civil Grand Jury released a report entitled "Assessing and Reporting Internal Controls in San Mateo County Agencies and School Districts". In response to the report's findings and recommendations, the City contracted with DKG Consultants, LLC in November 2024 to assist in evaluating and analyzing the City's internal financial controls across the organization and in developing an enterprise risk assessment framework. The City Council accepted the internal control assessment report from DKG Consultants on June 16, 2025. As part of implementing the Risk Mitigation Recommendations from DKG Consultants, staff shared a new-hire Internal Control training presentation with employees hired since July 1, 2024. The Human Resources Department will incorporate the training material into the onboarding package for future new hires. The DKG report recommends an annual assessment of internal control risk areas and calls for communicating any resulting changes to control activities in its report to Council when the Annual Comprehensive Financial Report is shared. Staff conducted an annual assessment of internal controls during October and November 2025. Changes to policies, processes, or procedures only occurred in limited departments and were documented and communicated to all stakeholders. Internal controls/risk mitigation efforts have been evaluated and updated to reflect changes, and training was provided to all stakeholders.

FISCAL IMPACT

Acceptance of the City's ACFR and other related annual audit reports has no direct impact on City resources. However, obtaining an unqualified opinion from the auditor is an important independent verification and validation of the City's financial management practices and a prerequisite to receiving the GFOA award. An award-winning ACFR contributes to the City's excellent bond rating.

Exhibits:

- Annual Comprehensive Financial Report
- Memorandum of Internal Controls
- Required Communications
- Appropriation Limit Report