

CITY OF LOS ANGELES

Report to the Mayor and City Council

For the Fiscal Year Ended June 30, 2024



Certified
Public
Accountants



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Public
Accountants

March 26, 2025

To the Honorable Mayor and
Members of the City Council of the City of Los Angeles
Los Angeles, California

We are pleased to present this report related to our audit of the basic financial statements of the City of Los Angeles, California (City) as of and for the fiscal year ended June 30, 2024.

In addition to the audit of the City's basic financial statements included in the Annual Comprehensive Financial Report (ACFR), we also performed the following audit and attestation engagements:

1. Audit of the following fund financial statements as of and for the fiscal year ended June 30, 2024. These funds are included in the City's basic financial statements:
 - a. Sewer Construction and Maintenance (SCM) Fund
 - b. Mobile Source Air Pollution Reduction Trust Fund
 - c. Low and Moderate Income Housing Fund
 - d. Proposition HHH Funds
 - e. Municipal Improvement Corporation of Los Angeles (MICLA), a component unit of the City
2. Audit of the City as of June 30, 2024, to satisfy the audit requirements imposed by the Single Audit Act and Subpart F of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).
3. Audit of the rates developed for each Cost Allocation Plans (CAP) for the fiscal year ended June 30, 2023, to be applied in fiscal year ending June 30, 2025.
4. Agreed-upon procedures with respect to the Appropriations Limit (GANN Limit) of the City for the fiscal year ended June 30, 2024.

We did not audit the financial statements of the Department of Airports (Airports), Department of Water and Power (DWP) Water System (Water) and Power System (Power), Department of Harbor (Harbor), Los Angeles Fire and Police Pension System (Pensions), Los Angeles City Employees' Retirement System (LACERS), and Water and Power Employees' Retirement, Disability and Death Benefit Insurance Plans (DWP Plans), which are included in the City's basic financial statements. Accordingly, this communication does not include the results of those audits. Our report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the City's financial reporting process.

This report is intended solely for the information and use of the Mayor, City Council, and management, and is not intended to be, and should not be, used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have about this report. We appreciate the opportunity to continue to be of service to the City.

Los Angeles, California

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REQUIRED COMMUNICATIONS

The following required communications summarize our responsibilities regarding the financial statement audits as well as observations from our audits that are significant and relevant to your responsibility to oversee the financial and related compliance reporting process.

Our Responsibilities

We describe our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States to you in our engagement letter dated May 16, 2024. Our audits of the basic financial statements does not relieve management or you of your responsibilities, which are also described in that letter.

Planned Scope and Timing of the Audits

We have previously issued a separate communication dated May 16, 2024 regarding the planned scope and timing of our audits and identified significant risks.

Accounting Policies and Practices

Preferability of Accounting Policies and Practices

Under accounting principles generally accepted in the United States of America, in certain circumstances, management may select among alternative accounting practices. In our view, in such circumstances, management has selected the preferable accounting practice.

Adoption of, or Change in, Accounting Policies

Management has the ultimate responsibility for the appropriateness of the accounting policies used by the City. A summary of the significant policies adopted by the City is included in Note 1 to the financial statements. As described in Note 1.E.19. to the basic financial statements, the City adopted the following Governmental Accounting Standards Board (GASB) statements in fiscal year 2024:

- GASB Statement No. 99, *Omnibus 2022* – Implementation of this statement did not have a significant impact on the City’s financial statements for the fiscal year ended June 30, 2024.
- GASB Statement No. 100, *Accounting Changes and Error Corrections – an amendment of GASB Statement No. 62* - As discussed in Note 4.B. to the basic financial statements, during the fiscal year ended June 30, 2024, the City revised its methodology for estimating the allowance for uncollectibles on loans receivable. As a result of this change in estimate, the allowance for uncollectibles on loans receivable increased by \$789.2 million.

Significant Accounting Policies

We did not identify any significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Unusual Transactions

We did not identify any significant unusual transactions.

Management's Judgments and Accounting Estimates

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events, and certain assumptions about future events. You may wish to monitor throughout the year the process used to determine and record these accounting estimates.

The following summarizes the significant accounting estimates reflected in the City's June 30, 2024 basic financial statements:

Significant Accounting Estimates	
Measurement of investments at fair value	<p>The City's investments are accounted for in accordance with the provisions of GASB Statement No. 72, <i>Fair Value Measurement and Application</i>, and accordingly, its fair value measurements are categorized within the fair value hierarchy established by the standard. The following levels indicate the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:</p> <ul style="list-style-type: none">○ Level 1 – Investments whose values are based on quoted prices (unadjusted) for identical assets in active markets that a government can access at the measurement date.○ Level 2 – Investments whose values are based on inputs – other than quoted prices including prices included within level 1 – that are observable for an asset, either directly or indirectly.○ Level 3 – Investments whose values are based on unobservable inputs for an asset and may require a degree of professional judgment. <p>MGO compared investment values from quoted market information and using pricing applications and models obtained from custodian banks, fiscal agents or other sources and determined that they were reasonable.</p>
Estimated allowance for losses on accounts, notes, and loans receivable	<p>The allowance for losses on accounts, notes, and loans receivable was based on management's estimate regarding the likelihood of collectability.</p> <p>MGO assessed the reasonableness of the allowances based on the nature of the accounts, notes and loans receivable and performed substantive analytical procedures on the balances and determined the estimates were reasonable.</p>

Significant Accounting Estimates (continued)

<p>Depreciation and amortization of capital assets, including depreciation/amortization methods and useful lives assigned to depreciable/amortizable property</p>	<p>Useful lives, or in the case of intangible right-to-use lease and subscription-based information technology arrangement assets, the shorter of useful lives or the lease/subscription term, for depreciable/amortizable capital assets were determined by management based on the nature of the capital asset. Depreciation/amortization was calculated based on the straight-line method.</p> <p>MGO assessed the reasonableness of the useful lives based on the nature of the capital assets and performed substantive analytical procedures on depreciation/amortization expense and determined the estimates were reasonable.</p>
<p>Accrual of compensated absences</p>	<p>Accrual of compensated absences was based on accrued eligible hours of vacation and sick leave at current pay rates for eligible employees.</p> <p>MGO agreed the unused hours and pay rates at year-end to payroll reports and recalculated the reported balances to determine they were reasonable.</p>
<p>Estimated Claims and Judgments</p>	<p>The City is exposed to a variety of risks of loss due to general liability, workers' compensation, and other claims, and records an estimate of the losses based on actuarial studies performed by third-party actuaries and attorney judgment about the ultimate outcome of the claims. These studies are prepared based on the City's prior claims history, which is used as a basis for extrapolating losses for known and incurred but not reported claims. Actual losses may vary from these estimates.</p> <p>MGO reviewed the actuarial valuations, and the related assumptions used in the City's calculations for these liabilities, agreed payment data to accounting records, and determined them to be reasonable.</p>
<p>Measurement of the pension and other postemployment benefits (OPEB) contributions, net pension/OPEB liability, pension/OPEB expense and pension/OPEB-related deferred outflows and inflows of resources</p>	<p>Pension and OPEB plans' employer and employee contributions requirements, net pension/OPEB liability, and related deferred outflows and inflows of resources were based on actuarial valuations prepared by the actuaries of the City's Retirement Systems.</p> <p>MGO agreed the calculations to actuarial valuations prepared by the actuaries of the Retirement Systems and tested the reasonableness of allocations to various City funds.</p>

Audit Adjustments and Uncorrected Misstatements

There were no audit adjustments made to the original trial balances presented to us to begin our audits of each respective financial statement deliverable. However, we identified an adjustment to the Schedule of Expenditures of Federal Awards (SEFA) resulting in a reduction of expenditures reported on the SEFA for the Federal Transit Cluster (ALN 20.507) in the amount of \$5,948,000. This amount represented expenditures related to the fiscal year 2025 and were outside of the financial reporting period. This adjustment did not impact the City's basic financial statements.

Uncorrected misstatements or matters underlying them could potentially cause future-period financial statements to be materially misstated, even if we have concluded that the uncorrected misstatements are immaterial to the financial statements under audit.

We identified the following uncorrected misstatements that management has concluded are not, individually or in the aggregate, material to the Governmental Activities, Low and Moderate Income Housing Fund and the aggregate remaining fund information reported in the basic financial statements. We agree with management's conclusion in that regard.

<u>Account Description</u>	<u>Debit</u>	<u>Credit</u>
Other Liabilities	\$3,839,730	
Fund balance, beginning		\$3,839,730
<i>To record the amount collected on the SERAF loan as restricted net position and eliminate the liability.</i>		

Departure From the Auditor's Standard Report

Emphasis of Matters Paragraphs

Our report dated January 29, 2025, includes emphasis of matters paragraphs noting that the City revised its methodology for estimating the allowance for uncollectibles on loans receivable, the credit watch outlook for the City's bond issues associated with the Los Angeles Region wildfires, and the City's preliminary assessments of the Los Angeles Region wildfires in January 2025. Those paragraphs are below:

- As discussed in Note 4.B. to the basic financial statements, during the fiscal year ended June 30, 2024, the City revised its methodology for estimating the allowance for uncollectibles on loans receivable. As a result of this change in estimate, the allowance for uncollectibles on loans receivable increased by \$789.2 million. Our opinions are not modified with respect to this matter.
- As discussed in Notes 5.G.1. 5.G.4., and 5.G.5. to the basic financial statements, nationally recognized statistical ratings organizations have taken various actions related to the credit watch outlook for the City's bond issues associated with the Los Angeles Region wildfires. Our opinions are not modified with respect to this matter.
- As discussed in Note 5.G.7. to the basic financial statements, Los Angeles Region wildfires in January 2025 caused significant damage in Pacific Palisades and several other areas within the City. The City is in the process of assessing damage caused by the fire events and cannot currently estimate the impacts of the fires, including any resulting litigations, to the City's financial condition. The impacts are expected to affect various aspects of the City's finances and are likely to be significant. The City's preliminary assessments show that water, power, stormwater, and sewer service areas have experienced significant fires. While the City is still in the process of assessing the overall financial impact, the City's initial damage estimate submitted to the Federal Emergency Management Agency shows a total of \$358.0 million in costs related to emergency response, infrastructure/structural damages and debris removal estimated through January 10, 2025. Our opinions are not modified with respect to this matter.

Other Information Included in Annual Reports

Our responsibility for other information included in annual reports is to read the information and consider whether its content or the manner of its presentation is materially inconsistent with the financial information covered by our auditor's report, whether it contains a material misstatement of fact or whether the other information is otherwise misleading.

Certain deliverables include supplementary information required by accounting principles generally accepted in the United States of America to be presented with the financial statements as listed below:

Deliverable	Required Supplementary Information (RSI)
ACFR	<ul style="list-style-type: none"> • Management's Discussion and Analysis • Benefit Pension Plans Schedules of Employer Contributions, • Schedules of Changes in Net Pension Liability (Asset) and Related Ratios, • Other Postemployment Benefits (OPEB) Plans Schedules of Employer Contributions, • Schedules of Changes in Net OPEB Liability (Asset) and Related Ratios, • Actuarial Methods and Assumptions Used to Determine Employer Contribution Rates, • Condition Rating for City Bridges • Comparison of Needed-To-Actual Maintenance/Preservation Costs
Sewer Construction and Maintenance (SCM) Fund	• Management's Discussion And Analysis
Mobile Source Air Pollution Reduction Trust Fund	None.
Low and Moderate Income Housing Fund	None.
Proposition HHH Funds	None.
Municipal Improvement Corporation of Los Angeles (MICLA)	• Management's Discussion and Analysis
Single Audit	None.
CAP	None.
GANN	None.

We applied certain limited procedures to the RSI listed above. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We did not audit the RSI and do not express opinions or provide any assurance on the RSI.

We were engaged to report on certain supplementary information related to certain deliverables that is not considered RSI as listed below.

Deliverable	Supplementary Information Not Considered RSI Reported with the Financial Statements
ACFR	<ul style="list-style-type: none"> • Combining and individual fund financial statements and schedules • Schedule of Expenditures of Federal Awards
Sewer Construction and Maintenance (SCM) Fund	None.
Mobile Source Air Pollution Reduction Trust Fund	• Schedule of revenues, expenditures and change in Fund balance – Budget and Actual – Budget Basis

Low and Moderate Income Housing Fund	None.
Proposition HHH Funds	None.
Municipal Improvement Corporation of Los Angeles (MICLA)	None.
Single Audit	None.
CAP	None.
GANN	None.

With respect to the supplementary information listed above, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audits of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Specifically related to the ACFR deliverable, we were not engaged to report on the introductory and statistical sections, which accompany the basic financial statements but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it. We read the introductory and statistical sections and did not identify material inconsistencies with the audited basic financial statements.

Observations About the Audit Process

Disagreements With Management

We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit or significant disclosures to be included in the basic financial statements.

Consultations With Other Accountants

We are not aware of any consultations management had with other accountants about accounting or auditing matters.

Significant Issues Discussed With Management

No significant issues arising from the audit were discussed or were the subject of correspondence with management.

Significant Difficulties Encountered in Performing the Audit

We did not encounter any significant difficulties in dealing with management during the audit.

Significant Matters That Required Consultation

We did not encounter any difficult or contentious matters that required consultation outside the engagement team and that are, in our professional judgment, significant and relevant to your responsibility to oversee the financial reporting process.

Shared Responsibilities for Independence

Independence is a joint responsibility and is managed most effectively when management, audit committees (or their equivalents), and audit firms work together in considering compliance with American Institute of Certified Public Accountants (AICPA) and *Government Accountability Office* (GAO) independence rules. For MGO to fulfill its professional responsibility to maintain and monitor independence, management, the Mayor, City Council, and MGO each play an important role.

Our Responsibilities

1. AICPA and GAO rules require independence both of mind and in appearance when providing audit and other attestation services. MGO is to ensure that the AICPA and GAO's General Requirements for performing non-attest services are adhered to and included in all letters of engagement.
2. Maintain a system of quality management over compliance with independence rules and firm policies.

The City's Responsibilities

1. Timely inform MGO, before the effective date of transactions or other business changes, of the following:
 - a. New affiliates, directors, or officers.
 - b. Changes in the organizational structure or the reporting entity impacting affiliates such as subsidiaries, partnerships, related entities, investments, joint ventures, component units, and jointly governed organizations.
2. Provide necessary affiliate information such as new or updated structure charts, as well as financial information required to perform materiality calculations needed for making affiliate determinations.
3. Understand and conclude on the permissibility, prior to the City and its affiliates, officers, directors, or persons in a decision-making capacity, engaging in business relationships with MGO.
4. Not entering into arrangements of nonaudit services resulting in MGO being involved in making management decisions on behalf of the City.
5. Not entering into relationships resulting in close family members of MGO covered persons, temporarily or permanently acting as an officer, director, or person in an accounting, financial reporting, or compliance oversight role at the City.

Internal Control and Compliance Matters

We have separately communicated on internal control and compliance over financial reporting during our audit of the basic financial statements and major federal awards, as required by *Government Auditing Standards* and *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* at 2 CFR 200 (Uniform Guidance). These communications identified a significant deficiency in internal control over financial reporting under *Government Auditing Standards* and a significant deficiency in internal control over compliance in accordance with the Uniform Guidance. These communications are included in the City's single audit reports for the fiscal year ended June 30, 2024.

Significant Written Communications Between Management and Our Firm

We received certain written representations from management of the City as follows:

Deliverable	Date
ACFR	1/29/2025
Sewer Construction and Maintenance (SCM) Fund	1/29/2025
Mobile Source Air Pollution Reduction Trust Fund	12/20/2024
Low and Moderate Income Housing Fund	1/28/2025
Proposition HHH Funds	1/23/2025
Municipal Improvement Corporation of Los Angeles (MICLA)	1/3/2025
Single Audit	3/26/2025
CAP	3/12/2025
GANN	9/26/2024

EXHIBIT A - RECENT ACCOUNTING PRONOUNCEMENTS

The following accounting pronouncements have been issued as of the date of this communication but are not yet effective and may affect future financial reporting by the City.

Pronouncement	Summary
GASB Statement No. 101, <i>Compensated Absences</i>	<p>The objective of this statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.</p> <p>Statement No. 101 is effective for the City's fiscal year ending June 30, 2025.</p>
GASB Statement No. 102, <i>Certain Risk Disclosures</i>	<p>The objective of this statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints.</p> <p>Statement No. 102 is effective for the City's fiscal year ending June 30, 2025.</p>
GASB Statement No. 103, <i>Financial Reporting Model Improvements</i>	<p>The objective of this statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This statement also addresses certain application issues.</p> <p>Statement No. 103 is effective for the City's financial statements for the fiscal year ending June 30, 2026.</p>
GASB Statement No. 104, <i>Disclosure of Certain Capital Assets</i>	<p>The objective of this statement is to establish requirements for certain types of capital assets to be disclosed separately for purposes of note disclosures, and to establish requirements for capital assets held for sale and note disclosures for those capital assets.</p> <p>Statement No. 104 is effective for the City's financial statements for the fiscal year ending June 30, 2026.</p>