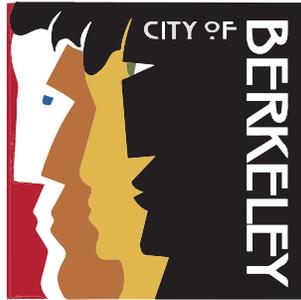


**CITY OF BERKELEY**  
**RENT STABILIZATION**  
**BOARD**

BERKELEY, CALIFORNIA

FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2021



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**CITY OF BERKELEY  
Rent Stabilization Board  
For The Fiscal Year Ended June 30, 2021**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners of the Rent Stabilization Board  
of the City of Berkeley  
Berkeley, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and major fund of the Rent Stabilization Board of the City of Berkeley, California (Board), a discretely presented component unit of the City of Berkeley, California (City), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

Management of the Board is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

To the Board of Commissioners of the Rent Stabilization Board  
of the City of Berkeley  
Berkeley, California  
Page 2

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Board, as of June 30, 2021, and the respective changes in financial position in accordance with accounting principles generally accepted in the United States of America.

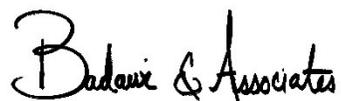
***Other Matters***

*Required Supplementary Information*

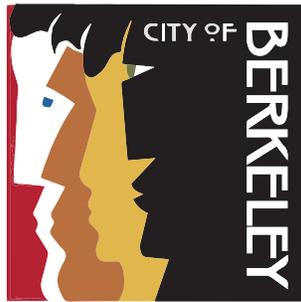
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and certain pension information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated July 13, 2022, on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Board's internal control over financial reporting and compliance.



Badawi & Associates, CPAs  
Berkeley, California  
July 13, 2022



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# **Management's Discussion and Analysis**

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The Rent Stabilization board's (the "Board") management's discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the Board's financial activity, (c) identify changes in the Board's financial position (its ability to address the subsequent year challenges), and (d) identify individual fund issues or concerns. Since the Management's Discussion and Analysis (MD&A) is designed to focus on the current year's activities, resulting changes and currently known facts, please read it in conjunction with the Board's financial statements.

### FINANCIAL HIGHLIGHTS

#### Government-wide

- The Board's total net position decreased \$826.3 thousand during the fiscal year compared to an decrease of \$334.8 thousand in the prior fiscal year.
- On June 30, 2021, the Board's liabilities and deferred inflows exceeded assets and deferred outflows by \$6.51 million (net position). Included in this amount was a balance of (\$6.51) million in unrestricted net position. Unrestricted net position is net position that may be used to meet the Board's ongoing obligations to citizens and creditors. The negative unrestricted net position is due to the recognition of net pension liabilities and net OPEB liabilities.
- Net pension liability increased by \$546 thousand or 7.35 % during FY 2021 to \$7.98 million from \$7.43 million.
- Net OPEB liability decreased by \$456 thousand or 49.46 % during FY 2021 to \$466 thousand from \$922 thousand.

#### Fund based

- At the close of FY 2021, the Board's Governmental Fund reported ending fund balance of \$1.4 million, a decrease of \$436 thousand from the prior year. This was primarily due to expenditures in excess of revenues. The ending fund balance is identified as: \$587 thousand assigned (41.73 percent) and \$820 thousand unassigned (58.27 percent).
- At the close of FY 2021, the Board's Governmental Fund revenues were \$4.7 million, \$0.7 million lower than the prior fiscal year's revenues of \$5.4 million.
- At the close of FY 2021, the Board's Governmental Fund expenditures were \$5.09 million, \$36 thousand lower than the prior fiscal year's expenditures of \$5.13 million.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Board's basic financial statements. The Board's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to basic financial statements. This report also contains other required supplementary information in addition to the basic financial statements themselves.

### **Government-wide financial statements**

The government-wide financial statements are designed to provide readers with a broad overview of the Board's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the Board's assets and deferred outflows, and liabilities and deferred inflows, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Board is improving or deteriorating.

The statement of activities presents information showing how the Board's net position changed during the current fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid (e.g., earned but unused vacation leave or uncollected taxes).

The government-wide financial statements can be found on pages 16-17 of this report.

### **Fund financial statements**

Fund financial statements are designed to report information about groupings of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The Board, like the City and other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Board consists of exclusively one governmental fund that utilizes the modified accrual basis of accounting. The fund was established to provide for the administration of programs to regulate residential rents; to protect tenants from unwarranted rent increases and arbitrary, discriminatory or retaliatory evictions; to help maintain the diversity of the Berkeley community; and to ensure compliance with legal obligations relating to the rental of housing. The Board is included as a discretely presented component unit in the City's basic financial statements. The Board is governed by a Board of Commissioners who is elected by the citizens of Berkeley. The Rent Stabilization program and Fund are administrated by an Executive Director, hired by and serving at the pleasure of the Board.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Board adopts an annual appropriated budget for its Governmental Fund. Budgetary comparison statement has been provided to demonstrate compliance with this budget on page 48.

The basic governmental funds financial statements can be found on pages 20-23 of this report.

### **Notes to basic financial statements**

The notes provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to basic financial statements can be found on pages 26-46 of this report.

**Other information**

In addition to the basic financial statements and accompanying notes, this report also presents certain Required Supplementary Information (RSI) concerning the Board's progress in funding its obligation to provide pension and other post-employment benefits to its employees. RSI can be found on pages 48-54 of this report.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS****Statement of Net Position**

	Governmental Activities	
	2021	2020
Assets:		
Current and other assets	\$ 5,815,658	\$ 5,680,150
Capital assets (net of depreciation)	1,541	2,737
Total assets	5,817,199	5,682,887
Deferred outflows of resources:		
Deferred pension items	980,107	866,509
Deferred OPEB items	417,110	507,283
Total deferred outflows of resources	1,397,217	1,373,792
Liabilities:		
Current and other liabilities	4,408,406	3,837,209
Current portion of long-term debt	21,899	20,456
Noncurrent liabilities outstanding	8,708,028	8,600,179
Total liabilities	13,138,333	12,457,844
Deferred inflows of resources:		
Deferred pension items	-	133,002
Deferred OPEB items	584,603	147,965
Total deferred inflows of resources	584,603	280,967
Net position:		
Net investments in capital assets	1,541	2,737
Unrestricted	(6,510,061)	(5,684,869)
Total net position	\$ (6,508,520)	\$ (5,682,132)

A more detailed statement of net position is shown on Page 15.

As noted earlier, net position may serve as a useful indicator of a government's financial position over time. Board's liabilities and deferred inflows exceeded assets and deferred outflows of resources by \$6.51 million at the close of FY 2021 as summarized below:

The largest portion of the Board's net position (\$6.51) million reflects it is unrestricted, which may be used to meet the Board's ongoing obligation to citizens and creditors. The negative unrestricted net position is primarily due to the recognition of net pension and net OPEB liabilities required by the implementation of GASB Statement No. 68 and No. 75 related to Accounting and Financial Reporting for Pensions and OPEB.

**Statement of Activities**

The statement of activities shows how the Board's net position changed during FY 2021. The Board's net position decreased overall by \$826.3 thousand during the fiscal year. This decrease is primarily due to a decrease in program income of \$736.5 thousand. Provided below is a summary of changes in net position.

	Governmental Activities	
	2021	2020
Program Revenues:		
Charges for services	\$ 4,658,580	\$ 5,395,075
Total revenues	<u>4,658,580</u>	<u>5,395,075</u>
Program Expenses:		
Rent stabilization services	5,483,771	5,728,136
Depreciation expense	1,196	1,784
Total expenses	<u>5,484,968</u>	<u>5,729,920</u>
Change in net position	<u>(826,388)</u>	<u>(334,845)</u>
Net position - beginning	<u>(5,682,132)</u>	<u>(5,347,287)</u>
Net position - ending	<u>\$ (6,508,520)</u>	<u>\$ (5,682,132)</u>

**FINANCIAL ANALYSIS OF BOARD GOVERNMENTAL FUND**

As noted earlier, the Board uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The focus of the Board's governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Board's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the close of FY 2021, the Board's governmental funds reported a combined ending fund balance of \$1.4 million, a decrease of \$436 thousand in comparison with the prior fiscal year balance of \$1.8 million. The decrease in fund balance was primarily due to revenue in excess of operation costs continuously. Refer to pages 20-23 for more detail of governmental funds.

Internal  
**BUDGETARY HIGHLIGHTS**

The Board's Governmental Fund budget and actual report can be found on page 48. Provided below is a more detailed summary of budget and actual, with expenditures shown by category as opposed to activity. Major differences are highlighted below and on the following page.

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues:</b>				
Service fees	\$ 4,775,000	\$ 4,775,000	\$ 4,595,836	\$ (179,164)
Fines and penalties	75,000	75,000	62,742	(12,258)
Total revenues	<u>4,850,000</u>	<u>4,850,000</u>	<u>4,658,578*</u>	<u>(191,422)</u>
<b>Expenditures:</b>				
Salaries and fringe benefits	4,160,500	4,160,500	3,928,261	232,239
Professional services	1,327,967	825,150	607,038	218,112
Administrative costs	252,742	304,674	185,239	119,435
Rent	355,000	345,054	336,232	8,822
Total expenditures	<u>6,096,209</u>	<u>5,635,378</u>	<u>5,056,770</u>	<u>578,608</u>
Net change in fund balance	(1,246,209)	(785,378)	(398,192)	387,186
Fund balance, July 1, 2020	1,842,941	1,842,941	1,842,941	-
Fund balance, June 30, 2021	<u>\$ 596,732</u>	<u>\$ 1,057,563</u>	<u>\$ 1,444,749</u>	<u>\$ 387,186</u>

\* There was a misclassification of Registration Revenue in FY 2020 due to an online payment system error, which consequently, understated the Actual Revenue of FY 2021 by \$328,370. Total Actual Revenue should be \$4,986,948

**Explanation of differences between budgetary basis to modified accrual basis:**

Net change in fund balances - budgetary basis	\$ (398,192)
Receivable accrual	
Notes receivable accrual	
Payable accrual	<u>(37,500)</u>
Net change in fund balances - GAAP basis	<u>\$ (435,692)</u>

Revenues were \$191 thousand, or 3.9 percent, lower than budgetary estimates as a result of receiving lesser than anticipated revenue.

Expenditures were \$579 thousand, or 10.3 percent, lower than budgetary estimates primarily due to lower expenditures than expected.

**CAPITAL ASSET AND LONG-TERM LIABILITIES ADMINISTRATION****Capital assets**

Investments in capital assets for governmental activities as of June 30, 2021, totaled \$1.5 thousand (net of accumulated depreciation). This investment in capital assets includes machinery and equipment. The total decrease in capital assets for FY 2021 was \$1.2 thousand, which represents depreciation. Additional information on the Board's capital assets can be found on page 33 in the notes to basic financial statements. Capital assets are summarized below:

	Beginning Balance	Additions	Deletions	Ending Balance
Depreciable Assets				
Machinery and Equipment	\$ 595,666	\$ -	\$ -	\$ 595,666
Total Depreciable Assets	595,666	-	-	595,666
Less Accumulated Depreciation for:				
Machinery and Equipment	592,929	1,196	-	594,125
Total Accumulated Depreciation	592,929	1,196	-	594,125
Total Capital Assets	<u>\$ 2,737</u>	<u>\$ (1,196)</u>	<u>\$ -</u>	<u>\$ 1,541</u>

**Long-term liabilities**

At the end of FY 2021, the Board had total long-term liabilities outstanding of \$8.7 million. Of this amount, \$7.98 million, or 91.4 percent, of total long-term liabilities was related to net pension liabilities, \$0.29 million, or 3.3 percent, was related to compensated absences, and \$0.46 million, or 5.3 percent, was related to other post-employment benefits. Additional information on long-term liabilities can be found on pages 34-40 in the notes to the basic financial statements. Long-term liabilities outstanding is summarized below:

Type	Governmental Activities	
	2021	2020
Compensated Absences	\$ 288,644	\$ 269,628
Net Pension Liabilities	7,975,505	7,429,422
Net Other Post-Employment Benefits Liabilities	465,778	921,585
Total Long-Term Debt	<u>\$ 8,729,927</u>	<u>\$ 8,620,635</u>

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

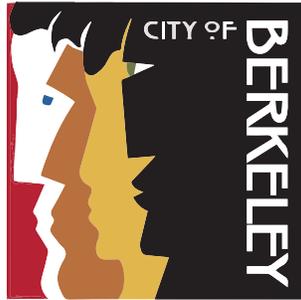
Significant economic factors affecting the Board are as follows:

- Local labor supply and demand, which can affect salary and wage rates
- Local inflationary, recessionary, and employment trends, which can affect resident incomes and therefore the amount of rental income
- Inflationary pressure on utility rates, supplies, and other costs
- Increased fringe benefit costs
- Passing of Measure MM which required about 5,000 additional rent units to register and pay a fee that are due on July 1, 2021 for FY 2022. The budgeted revenue for FY 2022 \$4.85 million, which is the same as FY 2021. The budgeted expenditure for FY 2022 is \$6.31 million, which is \$212 thousands or 3% more than FY 2021.

Internal

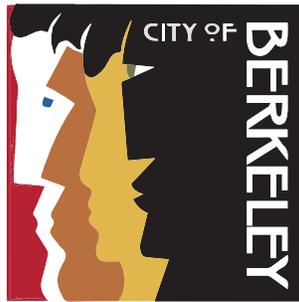
### **REQUESTS FOR INFORMATION**

The individual to be contacted regarding this report is DeSeana Williams, Executive Director, of the Rent Stabilization Board of the City of Berkeley, at (510) 981-7368. Specific requests may be submitted to Matt Brown, Acting Executive Director, Rent Stabilization Board of the City of Berkeley, 2125 Milvia Street, Berkeley, CA 94704.



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# **Basic Financial Statements**



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# **Government-wide Financial Statements**

Internal  
**City of Berkeley**  
**Rent Stabilization Board**  
**Statement of Net Position**  
**June 30, 2021**

	Governmental Activities
<b>Assets</b>	
Cash and investments in treasury	\$ 5,815,658
Capital assets, net	1,541
Total assets	5,817,199
<b>Deferred Outflows of Resources</b>	
Deferred pension items	980,107
Deferred OPEB items	417,110
Total deferred outflows of resources	1,397,217
<b>Liabilities</b>	
Accounts payable	42,087
Accrued salaries and wages	247,844
Deposits held	15,075
Other liabilities	61,764
Advances - rent registration	4,041,637
Compensated absences - due within one year	21,899
Noncurrent liabilities:	
Compensated absences - due in more than one year	266,745
Net pension liabilities	7,975,505
Net other post-employment benefits liabilities	465,778
Total liabilities	13,138,333
<b>Deferred Inflows of Resources</b>	
Deferred pension items	-
Deferred OPEB items	584,603
Total deferred inflows of resources	584,603
<b>Net Position</b>	
Net investment in capital assets	1,541
Unrestricted	(6,510,060)
Total net position	\$ (6,508,520)

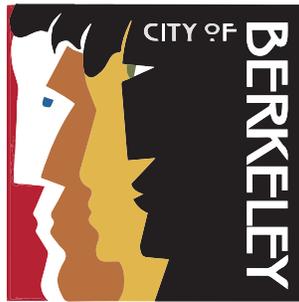
The accompanying notes are an integral part of these financial statements

**City of Berkeley**  
**Rent Stabilization Board**  
**Statement of Activities**  
**For the year ended June 30, 2021**

---

	Governmental Activities
<b>Program expenses</b>	
Salaries and fringe benefits	\$ 4,317,763
Professional services	644,538
Administrative costs	185,239
Rent	336,232
Depreciation expense	1,196
Total program expenses	5,484,968
 <b>Program revenues</b>	
Charges for services	4,658,580
 Change in net position	(826,388)
 Net position - beginning	(5,682,132)
 Net position - ending	\$ (6,508,520)

The accompanying notes are an integral part of these financial statements



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# **Governmental Funds Financial Statements**

**City of Berkeley**  
**Rent Stabilization Board**  
**Balance Sheet**  
**June 30, 2021**

---

<b>Assets</b>	
Cash and investments in treasury	\$ 5,815,658
Total assets	<u>5,815,658</u>
<b>Liabilities</b>	
Accounts payable	42,088
Accrued salaries and wages	247,844
Deposits held	15,075
Other liabilities	61,764
Advances - rent registration	4,041,637
Total liabilities	<u>4,408,407</u>
<b>Fund Balances</b>	
Assigned	587,183
Unassigned	820,068
Total fund balances	<u>1,407,251</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 5,815,658</u>

The accompanying notes are an integral part of these financial statements

**City of Berkeley**  
**Rent Stabilization Board**  
**Reconciliation of the Balance Sheet of Board Funds to the Statement of Net Position**  
**June 30, 2021**

---

Total fund balance	\$	1,407,251
<p>Amounts reported for governmental activities in the Statement of Net Position are different  Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds.</p>		
Machinery and equipment		595,664
Less accumulated depreciation		(594,124)
Net		1,541
<p>Net OPEB (obligations) and assets and net pension liability in governmental activities are not due and payable and therefore, are not reported in the funds.</p>		
Net pension liability - CalPERS Miscellaneous Plan		(7,975,505)
Net OPEB obligation - Miscellaneous Retiree		(465,778)
<p>Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.</p>		
Deferred outflows related to pension		980,107
Deferred outflows related to OPEB		417,110
<p>Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.</p>		
Compensated absences		(288,644)
<p>Other long-term liabilities and deferred outflows are not available to pay for current period therefore, are deferred in the funds.</p>		
Deferred inflows related to pension		-
Deferred inflows related to OPEB		(584,603)
Net position of governmental activities	\$	(6,508,520)

The accompanying notes are an integral part of these financial statements

**City of Berkeley**  
**Rent Stabilization Board**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**For the year ended June 30, 2021**

---

<b>Revenues:</b>	
Service fees	\$ 4,595,836
Fines and penalties	62,742
	<u>4,658,578</u>
Total revenues	
<b>Expenditures:</b>	
Salaries and fringe benefits	3,928,261
Professional services	644,538
Administrative costs	185,239
Rent	336,232
	<u>5,094,270</u>
Total expenditures	
Net change in fund balance	(435,692)
Fund balance - beginning of year	<u>1,842,942</u>
Fund balance - end of year	<u><u>\$ 1,407,251</u></u>

The accompanying notes are an integral part of these financial statements

**City of Berkeley**  
**Rent Stabilization Board**  
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of**  
**Board Funds to the Statement of Activities**  
**For the year ended June 30, 2021**

---

Net change in fund balance	\$ (435,692)
----------------------------	--------------

Amounts reported for governmental activities in the Statement of Activities are different because:  
 Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

The capital outlay expenditures are therefore added back to fund balance	(1,196)
Depreciation expense is therefore deducted from fund balance	

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. In addition, certain expenditures reported in the governmental fund are not reported in the Statement of Activities.

Compensated absences	(19,016)
Pension - CalPERS Miscellaneous Plan	(299,483)
Net OPEB - Miscellaneous Retiree	(71,001)
	(389,500)

Changes in net position of governmental activities	\$ (826,388)
--	--------------

The accompanying notes are an integral part of these financial statements



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# **Notes to Basic Financial Statements**

Internal  
**CITY OF BERKELEY**  
**Rent Stabilization Board**  
Notes to the Basic Financial Statements, Continued  
For the Year Ended June 30, 2021

---

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Rent Stabilization Board (the “Board”) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government’s accounting policies are described below.

**A. Description of the Reporting Entity**

The Rent Stabilization Board of the City of Berkeley (the “City”) was established to provide for the administration of programs to regulate residential rents; to protect tenants from unwarranted rent increases and arbitrary, discriminatory, or retaliatory evictions; to help maintain the diversity of the Berkeley community; and to ensure compliance with legal obligations relating to the rental of housing. The Board is governed by a nine member Board of Commissioners who are elected by the citizens of Berkeley. The activities of the Board are not funded by the City and the Board adopts, oversees and monitors their own budget. However, the Rent Board is fiscally dependent upon the City because the Finance Department and City Auditor provide key support services in the area of payroll, accounting financial reporting, human resources, agenda processing, purchasing, treasury and budget, as they would any other city department. The Board is included as a discretely presented component unit in the City’s basic financial statements.

**B. Implementation of Recently Issued Accounting Principles**

During FY 2021, the Rent Stabilization Program adopted new accounting standards in order to conform to the following Governmental Accounting Standards Board (GASB) Statements:

Statement No. 84, Fiduciary Activities: In January 2017, the GASB issued Statement No. 84, Fiduciary Activities. The Statement establishes specific criteria for identifying fiduciary activities and the requirements for financial statements reporting. The focus of the criteria is on whether a government is controlling the assets of the fiduciary activity and the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. Statement No. 84 describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employer benefits) trust funds; (2) investment trust funds; (3) private-purpose trust funds; and, (4) custodial funds. In addition, recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred which compels the government to disburse fiduciary resources, should also be reported. Application of Statement No. 84 is effective for fiscal year June 30, 2021 due to the implementation of GASB Statement No. 95.

GASB Statement No. 90, Majority Equity Interests-an amendment of GASB Statements No. 14 and No. 61, to improve the consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Application of Statement No. 90 is effective for the City’s fiscal year ended June 30, 2021. The application of Statement No. 90 did not have any effect on the Board’s financial statements.

GASB Statement No. 93, Replacement of Interbank Offered Rates. This statement is to address those and other accounting and financial reporting implications that result from the replacement of an Interbank Offered Rate (IBOR). This statement achieves that objective by: providing exceptions for certain hedging derivative instruments

**CITY OF BERKELEY  
Rent Stabilization Board****Notes to the Basic Financial Statements, Continued  
For the Year Ended June 30, 2021**

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to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment; clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate; clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable; removing London Interbank Offered Rate (LIBOR) as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap; identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap; clarifying the definition of reference rate, as it is used in Statement No. 53, as amended; and providing an exception to the lease modifications guidance in Statement No. 87, as amended, for certain lease contracts that are amended solely to replace an IBOR as the rate upon which variable payments depend. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this statement are effective for reporting periods beginning after June 15, 2021. The application of Statement No. 93 did not have any effect on the Board's financial statements.

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32* – The objectives of this statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans that meet the definition of a pension plan and for benefits provided through those plans. There was no impact on the Board's net position as a result of implementation of this statement.

GASB Statement No. 98, *The Annual Comprehensive Financial Report* – The objective of this statement is to address references in authoritative literature to the term *comprehensive annual financial report*. There was no impact on the Board's net position as a result of implementation of this statement.

The Board continues to meet the fiduciary criteria classifying activities related to pension, and other post-employment benefits fiduciary.

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**CITY OF BERKELEY**  
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Notes to the Basic Financial Statements, Continued  
For the Year Ended June 30, 2021

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**C. Financial Statement Presentation**

**Government-wide Financial Statements**

The government-wide financial statements (the statement of net position and the statement of activities) report on the Board as a whole. The statement of activities demonstrates the degree to which the direct expenses of the Board's functions are offset by program revenues. Direct expenses are those that are clearly identifiable with the Board's function. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function.

The statement of net position and the statement of activities are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred regardless of the timing of the related cash flows. Charges for services are recognized as revenue in the year for which services are provided.

**Fund Financial Statements**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Board considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences are recorded only when payment is due.

Interest income associated with the current fiscal period is considered to be susceptible to accrual and has been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Board.

The Board has presented the Rent Stabilization Fund (Fund 801) as its only fund. The Rent Stabilization Fund is the primary operating fund of the Board. The major revenue sources for the fund are service fees, fines, and penalties. Expenditures are primarily for administration, professional services and personnel costs.

**D. Cash and Investments**

The Board pools its cash and investments with the City. The City pools cash resources from all funds in order to facilitate and maximize the management of cash. In consideration for the in-kind services provided by the Finance Department, Auditor, City Clerk and Human Resources Department, the returns from these investments are retained by the City and not reallocated to the general Rent Board Fund (Fund 801). The balance in the pooled cash account is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing accounts and other investments for varying terms.

In accordance with GASB Statement No. 40, Deposit and Investment Disclosures, certain disclosure requirements for Deposits and Investment Risks were made in the following areas:

- Interest Rate Risk
- Credit Risk
  - Overall
  - Custodial Credit Risk
  - Concentrations of Credit Risk

Internal  
**CITY OF BERKELEY**  
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In accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools, investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available. Interest earned on investments is allocated to all funds on the basis of daily cash and investment balances.

**E. Unearned Revenue**

Unearned revenue arises when assets are received before revenue recognition criteria have been satisfied. Revenue is recognized when it is earned and realized or realizable.

**F. Capital Assets**

Capital assets, which include machinery and equipment, are reported in the government-wide financial statements. The Board follows the City's Capital Assets Policy. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 for non-infrastructure assets and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Machinery and equipment of the Board are depreciated using the straight-line method over the estimated useful lives of 4 or 5 years.

**G. Compensated Absences**

The Board follows the City's policy for compensated absences. It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. In governmental funds, compensated absences are recorded as expenditures in the year paid, as it is the City's policy to liquidate any unpaid compensated absences at June 30 from future resources, rather than currently available financial resources. All compensated absences are accrued when incurred in the government-wide financial statements.

The personnel policies of the City do not allow employees to accrue vacation in excess of eight weeks (320 hours). When an employee is terminated or retired with a vested pension with twenty years of service, an employee is entitled to be paid 38% of the accrued sick leave balance and 62% of the balance can be used for PERS credit. The employee has the option of using the payout entitlement for retiree medical insurance premium payments.

**H. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

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**CITY OF BERKELEY**  
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Notes to the Basic Financial Statements, Continued  
For the Year Ended June 30, 2021

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**I. Net Position**

**Government-Wide Financial Statements**

In the Government-Wide Financial Statements, net position is classified in the following categories:

**Net Investment in Capital Assets** is the portion of net position that relates to the Board's capital assets less accumulated depreciation and any outstanding debt incurred to acquire, construct, or improve those assets, excluding unexpended proceeds.

**Restricted Net Position** is the portion of net position that has been restricted for general use by external parties (creditors, grantors, contributors, or laws or regulations of other governments) or imposed by law through constitutional provisions or enabling legislation.

**Unrestricted Net Position** consists of all net position that does not meet the definition of either of the other two components.

When both restricted and unrestricted resources are available for use, it is the Board's policy to use restricted resources first, then unrestricted resources as they are needed.

**J. Fund Balances**

The Board follows the provisions of GASB Statement No. 54 Fund Balance and Governmental Fund Type Definitions. GASB Statement No. 54 established Fund Balance classifications based largely upon the extent to which a government is bound to observe constraints imposed upon the use of resources reported in governmental funds.

GASB Statement No.54 distinguishes fund balance between amounts that are considered non-spendable, such as fund balance associated with inventories, and other amounts that are classified based on the relative strength of the constraints that controls the purposes for which specific amounts can be spent. Beginning with the most binding constraints, fund balance amounts is reported in the following classifications:

**Assigned Fund Balance** are amounts that are intended to be used by the Board for specific purposes that are neither restricted nor committed through the Rent Board's budgetary action, which includes the approval of appropriations and revenues pertaining to the next fiscal year's budget.

**Unassigned Fund Balance** are the residual resources (either positive or negative), in excess of what can properly be classified in one of the other four fund balance categories. Unassigned amounts are technically available for any purpose.

**Spending Policy**

Rent Stabilization Board's policy is that assigned fund balances are considered to have been spent first before unassigned fund balances have been spent, when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used, except for instances wherein a Board or City ordinance specifies the fund balance.

**CITY OF BERKELEY**  
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Notes to the Basic Financial Statements, Continued  
For the Year Ended June 30, 2021

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**K. Use of Estimates**

The preparation of the basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. In addition, estimates affect the reported amounts of revenues and expenditures/expenses. Actual results could differ from these estimates.

**L. Pension**

For purpose of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Rent Stabilization Board's California Public Employees' Retirement System (CalPERS) plan (Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payouts (including refunds of employer contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**2. CASH AND INVESTMENTS**

The Board's cash and investments are part of the City's pooled cash and investments. Cash and cash equivalents are combined with investments and displayed as Cash and Investments held by City Treasury. The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with an original maturity of three months or less from date of acquisition. Investments in the Pool at June 30, 2021 consist of U.S Agency Securities, Medium Term Notes, Money Market funds and Guaranteed Investment Contracts.

As of June 30, 2021, the Board's share of the City's pool consisted of the following:

Cash and investments	\$5,815,658
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All of the City's bank balances are entirely insured or collateralized. The California Government Code requires California banks and savings and loan associations to secure local agencies' deposits by pledging government securities as collateral. The market value of the pledged securities must equal at least 110% of an agency's deposits. California law also allows financial institutions to secure local agency deposits by pledging first trust deed mortgage notes having a value of 150% of a local agency's deposits. The City may waive collateral requirements for deposits fully, insured up to \$250,000 by the Federal Deposit Insurance Corporation.

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Notes to the Basic Financial Statements, Continued  
For the Year Ended June 30, 2021

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**A. Investments**

Under the provisions of the City's investment policy, and in accordance with California Government Code, the following investments are authorized:

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local agency bonds	5 years	100%	N/A
U.S. treasury securities	10 years	100%	N/A
U.S. agency securities	10 years	100%	N/A
Banker's acceptances	7 days	40%	30%
Commercial paper	180 days	25%	\$5MM or 2%
Negotiable certificates of deposit	10 years	30%	N/A
Repurchase agreements	1 year	10%	N/A
Medium-term notes	10 years	30%	N/A
Guaranteed investment contracts	5 years	25%	N/A
Money market funds	N/A	100%	N/A
Mortgage pass-through securities	5 years	20%	N/A
County pooled investment funds	N/A	N/A	N/A
JPA pools (other investment pools)	N/A	N/A	N/A
Municipal bonds	5 years	N/A	5%

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**CITY OF BERKELEY**  
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Notes to the Basic Financial Statements, Continued  
For the Year Ended June 30, 2021

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**B. Risk Disclosures**

In accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools, investments were stated at fair value. The City accounts for all changes in fair value that occurred during the year and is reflected in the fund balance for the fiscal year. These investment value changes are unrealized since the City's policy is to hold and buy investments until maturity dates.

**i. Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

The City has the intention of holding all investments to maturity. The average maturity of the City's pooled investments governed by the Investment Policies was approximately 1.51 years as of June 30, 2021.

**ii. Credit Risk**

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The City requires the issuer to have the highest rating from two nationally recognized rating agencies. Purchases of corporate notes shall be limited to securities rated "A3" or higher by Moody's and "A-" or higher by Standard and Poor's. The U.S. Agency Securities and Medium Term Notes in the pool are rated AAA and A/AA, respectively. The money market funds and Guaranteed Investment Contracts are not rated.

**iii. Concentration of Credit Risk**

The investment policies of the City contain no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code.

**iv. Custodial Credit Risk**

For an investment, custodial credit risk is the risk that the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party if the counter party fails. All of the City's investments except money market mutual funds and guaranteed investment contracts are subject to custodial risk. However, the California Government Code and the City's investment policies do not contain legal or policy requirements that would limit the exposure to custodial risk for investments. The City's investments, OPEB trust fund investments and pension fund investments are held by Wells Fargo, in the Trust and Custody Department, which is separate from the operations of the bank. In addition, Wells Fargo maintains a Financial Institution Bond of at least \$100 million which provides protection from losses sustained by employee dishonesty, burglary, robbery, check forgery, securities forgery, computer crime, safe deposit, etc.

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**CITY OF BERKELEY**  
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Notes to the Basic Financial Statements, Continued  
For the Year Ended June 30, 2021

**3. CAPITAL ASSETS**

At June 30, 2021, the Board's capital assets consisted of the following:

	Beginning Balance	Additions	Deletions	Ending Balance
Depreciable Assets				
Machinery and Equipment	\$ 595,666	\$ -	\$ -	\$ 595,666
Total Depreciable Assets	595,666	-	-	595,666
Less Accumulated Depreciation for:				
Machinery and Equipment	592,929	1,196	-	594,125
Total Accumulated Depreciation	592,929	1,196	-	594,125
Total Capital Assets	<u>\$ 2,737</u>	<u>\$ (1,196)</u>	<u>\$ -</u>	<u>\$ 1,541</u>

**4. LONG-TERM LIABILITIES**

The following is a summary of changes in long-term liabilities for the fiscal year ended June 30, 2021:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Accrued Vacation and Sick Leave	\$ 269,628	\$ 95,204	\$ (76,188)	\$ 288,644	\$ 21,899
Net Pension Liability - CalPers Miscellaneous Plan	7,429,422	2,456,187	(1,910,104)	7,975,505	-
Net OPEB Liability - Miscellaneous Employees Retiree Health Plan	921,585	172,721	(628,528)	465,778	-
Total	<u>\$8,620,635</u>	<u>\$ 2,724,112</u>	<u>\$ (2,614,820)</u>	<u>\$ 8,729,927</u>	<u>\$ 21,899</u>

**5. OTHER LIABILITIES**

Other liabilities of \$61,764 are being held. This total represents the remaining legal fees recovered from the AEP lawsuit during 2001 to 2006 (on behalf of tenants from landlord – AEP), which have never been claimed by the tenants as of June 30, 2021. Since the statute of limitations has expired and the Rent Board has exercised all the necessary procedures for unclaimed property required by the State, this amount is pending and subject to be transferred to a low-income housing trust project per agreement. This amount also reflects relocation money held in escrow for tenants being evicted under the State Ellis Act or Berkeley's Measure Y/AA provisions.

**6. ADVANCES – RENT REGISTRATION**

During the fiscal year ended June 30, 2021, the Board billed and received payment of registration fees from owners applicable to the fiscal year ended June 30, 2022. For both the government-wide and fund statements, these receipts were recorded as a liability.

**CITY OF BERKELEY**  
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Notes to the Basic Financial Statements, Continued  
For the Year Ended June 30, 2021

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**7. OPERATING LEASE**

On December 19, 2018 the Board entered into a new lease for the period of March 1, 2019 through February 24, 2024. The total rent paid for the fiscal year ended June 30, 2021 was \$326,620. Based on the terms of the new lease agreement, the future minimum payments are as follows:

Year Ending June 30,	Amount
2022	336,672
2023	346,720
2024	353,424
Total	<u>\$ 1,036,816</u>

**8. RISK MANAGEMENT**

The Board is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Board is insured through the City of Berkeley for workers' compensation. Payments are made to the Workers' Compensation Self-Insurance Internal Service Fund by transfers from all City funds. It is also insured through the City of Berkeley, which carries commercial insurance for all such risks of loss, including employees' health and accident insurance.

**9. DEFINED BENEFIT PENSION PLANS**

**A. California Public Employees' Retirement System (CALPERS)**

**General Information about the Pension Plans**

**Plan Description**

All qualified permanent and probationary employees are eligible to participate in the City of Berkeley Miscellaneous Plan, agent multiple-employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plans are established by State statute and Local Government resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website. The Rent Board's long term share of contribution is estimated to be 2.43% of the plan's total contributions.

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Notes to the Basic Financial Statements, Continued  
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**Benefits Provided**

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plan's provisions and benefits in effect at June 30, 2021, are summarized as follows:

	<u>Miscellaneous</u>
Vesting Period	5 Years Service
Benefit Payment	Monthly for Life
Earliest Retirement Age	55
Benefit Factor for Each Year of Service as a % of Annual Salary	2.7% at Age 55
Required Employee Contribution Rates	8%
Required Employer Contribution Rates	32.500%
Required Unfunded Liability Payment	\$ 527,023

On January 1, 2013, the Public Employee Pension Reform Act (PEPRA) went into effect. This State law applies to employees hired after January 1, 2013 who are new to PERS. These employees are termed PEPRA members and employees that were enrolled in PERS (without significant separation) prior to January 1, 2013 are now referred to as classic members. PEPRA miscellaneous members will be enrolled in a 2 percent at 62 plan. PEPRA members will be required to pay half the normal cost of their plans.

**Employees Covered**

At June 30, 2020, the following employees were covered by the benefit terms for the miscellaneous plan (prorated from the actuarial report from CalPERS for the whole City based on 2.43%. The actual numbers may be different):

	<u>Miscellaneous</u>
Active Employees	<u>23</u>
Total	<u><u>23</u></u>

**Contribution Description**

Section 20814(C) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the measurement period ended June 30, 2020 (the measurement date),

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Notes to the Basic Financial Statements, Continued  
For the Year Ended June 30, 2021

the average active employee contribution rate is 8.0 percent of annual pay for the Miscellaneous Plan, and the employer contribution rate is 32.479 percent of annual payroll for the Miscellaneous Plan.

**Net Pension Liability**

The Board's net pension liability for the Miscellaneous Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of the Miscellaneous Plan is measured as of June 30, 2020, using an annual actuarial valuation as of June 30, 2019 rolled forward to June 30, 2020 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

**Actuarial Methods and Assumptions Used to Determine Total Pension Liability**

The total pension liabilities in the June 30, 2020 actuarial valuations were determined using the following assumptions:

	Miscellaneous
Valuation Date	June 30, 2019
Measurement Date	June 30, 2020
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.625%
Salary Increases	Varies by Entry Age and Services
Investment Rate of Return (1)	7.250%
Mortality (2)	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Protection Allowance Floor on Purchasing Power applies; 2.75% thereafter

(1) Net of pension plan administrative expenses, including inflation.

(2) The mortality table used was developed based on CalPERS' specific data. The table includes 15 years of mortality improvements using 90% of Society of Actuaries Scale MP-2016.

The mortality table used was developed based on CalPERS-specific data. The probabilities of mortality are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015. Pre-retirement and Post-retirement mortality rates include 15 years of projected mortality improvement using 90% of Scale MP-2016 published by the Society of Actuaries. For more details on this table, please refer to the CalPERS Experience Study and Review of Actuarial Assumptions report from December 2017 that can be found on the CalPERS website.

**Discount Rate**

The discount rate used to measure the total pension liability was 7.15 percent for the Miscellaneous Plan. This rate includes investment expenses and inflation. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans will run out of assets. Therefore, the current 7.15 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.15 percent will be

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Notes to the Basic Financial Statements, Continued  
For the Year Ended June 30, 2021

applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	50.00%	4.80%	5.98%
Global Fixed Income	28.00%	1.00%	2.62%
Inflation Sensitive	0.00%	0.77%	1.81%
Private Equity	8.00%	6.30%	7.23%
Real Estate	13.00%	3.75%	4.93%
Liquidity	1.00%	0.00%	-0.92%
Total	<u>100.00%</u>		

(a) An expected inflation of 2% used for this period (6/30/2020).

(b) An expected inflation of 2.92% used for this period (6/30/2020).

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**Changes in the Net Pension Liability**

The changes in the Net Pension Liability for the Miscellaneous Plan was as follows:

**Miscellaneous Plan**

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
<b>Balance at June 30, 2019</b>	\$ 26,058,051	\$ 18,628,629	\$ 7,429,422
<b>Changes in the Measurement Period</b>			
Service Cost	487,966		487,966
Interest on the Total Pension Liability	1,838,477		1,838,477
Changes in Assumptions			-
Difference Between Expected and Actual Experience	103,066		103,066
Plan to Plan Resource Movement			-
Contribution - Employer		584,833	(584,833)
Contribution - Employees		402,080	(402,080)
Net Investment Income		923,191	(923,191)
Benefit Payable, Including Refunds of Employee Contributions	(1,384,260)	(1,384,260)	-
Administrative Expense		(26,677)	26,677
Other Miscellaneous Income/Expense			
<b>Net Change</b>	<u>1,045,250</u>	<u>499,167</u>	<u>546,083</u>
<b>Balance at June 30, 2020</b>	<u>\$ 27,103,301</u>	<u>\$ 19,127,796</u>	<u>\$ 7,975,505</u>

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate**

The following presents the net pension liability of the Board for the Miscellaneous Plan, calculated using the discount rate for each Plan, as well as what the Board's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1% Decrease 6.15%	Current Discount Rate 7.15%	1% Increase 8.15%
Net Pension Liability Miscellaneous Plan	\$ 11,333,641	\$ 7,975,505	\$ 5,179,292

**Pension Plan Fiduciary Net Position**

Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial report.

Internal  
**CITY OF BERKELEY**  
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Notes to the Basic Financial Statements, Continued  
For the Year Ended June 30, 2021

**Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions**

**Miscellaneous Plan**

For the fiscal year ended June 30, 2021, the Board recognized pension expense of \$942,522.

At June 30, 2021, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u>                    </u>	<u>                    </u>
Pension contributions subsequent to measurement date	\$ 642,656	\$ -
Changes in assumptions	181,790	-
Differences between expected and actual experiences	-	-
Net differences between projected and actual earnings on pension plan investments	155,661	-
	<u>\$ 980,107</u>	<u>\$ -</u>

\$642,656 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ended June 30:	Outflows/(Inflows) of Resources
<u>                    </u>	<u>                    </u>
2022	\$ 82,719
2023	79,321
2024	97,322
2025	78,089
Thereafter	-

As of June 30, 2021, the Board had no reported payables to the plan.

**10. OTHER POST-EMPLOYMENT BENEFITS**

**A. Berkeley Miscellaneous Employees Retiree Health Plan**

**Plan Description and Benefits Provided**

The Board participates in the City of Berkeley Retiree Health Premium Assistance Plan (RHPAP) is a single-employer defined benefit medical plan with Voya. It is an Other Employee Benefit Trust Fund of the City, which provides retiree health benefits to eligible retirees and his/her spouse or domestic partner. The establishment and amendments of benefit provisions are negotiated between the employee bargaining units and the City, and are approved by the City Council. The RHPAP does not issue a publicly available financial report that includes financial statements and required supplementary information.

**CITY OF BERKELEY**  
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Notes to the Basic Financial Statements, Continued  
For the Year Ended June 30, 2021

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Employees are eligible for retiree health benefits if they satisfy the following requirement:

- Retirees who are at least age 50, with at least 8 years of service with the City at the time of separation from service are eligible to receive retiree health benefits commencing at age 55.
- Benefits are payable for the retiree's lifetime and continue for his or her covered spouse's/domestic partner's lifetime. The City pays the monthly cost of the monthly premiums up to a participant's applicable percentage of the base dollar amount and subject to annual 4.5 percent increases as specified in the Retiree Health Premium Assistance Plan document regardless of the amount of increase in the underlying premium rate. The City's portion of the benefit is based on the following years of service of the retiree:

<u>Years of Service</u>	<u>City Percentage</u>
8	30%
9	40%
10	50%
11	58%
12	66%
13	74%
14	82%
15	90%
16	92%
17	94%
18	96%
19	98%
20+	100%

**Employees Covered**

At June 30, 2020, the following employees were covered by the benefit terms for RHPAP:

Active employees	<u>23</u>
Total	<u><u>23</u></u>

**CITY OF BERKELEY**  
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Notes to the Basic Financial Statements, Continued  
For the Year Ended June 30, 2021

**Contributions**

The City's maximum contribution for Miscellaneous retirees for FY 2021 is shown in the following table:

	City's Contribution for Non-Medicare Eligible		City's Contribution for Medicare Eligible	
	Single-Party	Two-Party	Single-Party	Two-Party
SEIU Local 1021 C&M	\$ 386	\$ 773	\$ 34	\$ 68
SEIU Local 1021 CSU - retired prior to June 29, 2008	386	773	136	272
SEIU Local 1021 CSU - retired after June 29, 2008	536	923	136	272
IBEW Local 1245 - retired prior to June 28, 2009	386	773	34	68
IBEW Local 1245 - retired after June 28, 2009	536	1,072	34	68
IBEW Local 1245 - retired on or after June 27, 2010	608	1,215	34	68
IBEW Local 1245 - retired on or after June 26, 2011	642	1,284	34	68
IBEW Local 1245 - retired on or after June 24, 2012	733	1,546	34	68
IBEW Local 1245 - retired on or after June 23, 2013	836	1,672	34	68
IBEW Local 1245 - retired on or after June 23, 2014	866	1,732	34	68
PEU Local One - retired prior to July 1, 2008	386	773	34	68
PEU Local One - retired after July 1, 2008	630	1,261	479	957
Unrepresented (Z-1, Z-5, Z-7) - retired prior to July 1, 2008	386	773	188	376
Unrepresented (Z-1, Z-5, Z-7) - retired after July 1, 2008	463	926	260	521
Unrepresented (all others) - retired prior to June 29, 2008	386	773	188	376
Unrepresented (all others) - retired after June 29, 2008	536	923	188	376

During FY 2021, the Board contributed \$74,290 to the trust fund.

**CITY OF BERKELEY**  
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Notes to the Basic Financial Statements, Continued  
For the Year Ended June 30, 2021

**Investments**

**Investment Policy**

RHPAP's policy in regard to the allocation of invested assets is established and may be amended by the City of Berkeley City Council.

The long-term expected rate of return on Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return for each major asset class included in the target asset allocation as of June 30, 2021.

<u>Asset Class</u>	<u>Policy Target Allocation</u>	<u>Expected Real Rate of Return</u>
Savo Island Loan	1.00%	N/A
US Agency Securities	9.00%	-0.35%
Municipal Bonds	28.00%	0.79%
Cash and other	43.00%	-0.50%
Preferred Stock	19.00%	1.32%
Total	<u>100.00%</u>	
Assumed long-term rate of inflation		2.50%
Expected long-term net rate of return, rounded		3.00%

**Rate of Return**

For the fiscal year ended June 30, 2021, the annual money-weighted rate of return on investments, net of investment expense, was 4.54 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**Discount Rate**

The discount rate used to measure the total OPEB liability was 2.38 percent. The projection of cash flows used to determine the discount rate assumed that contributions from the City will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current Plan members. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

**CITY OF BERKELEY**  
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Notes to the Basic Financial Statements, Continued  
For the Year Ended June 30, 2021

**Net OPEB Liability of the City**

The Total OPEB Liability was measured as of June 30, 2021 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated July 1, 2021, using the following actuarial assumptions, applied to all prior periods including the measurement:

**Actuarial Assumptions**

Discount rate	2.38%
Expected long-term rate of return	2.50%
General inflation	2.75%
Aggregate payroll increases	2.75%
Merit payroll increases	CalPERS 1997-2015 Experience Study
Mortality, retirement, disability, termination	CalPERS 1997-2015 Experience Study
Mortality improvement	Mortality improvement projected fully generational with Scale MP-2020*.
AA municipal bond rate	2.16)% (Bond Buyer 20 Index)
Crossover test	Employer contribution after 2021 equal to City funding % per MOU. Administrative expenses equal to 0.03% of pay. Crossover occurs in
Non-medicare trend	6.75% for 2022, decreasing to an ultimate rate of 3.75% in 2076
Medicare trend(non-Kaiser)Medicare(Kaiser)	Non-Kaiser 5.85% for 2022, decreasing to an ultimate rate of 3.75% in 2076; Kaiser 4.75% for 2022, decreasing to an ultimate rate of 3.75% in 2076.*
Healthcare participation for future retirees	Pre 65: 60% Post-65: 95% for Local 1, 80% for other groups
Cap increases	Kaiser retiree premium increase up to a maximum of 4.50% annually

\*Changes since June 30, 2022 Measurement Date

\*\*Premiums determined separately for actives and early retirees. Implied subsidy removed.

The component of the Board's Net OPEB Liability at June 30, 2021 and June 30, 2020 were as follows:

	<b>FY Ending</b>	
	<u>6/30/2021</u>	<u>6/30/2020</u>
Total OPEB liability	\$ 824,724	\$ 1,230,685
Fiduciary net position	358,947	309,100
Net OPEB Liability	<u>\$ 465,778</u>	<u>\$ 921,585</u>
Funded Status	43.52%	43.30%

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Notes to the Basic Financial Statements, Continued  
For the Year Ended June 30, 2021

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**Change in Net OPEB Liability**

The changes in the Board's Net OPEB Liability for the Berkeley Miscellaneous Retiree Healthcare Plan was as follows:

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability/(Asset)
<b>Balance at June 30, 2020</b>	\$ 1,230,685	\$ 309,100	\$ 921,585
<b>Changes in the Measurement Period</b>			
Service Cost	109,355	-	109,355
Interest	57,092	-	57,092
Difference Between Expected and Actual Experience	4,227 (175,872)	-	4,227 (175,872)
Changes in Assumptions	(372,222)	-	(372,222)
Contribution - Employer	-	53,910	(53,910)
Contribution - Employees	-	-	-
Net Investment Income	-	26,525	(26,525)
Benefit Payments	(28,542)	(28,542)	-
Administrative Expense	-	(2,047)	2,047
<b>Net Change</b>	(405,961)	49,847	(455,807)
<b>Balance at June 30, 2021</b>	\$ 824,724	\$ 358,947	\$ 465,778

**Sensitivity of the Net OPEB Liability to Changes in the Discount Rate**

The following presents the Board's net OPEB liability calculated, in accordance with GASB Statement No. 74, using the discount rate of 2.38 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1% Decrease 1.38%	Current Discount Rate 2.38%	1% Increase 3.38%
Net OPEB liability	\$ 613,314	\$ 465,778	\$ 348,517

**CITY OF BERKELEY**  
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Notes to the Basic Financial Statements, Continued  
For the Year Ended June 30, 2021

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the Board's net OPEB liability calculated, in accordance with GASB Statement No. 74, using the current healthcare cost trend rate of 6.75 percent decreasing to 3.75 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Net OPEB liability	\$ 340,408	\$ 465,778	\$ 561,107

**OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB**

For the fiscal year ended June 30, 2021, the Board recognized OPEB expense of \$128,199. As of fiscal year ended June 30, 2021, the Board reported deferred inflows and outflows of resources related to OPEB from the following sources:

**Deferred Outflows/Inflows Balances at June 30, 2021**

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ -	\$ 200,142
Changes in assumptions	413,498	384,461
Net differences between projected and actual earnings on plan investments	3,612	-
	<u>\$ 417,110</u>	<u>\$ 584,603</u>

Recognition of Deferred Outflows and Inflows of Resources in Future OPEB Expense

<b>Fiscal Year Ended June 30:</b>	<b>Deferred Outflows/(Inflows) of Resources</b>
2022	\$ (17,274)
2023	(20,083)
2024	(13,904)
2025	(18,097)
2026	(30,091)
Thereafter	(68,045)

# **Required Supplementary Information**

**CITY OF BERKELEY**  
**Rent Stabilization Board**  
Required Supplementary Information, continued  
For the Year Ended June 30, 2021

**1. BUDGETS AND BUDGETARY ACCOUNTING**

**A. Budgetary Comparison Schedules**

The following is the budget comparison schedules for the Board's Governmental Fund.

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues:</b>				
Service fees	\$ 4,775,000	\$ 4,775,000	\$ 4,595,836	\$ (179,164)
Fines and penalties	75,000	75,000	62,742	(12,258)
Total revenues	<u>4,850,000</u>	<u>4,850,000</u>	<u>4,658,578</u>	<u>(191,422)</u>
<b>Expenditures:</b>				
Salaries and fringe benefits	4,160,500	4,160,500	3,928,261	232,239
Professional services	1,327,967	825,150	607,038	218,112
Administrative costs	252,742	304,674	185,239	119,435
Rent	355,000	345,054	336,232	8,822
Total expenditures	<u>6,096,209</u>	<u>5,635,378</u>	<u>5,056,770</u>	<u>578,608</u>
Net change in fund balance	(1,246,209)	(785,378)	(398,192)	387,186
Fund balance, July 1, 2020	1,842,941	1,842,941	1,842,941	-
Fund balance, June 30, 2021	<u>\$ 596,732</u>	<u>\$ 1,057,563</u>	<u>\$ 1,444,749</u>	<u>\$ 387,186</u>

**Explanation of differences between budgetary basis to modified accrual basis:**

Net change in fund balances - budgetary basis	\$ (398,192)
Receivable accrual	
Notes receivable accrual	
Payable accrual	<u>(37,500)</u>
Net change in fund balances - GAAP basis	<u>\$ (435,692)</u>

**CITY OF BERKELEY**  
**Rent Stabilization Board**  
Required Supplementary Information, continued  
For the Year Ended June 30, 2021

**2. DEFINED BENEFIT PENSION PLANS**

**A. CalPERS Plans**

**Schedule of Changes in Net Pension Liability and Related Ratios during the Measurement Period**

Miscellaneous Plan

Measurement period	2014 <sup>(1)</sup>	2015	2016	2017	2018 <sup>(2)</sup>
Total pension liability					
Service cost	\$ 429,427	\$ 410,001	\$ 391,072	\$ 446,768	\$ 457,684
Interest	1,481,394	1,528,755	1,582,052	1,616,738	1,672,964
Changes of benefit terms	-	-	-	-	-
Difference between expected and actual	-	(383,409)	(225,539)	(261,981)	79,448
Change of assumptions	-	(359,367)	-	1,282,992	(203,727)
Benefit payments, including refunds of employee contributions	(906,616)	(946,422)	(1,067,699)	(1,112,071)	(1,202,942)
Net change in total pension liability	1,004,205	249,558	679,886	1,972,446	803,427
Total pension liability - beginning	19,990,513	20,994,718	21,244,276	21,924,162	23,896,608
Total pension liability - ending (a)	<u>\$20,994,718</u>	<u>\$21,244,276</u>	<u>\$21,924,162</u>	<u>\$23,896,608</u>	<u>\$24,700,035</u>
Plan fiduciary net position					
Contributions - employer	\$ 431,140	\$ 444,778	\$ 486,800	\$ 516,959	\$ 495,557
Contributions - employee	223,617	164,093	167,770	226,018	334,072
Net investment income	2,382,180	361,090	84,472	1,724,414	1,415,198
Benefit payments, including refunds of employee contributions	(906,616)	(946,422)	(1,067,699)	(1,112,071)	(1,202,942)
Administrative expense	-	(17,924)	(9,708)	(23,010)	(26,359)
Plan to plan resource movement	-	6,921	(6,925)	(85)	(41)
Other miscellaneous income/expense	-	-	-	-	(50,056)
Net change in fiduciary net position	2,130,321	12,536	(345,290)	1,332,225	965,429
Plan fiduciary net position - beginning	13,786,981	15,917,302	15,929,838	15,584,548	16,916,773
Plan fiduciary net position - ending (b)	<u>\$15,917,302</u>	<u>\$15,929,838</u>	<u>\$15,584,548</u>	<u>\$16,916,773</u>	<u>\$17,882,202</u>
Plan net position liability/(asset) - ending	\$ 5,077,416	\$ 5,314,438	\$ 6,339,614	\$ 6,979,835	\$ 6,817,833
Plan fiduciary net position as a % of the total pension liability	75.82%	74.98%	71.08%	70.79%	72.40%
Covered payroll	\$ 2,129,038	\$ 2,136,422	\$ 2,077,187	\$ 2,154,082	\$ 2,293,233
Plan net pension liability/(asset) as a percentage of covered payroll	238.48%	248.75%	305.20%	324.03%	297.30%

<sup>(1)</sup> Historical information is required only for measurement periods for which GASB 68 is applicable.

<sup>(2)</sup> During Fiscal Year 2017-18, as a result of Governmental Accounting Standards Board Statement (GASB) No. 75, Accounting and Financial Reporting for Postemployment Benefit Plans Other than Pensions, CALPERS reported its proportionate share of activity related to postemployment benefits for participation in the State of California's agent OPEB plan. Accordingly, CALPERS recorded a one-time expense as a result of the adoption of GASB 75.

Additionally, CALPERS employees participate in various State of California agent pension plans and during Fiscal Year 2017-18, CALPERS recorded a correction to previously reported financial statements to properly reflect its proportionate share of activity related to pensions in accordance with GASB No. 68, Accounting and Financial Reporting for Pensions.

**CITY OF BERKELEY**  
**Rent Stabilization Board**  
Required Supplementary Information, continued  
For the Year Ended June 30, 2021

**Schedule of Changes in Net Pension Liability and Related Ratios during the Measurement Period**

Miscellaneous Plan (continued)

Measurement period	2019 <sup>(3)</sup>	2020
Total pension liability		
Service cost	\$ 483,262	\$ 487,966
Interest	1,766,019	1,838,477
Changes of benefit terms	-	-
Difference between expected and actual exp	410,292	103,066
Change of assumptions	-	-
Benefit payments, including refunds of employee contributions	(1,301,557)	(1,384,260)
Net change in total pension liability	1,358,016	1,045,249
Total pension liability - beginning	24,700,035	26,058,051
Total pension liability - ending (a)	\$ 26,058,051	\$ 27,103,300
Plan fiduciary net position		
Contributions - employer	\$ 507,538	\$ 584,833
Contributions - employee	386,018	402,080
Net investment income	1,167,303	923,191
Benefit payments, including refunds of employee contributions	(1,301,557)	(1,384,260)
Administrative expense	(12,760)	(26,677)
Plan to plan resource movement	(157)	-
Other miscellaneous income/expense	41	-
Net change in fiduciary net position	746,426	499,167
Plan fiduciary net position - beginning	17,882,202	18,628,628
Plan fiduciary net position - ending (b)	\$ 18,628,628	\$ 19,127,795
Plan net position liability/(asset) - ending (a) -	\$ 7,429,422	\$ 7,975,505
Plan fiduciary net position as a % of the total pension liability	71.49%	70.57%
Covered payroll	\$ 2,443,601	\$ 2,485,664
Plan net pension liability/(asset) as a percentage of covered payroll	304.04%	320.86%

<sup>(3)</sup> Includes one year's payroll growth assumption using 2.75% payroll growth assumption for fiscal years ended June 30, 2018-19; 3% payroll growth assumption for fiscal years ended June 30, 2014-17.

**CITY OF BERKELEY**  
**Rent Stabilization Board**  
Required Supplementary Information, continued  
For the Year Ended June 30, 2021

**Schedule of Plan Contributions for CalPERS Pension Plans**

Miscellaneous Plan

	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
Actuarially determined contribution	\$ 444,778	\$ 486,800	\$ 515,514	\$ 495,575	\$ 507,738
Contribution in relation to the actuarially determined contributions	(444,778)	(486,800)	(515,514)	(495,575)	(507,738)
Contribution deficiency (excess)	<u>\$ -</u>				
Covered payroll	\$ 2,136,422	\$ 2,077,187	\$ 2,154,082	\$ 2,293,233	\$ 2,443,601
Contributions as a percentage of covered payroll	20.82%	23.44%	23.93%	21.61%	20.78%
	<u>FY 2020</u>	<u>FY 2021</u>			
Actuarially determined contribution	\$ 584,835	\$ 642,656			
Contribution in relation to the actuarially determined contributions	(584,835)	(642,656)			
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>			
Covered payroll	\$ 2,445,533	\$ 2,485,664			
Contributions as a percentage of covered payroll	23.91%	25.85%			

\*Historical information is required only for measurement periods for which GASB 68 is applicable

**Notes to Schedules for miscellaneous plan:**

The actuarial methods and assumptions used to set the actuarially determined contribution for FY 2020 were from the June 30, 2018 funding agency valuations.

	<u>Miscellaneous</u>
Actuarial cost method	Entry-age normal
Amortization method/period	For details, see June 30, 2018 Funding Valuation Report
Asset valuation method	Fair value of assets
Inflation	2.625%
Salary increases	Varies by entry age and services
Payroll growth	2.875%
Investment rate of return	7.25% net of pension plan investment and administrative expenses; includes inflation
Retirement age	The probabilities of Retirement are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015
Mortality	Pre-retirement and Post-retirement mortality rates include 15 years of projected mortality improvement using 90% of Scale MP-2016 published by the Society of Actuaries

**CITY OF BERKELEY**  
**Rent Stabilization Board**  
Required Supplementary Information, continued  
For the Year Ended June 30, 2021

**3. OTHER POST-EMPLOYMENT BENEFITS**

**A. Berkeley Miscellaneous Employees Retiree Health Plan**

**Schedule of Funding Progress and Schedule of Employer Contribution**

**Schedule of Changes in Net OPEB Liability and Related Ratios**

Measurement Period	2017 <sup>(1)</sup>	2018	2019	2020
Total OPEB liability				
Service cost	\$ 27,691	\$ 22,515	\$ 84,598	\$ 77,252
Interest cost	24,707	19,154	57,945	59,095
Changes of benefit terms	-	-	-	-
Difference between expected and actual experience	-	(8,816)	(15,370)	535,863
Changes of assumptions	(27,230)	8,048	-	(44,982)
Benefit payments	(10,588)	7,570	23,928	(32,279)
Net change in total OPEB liability	14,580	48,471	151,101	594,949
Total OPEB liability - beginning	421,584	436,164	484,635	635,736
Total OPEB liability - ending	<u>\$ 436,164</u>	<u>\$ 484,635</u>	<u>\$ 635,736</u>	<u>\$ 1,230,685</u>
Plan fiduciary net position				
Contributions - employer	\$ 20,970	\$ 16,325	\$ 48,688	\$ 53,293
Contributions - employee	-	-	-	-
Net investment income	1,277	29,051	54,278	5,284
Benefit payments and refunds	(10,588)	(7,570)	(23,928)	(32,279)
Administrative expenses	(615)	(565)	(912)	(737)
Other changes	-	-	-	-
Net changes	11,044	37,241	78,126	25,561
Plan fiduciary net position - beginning	157,128	168,172	205,413	283,539
Plan fiduciary net position - ending	<u>\$ 168,172</u>	<u>\$ 205,413</u>	<u>\$ 283,539</u>	<u>\$ 309,100</u>
Net OPEB liability/(asset)	\$ 267,992	\$ 279,222	\$ 352,197	\$ 921,585
Fiduciary net position as a percentage of the total OPEB liability	38.6%	42.4%	44.6%	25.1%
Covered employees payroll	\$ 367,898	\$ 379,432	\$ 380,729	\$ 371,967
Net OPEB liability as a percentage of covered payroll	72.8%	73.6%	92.5%	247.8%

**CITY OF BERKELEY**  
**Rent Stabilization Board**  
Required Supplementary Information, continued  
For the Year Ended June 30, 2021

Measurement Period	2021
Total OPEB liability	
Service cost	\$ 109,355
Interest cost	57,092
Changes of benefit terms	4,227
Difference between expected and actual experience	(175,872)
Changes of assumptions	(372,222)
Benefit payments	(28,542)
Net change in total OPEB liability	(405,962)
Total OPEB liability - beginning	1,230,685
Total OPEB liability - ending	\$ 824,724
Plan fiduciary net position	
Contributions - employer	\$ 53,910
Contributions - employee	-
Net investment income	26,525
Benefit payments and refunds	(28,542)
Administrative expenses	(2,047)
Other changes	-
Net changes	49,846
Plan fiduciary net position - beginning	309,100
Plan fiduciary net position - ending	\$ 358,947
Net OPEB liability/(asset)	\$ 465,778
Fiduciary net position as a percentage of the total OPEB liability	43.5%
Covered employees payroll	\$ 371,374
Net OPEB liability as a percentage of covered payroll	125.4%

(1) Historical information is required only for measurement periods for which GASB 75 is applicable.

\*Future years' information will be displayed up to 10 years as information becomes available.

\*\* Changes in Assumptions. The discount rate was updated based on the municipal bond rate as of the measurement date, the expected rate of return on assets, and the crossover test. The inflation was updated from 2.75% to 2.50%; and the mortality improvement scale was updated to Scale MP-2020.

**CITY OF BERKELEY**  
**Rent Stabilization Board**  
Required Supplementary Information, continued  
For the Year Ended June 30, 2021

**Schedule of Employer Contributions**

Measurement Period	2017 <sup>(1)</sup>	2018	2019	2020
Actuarially determined contribution (ADC)	\$ 48,404	\$ 52,562	\$ 56,534	\$ 51,142
Contributions in relations to the actuarially determined contribution	20,970	16,325	48,688	53,293
Contribution deficiency/(excess)	\$ 27,434	\$ 36,237	\$ 7,846	\$ (2,151)
Covered employee payroll	\$ 367,898	\$ 379,432	\$ 380,729	\$ 371,967
Contributions as a percentage of covered employee payroll	5.7%	4.3%	12.8%	14.3%
Measurement Period	2021			
Actuarially determined contribution (ADC)	\$ 62,596			
Contributions in relations to the actuarially determined contribution	53,929			
Contribution deficiency/(excess)	\$ 8,667			
Covered employee payroll	\$ 371,374			
Contributions as a percentage of covered employee payroll	14.5%			

<sup>(1)</sup> Historical information is required only for measurement periods for which GASB 75 is applicable.

**Notes to Schedule of Employer Contributions**

Valuation date	July 1, 2020
Actuarial cost method	Entry age normal, level percentage of payroll
Amortization method	Level dollar, over 30-year open period
Asset valuation method	Market value of assets
Discount rate	2.50%
Inflation	2.41%
Medical trend	Non-Medicare-6.75% for 2022, decreasing to an ultimate rate of 3.75% in 2076 and later years Medicare-Non-Kaiser 5.85% for 2022, decreasing to an ultimate rate of 3.75% in 2076; Kaiser 4.75% for 2022, decreasing to an ultimate rate of 3.75% in 2076.
Mortality	CalPERS 1997-2015 experience study
Mortality Improvement	Mortality projected fully generational with Scale MP-2020



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Independent Auditor's Report

To the Board of Commissioners of the Rent Stabilization Board  
of the City of Berkeley  
Berkeley, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and major fund of the Rent Stabilization Board of the City of Berkeley (Board), a discretely presented component unit of the City of Berkeley, California (City), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise Board's basic financial statements, and have issued our report thereon dated July 13, 2022.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Board's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. Accordingly, we do not express an opinion on the effectiveness of Board's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

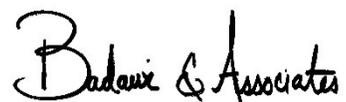
To the Board of Commissioners of the Rent Stabilization Board  
of the City of Berkeley  
Berkeley, California  
Page 2

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Board's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Badawi & Associates, CPAs  
Berkeley, California  
July 13, 2022