



CITY COUNCIL AGENDA ITEM NO. G.1
12/12/2023

SUBJECT: Independent Auditors' Report and Annual Comprehensive Financial Report for Fiscal Year 2022/23; and Report on the Financial Awards received by the City

DEPARTMENT: Finance & Information Systems

STAFF: Kerry Breen, Director of Finance & Information Systems
Sonia Agostini, Accounting Manager

TITLE/RECOMMENDATION

Independent Auditors' Report and Annual Comprehensive Financial Report for Fiscal Year 2022/23; and Report on the Financial Awards received by the City.

Staff recommends the City Council receive the Independent Auditors' Report and Annual Comprehensive Financial Report for Fiscal Year 2022/23 and the report on the Financial Awards received by the City.

FISCAL IMPACT

There is no fiscal impact with receipt of the Independent Auditor's Report and Annual Comprehensive Financial Report.

Recognition of the City's adherence to the highest standards of Governmental Reporting continues to promote trust and transparency with the public and have a significant impact on our ability to obtain favorable financing through the credit market. This has proven to be historically beneficial to the City as refunding of bonds have resulted in the City reducing interest rates on certain debt and generating savings. The savings the City has been able to achieve would not have been possible without a strong reputation for strength, reliability, and transparency in financial management reporting.

BACKGROUND

The Annual Comprehensive Financial Report (ACFR) contains a comprehensive and complete report of financial information for the City for the fiscal year ended on June 30, 2023. A discussion of the key information about the financial statements can be found in the Management's Discussion and Analysis starting on page 20 of the Annual Comprehensive Financial Report.



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At year-end, the City's General Fund had a year-end fund balance of \$31.8 million. Of this amount, \$9.7 million has been set aside for specific use, such as the Successor Agency repayment plan, start-up costs associated with the Police Department 5th geographical beat, and other City Council Strategic Initiative costs. The remaining \$22.1 million comprises the General Fund 30% reserve, pursuant to Budget and Fiscal Policy requirement. General Fund revenues exceeded expenses and amounts set aside for the 30% reserve by \$1.0 million during the fiscal year. Pursuant to City Council policy, half of the surplus (\$0.5 million) will be used to reduce unfunded pension obligations via a lump sum payment, while the other half was transferred to the Pension/Other-Post Employment Benefit Obligation Fund, also referred to as the Budget Stabilization Fund, which is projected to be used to offset rising pension and retiree medical costs in the intermediate-term.

Staff recognizes that the ACFR is a complex financial document. In an effort to provide more focused and timely information, the Finance Department also released a fiscal year-end report in October 2023 in the form of the Fiscal Year 2022/23 Financial Snapshot ("Snapshot"). The Snapshot summarizes the City's major financial trends graphs in just eight pages, in an easy to understand format and includes key metrics. The Snapshot can be found on the City's website at [Financial Snapshots](#).

The Finance Department also provides other regular financial reports and updates including quarterly Financial Dashboard, Sales Tax and Investment reports; along with annual Budget in Brief, Development Impact Fee and the Combined Community Facilities District Annual Reports. All of these reports and updates can be found on the City's website at [Financial Documents](#).

Finally, a comprehensive budget update is provided to the City Council at least every six months, and more frequently as changing economic environments may require. The next comprehensive budget update will be presented at the January 23, 2024 City Council meeting.

Audit and ACFR

The independent audit firm, Maze & Associates, has completed its review and examination of the City's financial transactions and statements for the year ended June 30, 2023 and will be presenting the results of their audit during discussion of this agenda item. The audit was conducted in accordance with generally accepted auditing standards. It is the opinion of the auditors that the financial statements fairly represent the financial position of the City as of June 30, 2023 and that the statements were prepared in conformity with generally accepted accounting principles. The Finance Department was responsible for the coordination of the audit process, the completion of year-end closing, and the preparation of the ACFR.



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Each fiscal year, the City is required to have an independent audit of its financial statements and the Finance Department consolidates the City's financial statements into an ACFR. The purpose of the ACFR is to provide citizens, grantor agencies, and other interested parties with reliable financial information about the City. Since Fiscal Year 2000/01, the City has received the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association (GFOA) for the ACFR. The GFOA award is a prestigious national award recognizing the use of high standards in preparing state and local government financial reports. Participation in this program has a number of benefits. An award-winning ACFR shows dedication to fiscal responsibility and outstanding financial management and reporting. Producing an ACFR provides confirmation that the City operates at the highest level for financial reporting standards and has helped the City receive strong bond ratings and favorable interest rates from the debt investment community. As opposed to being prepared by the auditors as a separate contract for service, the ACFR was prepared and published in-house and reflects the work of the entire Finance Department staff.

The ACFR has three main components: the introductory section, the financial section, and the statistical section.

The Introductory section includes the Letter of Transmittal, which provides an analysis of the City's economic condition and financial outlook, as well as information on the City's long-term financial planning. Other information of general interest is included in this section, such as a listing of the City Council and Executive Team members, a Citywide Organizational Chart, City Maps, and awards received for achievements in quality.

The Financial Section includes the primary financial statements of the City and is organized into the following parts:

- Independent Auditors' Report regarding the financial statements
- Management's Discussion and Analysis providing a narrative overview of the government-wide financial activities
- Basic Financial Statements consisting of 1) the Government-Wide Financial Statements, which combine the activities of the major funds into governmental and business-type categories, 2) the Fund Financial Statements and 3) the Notes to the Basic Financial Statements, which is an addendum to the financials
- Required Supplementary Information presenting General Fund and Landscape and Lighting Assessment Districts Fund actual results with both the original and final adjusted budgets, and schedules related to pension and Other Post-Employment Benefits (OPEB) plans
- Supplemental Information presenting combining financial statements for the Non-Major Governmental Funds, Internal Service Funds and Fiduciary Funds.



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The Statistical Section provides current and historical trend information for the City in the following areas:

- Financial Trends
- Revenue Capacity
- Debt Capacity
- Demographic and Economic Information
- Operating Information

System of Internal Controls

In simple terms, internal controls are the methods and procedures designed by management to safeguard assets and to manage resources. They include how management "sets the tone", providing discipline and structure, and the means for communication up and down, as well as across, the City's organizational structure in order to meet the City's stated goals and objectives. In the context most associated with the annual external financial audit, internal controls are the system of checks and balances designed to minimize the likelihood of errors in the accounting records and deter fraud, embezzlement and theft by employees, customers and vendors. These goals are generally accomplished by incorporating control activities into the organization's operations. The most common activities include approvals and verifications, reconciliations, reviews and segregation of duties.

It is the City's obligation to establish the system of internal controls, not the City's outside auditors, Maze & Associates.

When considering a system of internal controls, it is important to consider the risk a control activity proposes to reduce, against the cost of the activity itself. More controls may not always be better; both the law of diminishing returns and resource limitations can significantly affect the decision of which activities to employ in each situation. It is also important to carefully balance the need for adequate controls against the creation of unnecessary bureaucracy, as efficiency is also an important organizational objective.

In addition to performing the audit and offering an opinion on the City's financial statements, the City's auditors perform an assessment of the City's internal controls as part of the audit each year. The independent auditors may note certain matters involving internal control and other operational concerns. These items are not considered "findings" but rather recommendations for improvement. In addition, the auditors are required to communicate specific information to the legislative body. Attached is the Memorandum on Internal Control and the Required Communications.



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Financial Awards

The Finance Department takes great pride in publishing documents which adhere to the highest standards of governmental budgeting and accounting excellence. Receipt of these awards is indicative of the high standards expected by the City Council and serve to reaffirm the validity and integrity of the City's financial reporting and budgeting to the citizens, staff, and outside agencies. Furthermore, establishing and maintaining a reputation for high quality financial reporting within the credit markets has assisted the City in obtaining lower interest rates and payments for City debt. Following are the awards which were received during the past year:

- **Excellence in Capital Budgeting** from the California Society of Municipal Finance Officers (CSMFO) for the FY 2022/23 Capital Improvement Program. This State Award was established by CSMFO to recognize those agencies whose capital improvement program documents meet certain state-wide standards and requirements considered to be of the highest quality.
- **Excellence in Financial Reporting** from the GFOA for the Annual Comprehensive Financial Report for the Fiscal Year Ended June 30, 2022. This national award was established by GFOA to recognize individual governments that prepare annual financial reports that exemplify the spirit of transparency and full disclosure. The City's ACFR is reviewed by selected members of the GFOA professional staff and the GFOA Special Review Committee, which comprises individuals with expertise in public-sector financial reporting and includes financial statement preparers, independent auditors, academics, and other financial professionals.
- **Distinguished Budget Presentation Award** from the GFOA for the 2022/23 – 2023/24 Operating Budget, with **special recognition** in the category of Strategic Goals and Strategies. This national award was established by GFOA to recognize individual governments that prepare Operating Budgets of the very highest quality and reflect both the guidelines established by the National Advisory Council on State and Local Budgeting and the GFOA's recommended practices on budgeting. The City's Operating Budget is reviewed by selected members of the GFOA professional staff and by outside reviewers with experience in public sector budgeting.
- **Excellence in Operating Budgeting** from CSMFO for the 2022/23 – 2023/24 Operating Budget. This State Award was established by CSMFO to recognize those agencies whose operating budget documents meet certain state-wide standards and requirements considered to be of the highest quality.

CITY COUNCIL STRATEGIC INITIATIVE

Not Applicable



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PREVIOUS ACTION

Attachment 1

DATE OF NOTICE

Not Applicable

ENVIRONMENTAL DETERMINATION

Not Applicable

ATTACHMENT(S)

1. Previous Action
2. 2022/23 ACFR
3. Memorandum on Internal Control
4. Required Communications
5. CSMFO Capital Budget Award
6. GFOA ACFR Award Certificate
7. GFOA Operating Budget Award
8. CSMFO Operating Budget Award