

CITY COUNCIL AGENDA ITEM NO. I.1
12/10/2024

SUBJECT: Independent Auditors' Reports and Annual Comprehensive Financial Report for Fiscal Year 2023/24; and Report on the Financial Awards received by the City

DEPARTMENT: Finance and Information Systems

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

TITLE/RECOMMENDATION

Independent Auditors' Reports and Annual Comprehensive Financial Report for Fiscal Year 2023/24; and Report on the Financial Awards received by the City.

Staff recommends the City Council receive the Independent Auditors' Reports and Annual Comprehensive Financial Report for Fiscal Year 2023/24 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 Reports 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 the City's ability to obtain favorable financing through the credit market. This has proven to be historically beneficial to the City, as refunding of bonds has 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, 2024. 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 ACFR.



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At fiscal year-end, the City's General Fund had a fund balance of \$29.4 million. Of this amount, \$7.0 million has been set aside for specific use, such as the Successor Agency repayment plan, costs associated with the Police Department 5th geographical beat, and future capital projects. The remaining \$22.4 million comprises the General Fund 30% reserve, as required by Budget and Fiscal Policy.

General Fund revenues exceeded expenses and amounts set aside for the 30% reserve by \$2.7 million during the fiscal year. Two factors contributed to this surplus, \$1.1 million in one-time investment fair market value gains and \$1.2 million generated from a Council-directed reduction in planned project spending. Budget and Fiscal Policy requires that half of any annual surplus be used to reduce unfunded pension obligations and half be transferred to the Pension/Other-Post Employment Benefit Obligation Fund, known as the Budget Stabilization Fund. Via resolution, City Council directed the exclusion of \$1.2 million in reduced project spending from the calculation of the required pension obligation payment. As a result, \$733,826 of the surplus will be used for the pension payment and \$1,933,826 will be transferred to the Budget Stabilization Fund 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. To provide more focused and timely information, the Finance Department published the Fiscal Year [2023/24 Financial Snapshot](#) ("Snapshot") in October 2024. The Snapshot summarizes the City's year-end results in an easy to understand format, with major financial trends and key metrics in just nine pages.

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 every six months via the Mid-Year and Mid-Term Budget review processes. The next update presented to the City Council will be on January 28, 2025 at the Mid-Year 2024/25 Budget review.

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, 2024 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, 2024 and that the



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statements were prepared in conformity with generally accepted accounting principles. In addition, in any year the City receives funding from the Transportation Development Act program, a separate audit report is required by the State Controller's Office. This audit report was also prepared by Maze & Associates and is an attachment to this staff report.

The Finance Department was responsible for the coordination of the audit process, the completion of year-end closing, and the preparation of the ACFR.

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.

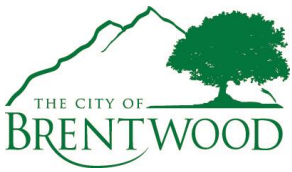
The ACFR has three main components: the introductory section, the financial section, and the statistical section.

- 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.
- The Financial Section includes the primary financial statements of the City.
- The Statistical Section provides current and historical trend information for the City.

System of Internal Controls

In simple terms, internal controls are the methods and procedures designed by management to safeguard assets and manage resources. They include how management "sets the tone", providing discipline and structure, and the means for communication up, down, and across the City's organizational structure to meet the City's stated goals and objectives. In the context of 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.



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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. The information to be communicated is included in the Memorandum on Internal Control and the Required Communications attached to this report.

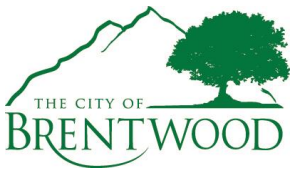
Financial Awards

The Finance Department takes great pride in publishing documents that adhere to the highest standards of governmental budgeting and accounting excellence. Receipt of financial 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.

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 several benefits. An award-winning ACFR shows dedication to fiscal responsibility and outstanding financial management and reporting. Producing an ACFR confirms that the City operates at the highest level for financial reporting standards and this award 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.

Following are the awards that were received during the past year:

- **Excellence in Capital Budgeting** from the California Society of Municipal Finance Officers (CSMFO) for the FY 2023/24 Capital Improvement Program. This State Award was established by CSMFO to recognize those agencies whose



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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, 2023. 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 2024/25 – 2025/26 Operating Budget. 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.

CITY COUNCIL STRATEGIC INITIATIVE

Not Applicable

PREVIOUS ACTION

Attachment 1

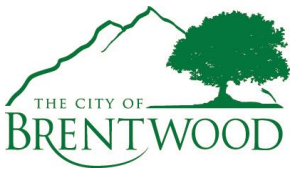
DATE OF NOTICE

Not Applicable

ENVIRONMENTAL DETERMINATION

Not Applicable

ALTERNATIVE OPTION(S)



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Not Applicable

ATTACHMENT(S)

1. Previous Action
2. 2023/24 ACFR
3. Memorandum on Internal Control
4. Required Communications
5. CSMFO Capital Budget Award
6. GFOA ACFR Award Certificate
7. GFOA 2024/25 – 2025/26 Operating Budget Award