



Staff Report

File #: 23-0980

REQUEST FOR CITY COUNCIL ACTION

DATE: 12/06/2023

TO: Honorable Mayor and City Council Members

FROM: Finance Department

SUBJECT:

RECEIVE AND FILE THE AUDITOR'S REPORTS RELATED TO THE FISCAL YEAR 2023 ANNUAL FINANCIAL AUDITS, AUDITOR'S COMMUNICATION, ANNUAL COMPREHENSIVE FINANCIAL REPORT, DEVELOPMENT IMPACT FEES ANNUAL REPORT, AND ANNUAL REPORT ON VOTER APPROVED DEBT FOR FISCAL YEAR ENDING JUNE 30, 2023.

EXECUTIVE SUMMARY:

This staff report asks the City Council to receive and file the annual reports and auditor's reports for Fiscal Year 2023. The City contracted with an independent audit firm, The Pun Group, LLC (TPG), to perform the annual audit for the fiscal year ending June 30, 2023. The audit and year-end process have been completed, and the package with the auditor's reports on the City's financials and compliances is presented for review and filing. TPG has issued an unmodified opinion on the City's financial statements for the fiscal year ending June 30, 2023. An unmodified opinion concludes that the financial statements of the City are presented fairly, in all material respects, and in accordance with generally accepted accounting principles. Also included are the Annual Report on Voter Approved Debt prepared by our consultant Spicer Consulting Group, and the Development Impact Fees (AB1600) Report prepared by the Finance Department for review and file.

RECOMMENDED ACTION:

That the City Council:

- a. Receive and file the following annual reports:
 - i. Annual Comprehensive Financial Report (ACFR) of the City of Corona for the fiscal year ended June 30, 2023.
 - ii. Trip Reduction Fund Audit Report for the fiscal year ended June 30, 2023.
 - iii. Development Impact Fees (AB1600) Annual Report for the fiscal year ended June 30, 2023.
 - iv. Report on Voter Approved Debt for the fiscal year ended June 30, 2023.

- b. Receive and file the following auditor's reports:
 - i. Auditor's Report on Applying Agreed-Upon Procedures to Appropriations Limit Schedule for the fiscal year ended June 30, 2023.
 - ii. Auditor's Report on Applying Agreed-Upon Procedures to Investments for the month ended March 31, 2023.
 - iii. Auditor's Report on Compliance with Applicable Requirement and on Internal Control over Compliance for the Housing Successor for the fiscal year ended June 30, 2023.
 - iv. Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements, dated November 27, 2023.

- c. Receive and file the Auditor's Communication letter to the City Council from the City's audit firm, The Pun Group, LLP, dated November 27, 2023.

BACKGROUND:

The Annual Comprehensive Financial Report of the City of Corona is mandated by State law, and in accordance with City of Corona Municipal Code §2.04.060(G). Each fiscal year, a complete report of the finances and administrative activities of the City is prepared and submitted to the City Council. The report package includes the following items: Annual Comprehensive Financial Report (ACFR), Trip Reduction Fund Audit Report, Housing Successor Compliance Report, and reports on the City's Appropriations Limit and Investment Portfolio. The reports must be audited by an independent auditor using generally accepted government auditing standards. The audited ACFR is part of the City's Bond covenants, and many of the items are required to be presented in a public meeting, acknowledging receipt by the City Council.

The independent audit of the financial statements of the City is also part of a broader, federally mandated audit of state and local governments (Single Audit) designed to meet the special needs of federal granting agencies. The standards governing the Single Audit require the auditor to report not only on the fair presentation of the financial statements, but also on the City's internal controls and compliance with legal requirements.

ANALYSIS:

The following reports are included in the review package and are attached to this report:

Annual Comprehensive Financial Report (ACFR)

The ACFR is a set of financial statements to communicate the City's financial condition and activity, prepared in compliance with the accounting requirements established by the Governmental Accounting Standards Board (GASB). The report presents historical and comparative information that can be useful to City staff, elected officials, and external users such as debt rating agencies, businesses, other public agencies, and the City's residents.

The ACFR must be audited by an independent auditor using generally accepted government auditing standards. The audit involves performing procedures to obtain audit evidence about the amounts

and disclosures in the financial statements and related notes. The audit procedures employed depend on the auditor's judgment, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate to the circumstances. Limited procedures such as inquiry of management and comparing the information for consistency were applied to the Required Supplemental Information, which is not part of the basic financial statements and not required to be audited according to Government Auditing Standards, were noted as unaudited. The audit also includes evaluating the appropriateness of the City's accounting policies and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

TPG has issued an unmodified opinion of the City's financial statements for the fiscal year ended June 30, 2023. An unmodified opinion concludes that the financial statements of the City are presented fairly, in all material respects, and in accordance with generally accepted accounting principles. The ACFR is also a required component of continuing disclosure to City bondholders as covenanted by certain bond issues.

The ACFR consists of three main sections; Introductory, Financial, and Statistical.

1. *Introductory Section.* The Introductory Section includes the Letter of Transmittal prepared by management and used to communicate information on areas that may have an impact on the City's finances now and in the future. This includes economic factors as well as budget and management factors.

2. *Financial Section.* The Financial Section is the main part of the annual report and includes the following items:
 - a. Independent Auditor's Report - the City's report card on the content of the ACFR.
 - b. Management Discussion and Analysis (MD&A) - provides an analytical overview of the City's financial status and results for the year.
 - c. Basic Financial Statements - reports finances at a point in time (assets - liabilities) and throughout the year (revenues - expenditures) and cash flows.
 - i. City-wide Statements - overview of financial information including all of the City's operations by financial activity.
 - ii. Fund Financial Statements - a detailed look at funds, reporting the Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance.
 - iii. Notes to the Financial Statements (Notes) - a narrative explanation that accompanies the Basic Financial Statements.
 - d. Budget to Actual Comparisons - for all governmental funds with a legally adopted budget.
 - e. Notes to Required Supplementary Information.
 - f. Pension Information - schedule of changes in the net pension liability and related ratios; schedule of contributions by plan.
 - g. OPEB Information - schedule of changes in the net Other Post-Employment Benefits (OPEB) liability and related ratios and schedule of contributions.
 - h. Breakout of individual non-major funds.

3. *Statistical Section.* The Statistical Section provides data on the following current and historical topics:

- a. Financial Trends
- b. Revenue Capacity Information
- c. Debt Capacity Information
- d. Demographic and Economic Information
- e. Operating Information

ACFR Highlights:

Statement of Net Position (Citywide): The Statement of Net Position, similar to a balance sheet, reports total assets and liabilities of the City. The total net position of the City for all activities was \$1,363.4 million at June 30, 2023, compared to \$1,277.0 million at June 30, 2022. The increase of \$86.4 million, or 6.8%, was primarily due to revenues exceeding expenses.

General Fund Balance: The General Fund is the primary operating fund of the City. The fund balance increased by \$44.0 million for the fiscal year ended June 30, 2023, with an ending balance of \$365.2 million, primarily due to excess revenues over expenditures.

Business-Type Activities: The City's net position in the business-type activities increased by \$28.7 million compared to the previous year, primarily due to a one-time settlement payment of \$19.1 million, investment earnings of \$2.1 million, and an increase in capital contribution of \$2.5 million. The overall net position reported in the business-type activities was \$328.8 million as of June 30, 2023.

Cash and Investments: The ACFR also includes detailed information on the City's cash and investments. As of June 30, 2023, the City had \$566.9 million in total cash and investments, all of which are in the form of investments authorized by the California Government Code and the City's investment policy, or in compliance with bond indenture agreements. More information on cash and investments can be found in Note 3 of the ACFR.

Trip Reduction Fund Audit Report

The Trip Reduction Fund Audit Report is prepared each fiscal year for the Air Quality Improvement Trust Fund for the City of Corona. The account was formed in 1993 to account for allocations made by AB 2766, known as the Clean Air Act. The revenue provides means and incentives for programs to reduce traffic and air pollution. The report is provided in compliance with AB 2766.

Development Impact Fees Report (AB1600)

The Annual Report of Developer Impact Fees (DIF) has been prepared as required by Government Code Section 66006, also known as AB1600. The City reports each developer fee in a separate fund and has met the requirements of AB1600 in each of its DIF funds. In all cases, the City has complied with the time limit for expenditures of fees. No fees have been refunded as a result of noncompliance, and there are no refunds pending from any DIF fund.

Voter Approved Debt

The Annual Report on Voter Approved Debt is prepared and submitted in compliance with Government Code Section 53411. A local agency must file a report with its governing body no later than January 1st of each year, after the bonds have been issued and at least once a year thereafter. The annual report includes (1) the amount of funds expended, and (2) the status of any project required or authorized to be funded as identified in subdivision (a) of Government Code Section 50075.1 and Section 53410.

Auditor's Reports

The Auditor's Report on Agreed-Upon Procedures Applied to Appropriations Limit is provided for the fiscal year ended June 30, 2023. The procedures are presented in the publication entitled Agreed-Upon Procedures Applied to the Appropriations Limitation Prescribed by Article XIII-B of the California Constitution. The procedures were performed by the auditor to meet the requirements of Section 1.5 of Article XIII-B. No exceptions were noted as a result of the auditor's procedural review.

The Auditor's Report on Agreed-Upon Procedures Applied to the Investment Portfolio Report is provided for the month ended March 31, 2023. The procedures were conducted by the auditor to comply with the provisions of the California Government Code and the City's investment policy dated June 15, 2022. No exceptions were noted as a result of the auditor's procedural review.

The Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements, dated November 27, 2023, is provided. TPG has 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, the business-type activities, each major fund, and the aggregate remaining fund information of the City, for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. Within the scope of the review, the auditor did not identify any deficiencies in internal controls.

The Auditor's Report on Compliance with Applicable Requirement and on Internal Control over Compliance for the Housing Successor has been prepared and will be submitted in accordance with the requirements of Senate Bill No. 341. Within the scope of its review, the auditor did not identify any deficiencies in internal controls.

Auditor's Communication letter to the City Council

The auditor's communication letter to the City Council provides an overview of the audit process and specific items that were reviewed throughout the project. Based on professional accounting standards, there is specific information that must be communicated to the governing board related to the audit, including Qualitative Aspects of Accounting Practices, Corrected and Uncorrected Misstatements, Disagreements with Management, Management Representations, Management Consultations with Other Independent Accountants, Other Audit Findings, and New Accounting Standards. Based on the auditor's communications letter, the financial statement disclosures are neutral, consistent, and clear, there are no material misstatements detected as a result of the audit

procedures. The auditors did not encounter any significant difficulties in dealing with management in performing or completing the audit. There are no disagreements with management regarding accounting, reporting, or auditing, that arose during the course of the audit.

FINANCIAL IMPACT:

There is no fiscal impact related to receiving and filing the auditor's reports and various annual financial reports. The fees for the City's annual financial audit services are provided for in the annual operating budgets of the General Fund, the Utilities Department's funds, and various special revenue and debt service funds.

ENVIRONMENTAL ANALYSIS:

This action is exempt pursuant to Section 15061(b)(3) of the Guidelines for the California Environmental Quality Act (CEQA), which states that a project is exempt from CEQA if the activity is covered by the general rule that CEQA applies only to projects that have the potential for causing a significant effect on the environment. Where it can be seen with certainty that there is no possibility that the receipt and filing of the various annual financial reports, communication from the City's auditor, and other compliance reports may have a significant effect on the environment, the action is not subject to CEQA.

PREPARED BY: CHRISTINE THOMPSON, CPA, CGFM, ACCOUNTING MANAGER

REVIEWED BY: KIM SITTON, FINANCE DIRECTOR

Attachments:

1. Exhibit 1 - City of Corona ACFR - FY2023
2. Exhibit 2 - Trip Reduction Fund Audit Report - FY2023
3. Exhibit 3 - AB1600 Report - FY2023
4. Exhibit 4 - Annual Report on Voter Approved Debt - FY2023
5. Exhibit 5 - Appropriations Limit AUP - FY2023
6. Exhibit 6 - Investment Portfolio AUP - FY2023
7. Exhibit 7 - Report on Internal Controls - FY2023
8. Exhibit 8 - Housing Successor Compliance Report - FY2023
9. Exhibit 9 - Audit Communication Letter - FY2023
10. Exhibit 10 - Presentation - Communication with Those Charged with Governance