



CITY OF POMONA COUNCIL REPORT

February 27, 2017

To: Honorable Mayor and Members of the City Council

From: Linda Lowry, City Manager

Submitted By: Onyx Jones, Finance Director

Subject: **Annual Audit Reports, Fiscal Year Ended June 30, 2016**

OVERVIEW

Recommendation – That the City Council receive and file the annual audit reports for the fiscal year ended June 30, 2016.

Previous Related Action – On August 5, 2013, the City Council approved a contract with Lance, Soll and Lunghard LLP to prepare the annual audit for the fiscal years ended June 30, 2014, June 30, 2015 and June 30, 2016.

EXECUTIVE SUMMARY

Section 1016 of the City Charter requires that the City Council employ a firm of certified public accountants to prepare an annual audit of all city accounts. In compliance with that provision, the City Council awarded a contract to Lance, Soll and Lunghard to perform the audit of 2015-16 financial records of the City, Housing Authority, and Financing Authority. Based on the audit, the attached financial reports have been prepared. Once the City Council has received and filed these reports, the Comprehensive Annual Financial Report (CAFR) will be posted on the City's webpage along with the 19 years of history already available for public view.

DISCUSSION

The 2015-16 Comprehensive Annual Financial Report (CAFR) along with the stand alone reports for the Pomona Financing Authority, Housing Authority, and Single Audit are complete and hereby transmitted, along with the 2015-16 report on 'Internal Control Over Financial Reporting' and the auditors' letter to the Mayor and City Council regarding the audit. The independent auditors' report included in the financial reports indicates the statements present fairly, in all material respects, the financial condition of the governmental agencies, the business-type activities, each major fund, and the aggregate remaining fund information of the City, basically a 'clean' opinion. Although the City

received an unmodified opinion, the City received two findings relating to internal control which leaves room for improvement.

Because of the elimination of the Redevelopment Agency per ABX1-26, a separate Redevelopment Agency report is no longer issued. Successor Agency transactions are now considered a Trust and Agency fund within the City's financial statements.

Along with the Financial Statements, the auditors issue what is called an Audit Communication Letter. The purpose of this letter is to inform Council of any issues that may have come up during the audit such as difficulties encountered in performing the audit, uncorrected misstatements, disagreements with management and other audit findings or issues. In this letter the auditors mentioned some issues that surround the City. The issues mentioned are numbered below:

1. It's important to maintain healthy reserves in the General Fund. GFOA recommends at a minimum, that general-purpose governments, regardless of size, maintain unrestricted budgetary fund balance in their general fund of no less than two months of regular general fund operating revenues or general fund operating expenditures.
2. The Self-Insurance fund has a deficit fund balance. The auditors feel it's imperative for the financial health of the City that the internal service fund recover the cost of goods and services provided to internal departments as the largest portion of this comes from the General Fund.
3. The City currently tracks its assets in an excel spreadsheet which can cause errors and misstatements over time. The auditors recommend that the City consider the acquisition of a software system to maintain its records over capital assets.
4. The Financial Accounting System is very old and outdated. The auditors recommend that the City reviews its accounting system needs and evaluate products that meet today's standards before the current system fails or is no longer supported.

While the information presented within the reports is quite comprehensive, there are a few funds staff wishes to highlight. As shown on page 30 of the CAFR, the General Fund decreased its fund balance by \$.5 million in 2015-16 resulting in a \$16.8 million fund balance at June 30, 2016. Page 39 includes data regarding the City's Enterprise Funds (Water, Sewer, and Refuse) and reflects an overall increase to fund balance of \$5.8 million. At June 30, 2016, the Net Positions (essentially fund balance) of these funds were \$70.0 million (Water), \$16.8 million (Sewer) and \$5.5 million (Refuse). Unlike with the General Fund, these balances include the value of non-spendable assets such as land, buildings, and equipment. Excluding these types of balances, the expendable Net Positions are \$16.1 million (Water), \$2.9 million (Sewer) and \$4.3 million (Refuse).

The City annually submits its financial report to the Government Finance Officers Association (GFOA) for consideration of its Certificate of Achievement for Excellence in Financial Reporting and has done so again this year. The City has received this recognition for twenty-one years and believes this report continues to conform to GFOA program standards.

Annual Audit Reports, Fiscal Year Ended June 30, 2016
February 27, 2017

- Attachment 1 - Comprehensive Annual Financial Report for year ended June 30, 2016
 Public Financing Authority Financial Statements for year ended June 30, 2016
 Single Audit Report for year ended June 30, 2016
2 - Report on Internal Control over Financial Reporting for year ended June 30, 2016
3 - Auditors' letter to Mayor and City Council for year ended June 30, 2016