



## CITY OF BANNING STAFF REPORT

**TO:** CITY COUNCIL

**FROM:** Arturo Vela, Interim City Manager

**PREPARED BY:** Bonnie Johnson, Interim Finance Director

**MEETING DATE:** January 27, 2026

**SUBJECT:** Consideration of Resolution 2026-21, City of Banning Fiscal Year Ending June 30, 2024 Financial Statements and Related Required Reports and Approving a Contract Amendment and an Additional Appropriation for Eide Bailly Related to the City's Fiscal Year Ended June 30, 2024 Audit Increasing the Agreement Amount by \$145,000

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### **RECOMMENDATION:**

Adopt Resolution 2026-21

### **BACKGROUND:**

The City is required by law to undergo an independent annual audit of its financial records and related internal controls. Failure to do so may result in delay or loss of certain State and Federal funding as well as other potential ramifications. The basic purpose of this audit is for the independent firm to render an opinion on whether the Financial Statements appropriately represent the finances of the City. The audit will also describe material concerns identified by the auditors (see Attachment 6).

For the year ended June 30, 2024, the City's independent auditors, Eide Bailly, issued the following reports dated December 22, 2025:

- City of Banning 2024 Annual Financial Report
- Banning Utility Authority 2024 Annual Financial Report
- City of Banning GANN Agreed Upon Procedures Report
- City of Banning Governance Report to the City Council
- City of Banning Single Audit Report
- Report on Internal Controls (included in the Single Audit document)

The City prepared a required Corrective Action Plan in response to the findings included as part of the Single Audit Report (see Attachment 8).

All reports issued by Eide Bailly, as well as the Corrective Action Plan, are attached to this staff report. A representative from Eide Bailly will be present to give a brief public presentation on the reports issued and the auditor's responsibilities. The Eide Bailly is not responsible for the financial condition of the City; that is management's responsibility under the direction of the City Council.

### **JUSTIFICATION:**

The City of Banning Audited Financial Statements for the year ending June 30, 2024 contains a financial snapshot of the City at a point in time, approximately 18 months ago. This was delayed due to the substantial turnover of key positions within the Finance Department. Almost all identified (weakness)

issues identified in this report were known by current staff and shared with the Council. Staff is in the process of addressing said issues. Some areas of note are as follows:

- Qualified Audit Opinion (page 1 of Attachment 2).
  - The auditors render an independent audit opinion on the accuracy of the financial statements, without qualifications (an unqualified opinion which is most desirable) or with qualifications (a qualified opinion). The city received a qualified opinion. This means the auditors could not reconcile an asset called Inventories to the City's general ledger. This reflects equipment and supplies that are held primarily by the City's utilities. Other than the Inventories category, the auditors issued an unqualified opinion on our financial statements.
  
- Negative \$7.2 million General Fund unassigned fund balance (page 9 of Attachment 2).
  - In order to comply with Government Accounting Standards (GASB), the City reflects informal cash loans to funds that have a negative balance at June 30th. This loan is then reversed on July 1st. The informal loan to the Electric enterprise had not been repaid within one year (i.e., by June 30, 2025). Therefore, it was classified as a long-term receivable to the General Fund (i.e. non-spendable fund balance). Council approved an Electric rate increase effective November 2025 and a plan to raise the rates again in the future. In other words, the Council has approved a plan to resolve this issue; however, the resolution will take some time.
  
- Total End of Year Fund Balance to the General Fund (GF) is down to \$3.5 million (see page 11 Attachment 2).
  - Due to deficit budgeting and spending over the past 5 years, the GF Fund Balance has dropped from \$11.8 million (FY 19-20) to \$3.5 million. As an example, the General Fund relied on a one-time infusion of funds (\$2.8 million) to reduce the FY 23-24 operating deficit (see page 11 of Attachment 2 "Transfer In" to the General Fund). These budgeting practices are not consistent with the Council's adopted policy that requires a structurally balanced budget.
  
- Internal Service Funds ISF unrestricted fund balance is negative \$12 million (see page 102 of Attachment 2).
  - Staff and LSL consultants are working on a plan to correct the negative ISF fund balance; however, this will require a multi-year workout plan.
  - The analysis found that the negative ISF fund balance was created over the last 5 years or more. These funds were budgeted and operated with growing operating deficits. Additionally, the FYs 24-25, 25-26 and 26-27 were budgeted with substantial new operating deficits as well.
  - The concern is that the General Fund and utility funds are primarily responsible for these accumulated deficits. The General Fund does not have the current resources to immediately address these negative ISF fund balances; thus, addressing the negative fund balances will have to take place overtime.
  - If the ISF funds were operated with structurally balanced budgets (operating revenues equal to operating expenses), the allocated costs to the General Fund would have clearly identified the structural deficit in the general fund. The structural deficit would have made it impossible to balance the City's budget without substantial budget cuts or an infusion of new and additional financial resources.
  - The Risk Management Fund is the most impaired of the ISFs with a negative \$8.2 million "net position". Part of this is due to the budgeting practices mentioned in this report. However, part of it may also be due to the management of the program. As a result, the Council has included various Initiatives in its new Strategic Plan to address the cost drivers of this program, including a comprehensive and independent review of the program, since the annual costs appear to have doubled in the past 5 years.

- Auditors confirm "The City is currently in a severe financial crisis" (see page 16 of Attachment 6).
  - The auditors speak to what is mentioned above. The Electric Utility is impaired, but the Council has approved and partially implemented a plan to bring the City to good financial health.
  - The auditors also reference the impaired General Fund and ISF fiscal positions, again mentioned above. This has been communicated to Council in various forums, including the all- day Strategic Plan Workshop.
  - Since the General Fund is largely responsible for the ISF deficits, both accumulated and ongoing annual operating deficits, the General Fund is greatly impaired and requires a substantial new Work Out Plan for sustainability.
    - Besides the need to gradually erase the ISF fund balance deficits, the ISF must allocate the full current cost of their annual operations to the General Fund and other funds.
    - Once the ISF fund category corrects its deficit situation, and the General Fund has the full ISF current costs in its budget, the expectation is that the Fund will have a structural operating budget shortfall to address in the near future. The structural deficit will not be understood until the City's accounting is up to date. This number will be refined as the City completes the close of fiscal year end (FYE) 24-25 books.
- Auditors confirm other "material weaknesses" in City practices (see Attachment 6 starting on page 10).
  - The auditors affirm many of the reasons why this audit is late and why it has been difficult to provide the fiscal results for FY 24-25 and the first half of FY 25-26. They briefly discuss various "material weaknesses" in internal controls, financial reporting processes, bank reconciliations, journal entries, and others. City staff, the LSL consultants, and others are working hard to address these issues and provide accurate and current fiscal information. Responses to these issues have been provided, see Attachment 8.
  - In the auditors finding #2024-008, they affirm that the City has temporarily violated the bond covenants for outstanding Electric Utility bonds by not having enough surplus resources to cover annual debt payments. The Utility has always paid its bond payments on time, but it did not meet the technical coverage ratio of 1.2 at FYE June 30,2024. Because of this and all the other fiscal information shared in this report, the Utility's bond rating was downgraded and is being monitored by the S&P rating agency. Staff is collaborating with them to provide additional data and our plans to improve the City's financial management practices.
- Because of the well documented ISF and Electric Utility impaired fiscal position, their cash position is also in an impaired condition. As a result, staff is closely monitoring the City-wide cash position to ensure cash solvency and compliance with state law.

It should be noted that a city's audit is typically completed within 6 months after the end of a fiscal year. As mentioned above, the City, and in particular the Finance Department, has seen significant turnover in the past year or so. Although the City continues to recruit, several key Finance Department positions remain vacant. This has led to a significant delay in completing the 2023-24 Audit.

Finally, it is important to put the above fiscal information in the appropriate context. City staff and Banning retiree annuitants, with the help of outside professional advisors, have been communicating via various City meetings, the concerns that are affirmed with the numbers in the FY 23-24 Financial Statements. As a result, the Council has sponsored the development of a holistic Strategic Plan to address the above difficult financial situation and related matters. The Council held an all-day workshop on the Plan and provided direction on what should be the priorities of the City. The Plan will be finalized and submitted for final approval at a Council meeting in February.

**FISCAL IMPACT:**

In accordance with the engagement letter with Eide Bailly for the fiscal year ending June 30, 2024, if

unexpected circumstances arose during the audit, they would discuss the circumstances with the City and arrive at a new fee estimate. As the City Council is aware, there has been significant staff turnover in the Finance Department resulting in staffing shortages particularly in key positions responsible for completion of the annual audit. Thus, the books and records required various adjustments and additional auditing procedures by Eide Bailly. In addition, because of the delay on the City's part, Eide Bailly was forced to use higher level staff (Senior Manager and Partner) to perform the balance of field work and Financial Statement preparation as other staff was already committed to other clients. The requested, and staff recommended, adjustment to the contract is \$145,000. A full accounting of this requested change is shown in the attached letter from Eide Bailly.

**ALTERNATIVES:**

The annual reports issued by the City's independent auditors are informational and presented to the City Council in that regard. No alternative action is available.

The City Council does have discretion not to approve the additional appropriation request associated with this report

**BUDGETED?:**

No

**CONTRACT/AGREEMENT:**

Yes

**ATTACHMENTS:**

1. [Resolution 2026-21.docx](#)
2. [City of Banning 2024 Final Annual Financial Report.pdf](#)
3. [Banning Utility Authority 2024 Final Financial Statements.pdf](#)
4. [City of Banning 2024 Final GANN AUP Report.pdf](#)
6. [City of Banning 2024 Final Single Audit Report.pdf](#)
7. [Banning Final Amendment For FY 2024 - Eide Bailly.pdf](#)
8. [2024 Single Audit Report Responses.pdf](#)