



# ***Agenda Report***

## ***Fullerton City Council***

**MEETING DATE:** **FEBRUARY 17, 2026**

**TO:** **CITY COUNCIL / SUCCESSOR AGENCY**

**SUBMITTED BY:** **STEVEN AVALOS, INTERIM DIRECTOR OF ADMINISTRATIVE SERVICES**

**PREPARED BY:** **TONI SMART, DEPUTY DIRECTOR OF ADMINISTRATIVE SERVICES**

**SUBJECT:** **ANNUAL COMPREHENSIVE FINANCIAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2025**

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### **SUMMARY**

The City of Fullerton Annual Comprehensive Financial Report (ACFR) for fiscal year ended June 30, 2025 presents the audited City financial statements, prepared in accordance with the Governmental Accounting Standards Board (GASB) and reports City fund year-end financial position.

### **PROPOSED MOTION**

Receive and file.

### **STAFF RECOMMENDATION**

Staff recommends the Proposed Motion.

### **CITY MANAGER REMARKS**

None.

### **PRIORITY POLICY STATEMENT**

This item matches the following Priority Policy Statement:

- Fiscal and Organizational Stability.

### **FISCAL IMPACT**

No fiscal impact associated with receiving and filing the FY 2024-25 ACFR. The financial information provided reports the Citywide financial position of all governmental funds

(including the General Fund), business activities (enterprise funds) and fiduciary funds for fiscal year ended June 30, 2025 and serves as the basis for current-year (FY 2025-26) financial reporting.

## BACKGROUND AND DISCUSSION

Staff annually works with external auditors to prepare and publish the City ACFR (previously referred to as the Comprehensive Annual Financial Report or CAFR) including the financial statements for the fiscal year following an independent audit. The City auditors, Lance, Soll & Lunghard, LLP (LSL), completed the audit for fiscal year ended June 30, 2025. The City issued the ACFR included as an attachment to this report and posted on the City website.

The ACFR provides an exhaustive and comprehensive report of the City financial statements and the financial position of Citywide governmental funds including the General Fund, business activities (enterprise funds) and fiduciary funds. This year-end document indicates the overall financial condition to end FY 2024-25.

Staff prepares the ACFR in compliance with the Governmental Accounting Standards Board (GASB) standards, divided into three sections: Introductory, Financial and Statistical. The Introductory section contains a Letter of Transmittal with a brief overview of the City economic outlook, operational controls and major initiatives and the Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting, which the City received for fiscal year ended June 30, 2024. The City submitted this year's ACFR for award consideration in February 2026 and expects receiving the award again.

The Financial section contains the independent auditor opinion letter, Management Discussion and Analysis (MD&A) and the Basic Financial Statements. The LSL audit firm issued an unmodified audit opinion, meaning the financial statements present fairly, in all material respects, the financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City as of June 30, 2025. The MD&A provides a narrative explain presentation of the financial report, highlights key changes in financial position and shows tables comparing information from fiscal year ended June 30, 2024 to fiscal year ended June 30, 2025.

The Statistical section presents data useful in analyzing the City financial and operational history for comparative purposes. It tracks statistics useful for evaluating the financial stability including financial trends, revenue capacity and debt capacity.

### ACFR Highlights:

- The Government-Wide Financial Statement of Net Position (ACFR page 15) indicates the City overall financial condition. The net position totaled \$648.8 million at June 30, 2025, representing a \$22.8 million increase over the previous fiscal year primarily due to an increase in capital assets, park dwelling fees and property tax revenue growth, offset by increases in labor and the cost of goods and services. The City invested \$705.3 million of the total net position in capital assets net of related debt ("net investment in capital assets") with \$54.0 million restricted for specific governmental operations, leaving a \$110.5 million negative unrestricted balance.

- Governmental Funds (General, Special Revenue, Debt Service and Capital Projects) reported \$64.9 million combined ending fund balances (ACFR page 19), a \$2.4 million decrease in comparison with the prior year, primarily attributable to a \$2.9 million correction of a prior-year accounting error and increase in salaries and benefits and the cost of goods and services.
- The General Fund ended the fiscal year with a \$30.0 million (ACFR page 18) total fund balance. This reflects \$21.7 million assigned fund balance (ACFR page 18), compared to \$23.0 million assigned fund balance the previous year and \$0 unassigned fund balance to end FY 2024-25. The \$1.3 million decrease in assigned fund balance is primarily due to:
  - a \$5.7 million operating deficit recorded in FY 2024-25
  - certain restricted funds, such as General Plan Update permit fees and Downtown Parking Program revenue, shifting from unassigned fund balance to committed or restricted fund balances
  - a General Fund balance reduction related to correcting a prior-year accounting error between the General Fund and Successor Agency Fund (*discussed in this report*).

The General Fund will end FY 2024-25 with a 14.4% contingency reserve, slightly below the City Council 17% reserve target of the General Fund.

- General Fund revenues totaled \$136.6 million (ACFR page 22) in FY 2024-25, a \$13.0 million increase of over the prior year, attributed to property tax revenue growth due to 6.23% property values increases and 2% increase in property base year value, General Plan update revenue recognized for current and prior years, and an IRS Energy one-time receipt associated with the energy modernization project. Expenditures totaled \$144.1 million in FY 2024-25, a \$20.1 million increase from the previous fiscal year, primarily due to recording subscription financing costs for non-operating City leases in compliance with GASB requirements (GASB 87 and 96), negotiated labor bargaining agreements increases and maintenance and support cost increases due to inflationary pressures on goods and services.
- Enterprise Funds account for operations where the City recovers the cost of providing goods or services primarily through user charges, including Water, Sewer, Airport, Brea Dam recreational facilities, parking facilities and CNG station. The Fund ended the year with a net \$237.0 million position at June 30, 2025 (ACFR page 15), representing a \$20.0 million increase over the previous fiscal year. Changes in net position include \$18.1 million increase in the Water Fund, \$1.2 million increase in the Sewer Fund, \$0.5 million increase in the Airport Fund, \$0.8 million decrease in Other Enterprise Funds and a \$1.0 million adjustment for internal services funds operating gain allocated to the enterprise funds (ACFR page 26 and 27).
- Internal Service Funds account for activity that provides goods and services to other funds or departments on a cost-reimbursement basis, such as liability insurance, vehicle replacement, worker's compensation, group insurance, equipment maintenance, information technology, building maintenance and facility

capital repair. The net position in the Internal Services Funds (ACFR page 142) increased by \$9.7 million to \$62.3 million at June 30, 2025, primarily attributed to a \$2.0 million increase in the Vehicle Replacement Fund, \$1.3 million increase in the Equipment Maintenance Fund, \$2.1 million increase in the Information Technology Fund and a \$2.2 million increase in the Building Maintenance Fund. The \$9.7 million increase in net position attributed to an increase in cost allocation (operating expenses) across all city funds to cover internal service fund costs and operations.

- The City had \$29.2 million bonds, notes, leases and subscription debt outstanding at June 30, 2025, a \$3.2 million increase from the prior fiscal year, primarily due to a new software services subscription for the Police Department. (ACFR page 13).
- PERS Miscellaneous Plan net pension liability increased by \$8.9 million with a resulting 76.3% funding ratio (ACFR page 98). PERS Safety Plan net pension liability increased by \$16.2 million with a resulting 64.8% funded ratio (ACFR page 100). The PERS Miscellaneous and Safety Plan net pension liability increases at June 30, 2025 are due to a decrease in earnings on pension plan investments from what was expected and changes in actuarial assumptions for mortality and retirement age.
- OPEB liability decreased by \$0.2 million and the OPEB funded ratio as of June 30, 2025 is 0.3% (ACFR page 102) due to the net difference between investment returns and mortality rate assumptions.

LSL provides the City with a report on internal controls and identified two weaknesses and corrections to the City financial statements summarized as follows.

#### *Water and Sewer Revenues 'Corrections'*

The report identified corrections in the Water and Sewer enterprise funds resulting from an account coding error during the Tyler Munis cashiering and utility billing system implementation as a weakness. Specifically, a system coding error incorrectly recorded \$3 million water fee and charges revenue to the Sewer Fund. Staff made a correcting entry to reclassify revenues and receivables between the funds, increasing Water Fund balances by \$3 million and decreasing Sewer Fund balances by the same amount. *Staff corrected the billing codes in the Tyler Munis enterprise system and water and sewer receivables and revenues now record correctly. The final FY 2024-25 ACFR correctly reflects the Water Enterprise Fund and Sewer Fund.*

#### *General Fund Balance 'Re-statement – Correction of a Prior-year Accounting Error'*

The report identified weakness in the General Fund with a prior period accounting error recorded related to four properties recorded as Land Held for Resale in the Successor Agency Fund. These properties transferred to the General Fund in FY 2020 and subsequently transferred back to the Successor Agency in February 2022. These transactions incorrectly included cash transfers totaling \$2,900,768 between the General Fund and the Successor Agency Fund that should not have occurred, resulting in General Fund cash and fund balance overstated by \$2,900,768 while Successor Agency cash and net position understated by the same amount. Staff presented the correction in the ACFR

as a Restatements-correction of an error, reducing the General Fund balance by \$2,900,768 (ACFR page 22 and page 95).

*General Fund Ending Fund Balance for FY 2024-25*

This section compares the General Fund current-year (FY 2024-25) and prior-year (FY 2023-24) ending fund balances and related changes. The General Fund ended FY 2024-25 with a \$30.0 million fund balance, a \$38.6 million decrease from the prior fiscal year.

The following Table 1 summarizes the ending fund balance designations or categories within the General Fund for FY 2024-25 with the \$2.9 million fund balance 're-statement' factored into the fund balances.

<b>Fund Balance</b>	<b>General Fund FY 2024-25</b>	<b>General Fund FY 2023-24</b>
<i>Nonspendable:</i>		
Inventories	-	6,528
Prepays	185,831	396,115
<b>Total Nonspendable</b>	<b>185,831</b>	<b>402,643</b>
<i>Restricted:</i>		
Library – Foundation and Friends	617,926	881,092
115 Pension Trust Fund	703,277	637,739
General Plan Updates	1,855,329	-
Donations	401,623	373,494
<b>Total Restricted</b>	<b>3,578,155</b>	<b>1,892,325</b>
<i>Committed:</i>		
Capital Projects	3,277,873	3,277,873
Downtown Parking	802,289	
<b>Total Committed</b>	<b>4,528,440</b>	<b>3,277,873</b>
<i>Assigned:</i>		
Contingency Reserve	19,827,681	21,075,598
Building Permit Software	126,533	70,041
Street Projects	1,415,548	1,627,126
Police Department Retention	379,570	189,785
<b>Total Assigned</b>	<b>21,749,332</b>	<b>22,962,550</b>
<i>Unassigned</i>	<b>0</b>	<b>10,121,144</b>
<b>Ending Fund Balance</b>	<b>\$30,041,758</b>	<b>\$38,656,835</b>

*Nonspendable fund balance* totaled \$0.2 million in FY 24-25, compared to \$0.4 million in the prior fiscal year, primarily attributable to lower prepaid expenditures compared to the previous fiscal year.

*Restricted fund balance* totaled \$3.6 million, compared to \$1.9 million in the prior year. Restricted fund balance represents resources restricted to or specific purposes imposed by external parties or enabling legislation. In FY 2024-25, \$1.9 million current and prior-year General Plan update revenue previously reported as a liability was recognized as revenue and is now restricted for General Plan update activities.

*Committed fund balance* totaled \$4.5 million, compared to \$3.3 million in the prior year. Committed fund balance includes amounts the City may use only for specific purposes pursuant to City Council action. Ordinance No. 3284 sets aside secured property tax and sales tax revenues exceeding a designated baseline in a dedicated Infrastructure Fund to support infrastructure improvements. This fund had \$3.3 million committed for infrastructure purposes as of June 30, 2025. The City additionally committed \$802,289 in net downtown parking revenue for reinvestment in downtown operations in FY 2024-25, consistent with City Council Resolution No. 2019-81.

*Assigned fund balance* totaled \$21.7 million in FY 2024-25, compared to \$23.0 million in the prior year. Assigned fund balance represents amounts designated by City Council for specific purposes. City Council policy allows unassigned balances designated as contingency reserves at a minimum 10 percent with a 17 percent target reserve level. The contingency reserve lowered to \$19.8 million (from \$21.0 million in prior year) in FY 2024-25 due to:

- \$5.7 million operating deficit recorded in FY 2024-25
- \$2.9 million General Fund balance re-statement
- Shifting restricted or committed funds.

The General Fund contingency reserve has a 14.4 percent reserve level for FY 2024-25, slightly below the 17 percent target but above the 10 percent minimum.

Remaining assigned balances support specific fee-based projects, such as building permit software implementation and Police Department retention fund initiatives or City Council designated or set aside funds for street improvements. These can vary from year to year.

*Unassigned fund balance* represents the residual General Fund balance exceeding other fund designations available for future appropriation at City Council discretion. The unassigned fund balance totaled \$0 as of the FY 2024-25 end due to the \$5.7 million operating deficit, \$2.9 million accounting correction and fund balance re-statement. However, this also results from shifting \$2.8 million to restricted funds, including General Plan Update revenues (\$1.8 million) and Downtown Parking Program net proceeds (\$0.8 million), from unassigned fund balance to assigned or committed fund balance designations.

In summary, LSL issued an unmodified audit opinion to the City, meaning the financial statements presented fairly, in all material respects, the financial position of the

governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City as of June 30, 2025.

***Next Steps***

Staff requests City Council receive and file the ACFR for fiscal year ended June 30, 2025. FY 2024-25 ACFR completion serves as the financial basis for forthcoming financial reports for FY 2025-26.

Staff will present the updated City financial position for the General Fund as part of the Second Quarter (or Q2) / Mid-Year Financial Report for FY 2025-26 based on the final FY 2024-25 ACFR financial results as a regular business item on the February 17, 2026 agenda.

**Attachments:**

- Attachment 1 – Annual Comprehensive Financial Report
- Attachment 2 – Air Quality Improvement Trust Fund Audit Report

cc: Interim City Manager Eddie Manfro