



Agenda Report

Fullerton City Council

MEETING DATE: JANUARY 18, 2022

TO: CITY COUNCIL / SUCCESSOR AGENCY

SUBMITTED BY: JEFF COLLIER, ACTING CITY MANAGER

PREPARED BY: ELLIS CHANG, DIRECTOR OF ADMINISTRATIVE SERVICES
TONI SMART, FISCAL SERVICES MANAGER

SUBJECT: ANNUAL COMPREHENSIVE FINANCIAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2021

SUMMARY

Staff submits the Annual Comprehensive Financial Report (ACFR) for the City of Fullerton for the Fiscal Year Ended June 30, 2021 to City Council.

RECOMMENDATION

Receive and file report.

PRIORITY POLICY STATEMENT

This item matches the following Priority Policy Statement/s:

- Fiscal and Organizational Stability.

FISCAL IMPACT

No fiscal impact.

DISCUSSION

Staff annually prepares and publishes the City's ACFR (previously referred to as the Comprehensive Annual Financial Report or CAFR) following completion of an independent audit. The City's auditors, Lance, Soll & Lunghard, LLP (LSL), have completed the audit for fiscal year ended June 30, 2021. The City has issued the ACFR incorporated as part of this agenda report and available on the City's website. The annual budget and associated quarterly reporting primarily focus on annual revenue,

expenditures and spendable fund balances while the ACFR provides a more exhaustive and comprehensive report of the City's overall financial condition.

The City prepares the ACFR in compliance with Governmental Accounting Standards Board (GASB) standards. Pursuant to GASB guidelines, the City divides the ACFR into three sections: Introductory, Financial and Statistical. The Introductory section contains a Letter of Transmittal including a brief overview of the City's economic outlook, operational controls and major initiatives. It also includes the Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting, which the City received for fiscal year ended June 30, 2020. The City submitted this year's ACFR on December 21, 2021 with the expectation of receiving the award again.

The Financial section contains the independent auditor's opinion letter, Management's Discussion and Analysis (MD&A) and the Basic Financial Statements. The LSL audit firm has issued an unmodified "clean" audit opinion, meaning that 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, 2021. The MD&A provides a narrative of the financial report presentation, key highlights of some of the changes in financial position and tables showing comparative information from fiscal year ended June 30, 2020 to fiscal year ended June 30, 2021.

The final section of the ACFR is the Statistical section. This section presents data useful in analyzing the City's financial and operation history for comparative purposes. Some of the statistics tracked include financial trends, revenue capacity and debt capacity which are useful for evaluating the City's financial stability.

ACFR Highlights:

- The Government-Wide Financial Statement of Net Position (ACFR page 15) indicates the City's overall financial condition. The City's net position totaled \$475.7 million on June 30, 2021, representing a \$12.9 million increase over the previous fiscal year primarily due to increased water rates, property and sales tax revenue growth and COVID-19 CARES Act Federal grants. Of the total net position, the City has \$596.3 million invested in capital assets net of related debt ("net investment in capital assets"), with \$41.7 million restricted for specific governmental operations, leaving a \$162.4 million negative unrestricted balance.
- The City's Governmental Funds (General, Special Revenue, Debt Service and Capital Projects) reported combined ending fund balances of \$60.2 million (ACFR page 19), an increase of \$2.8 million in comparison with the prior year. Property and sales tax revenue increases in the General Fund primarily attribute for the increase.
- The General Fund reflects assigned fund balance of \$16.1 million (ACFR page 18), which compares to assigned fund balance the previous year of \$14.0 million. The increase of \$2.1 million in assigned fund balance is primarily due to City Council designation to increase contingency reserves closer to the City's goal of

maintaining 17% reserve levels. This designation resulted in \$0.0 in unassigned fund balance.

- The General Fund ended the fiscal year with a \$20.6 million (ACFR page 18) total fund balance. General Fund revenues totaled \$101.2 million (ACFR page 22), an increase of \$4.2 million over the prior year. The increase in revenues were attributed to unanticipated Successor Agency related residual receipts of property tax revenues and an increase in sales tax revenue. General Fund expenditures totaled \$98.0 million, a decrease of \$2.0 million from the previous fiscal year. The decrease is primarily due to cost reduction measures to mitigate the fiscal impacts of COVID-19 and expenditure reductions resulting from closure of City facilities and corresponding programs.
- The City established a new Special Revenue Fund to account for American Rescue Plan Act Funds. The fund ended the fiscal year with a \$55,306 fund balance from investment earnings on the first tranche of \$16.3 million received.
- The City's Enterprise Funds account for operations with the intent of recovering the cost of providing goods or services primarily through user charges. These funds, which include water, sewer, airport, Brea Dam recreational facilities, parking facilities and CNG station, ended the year with a net position of \$150.8 million at June 30, 2020 (ACFR page 15), representing an increase of \$17.9 million over the previous fiscal year. Changes in net position include \$14.1 million in the Water Fund, \$2.8 million in the Sewer Fund, \$1.4 million in Other Enterprise Funds and a negative \$0.4 million adjustment for the internal services funds operating loss allocated to the enterprise funds.
- The City's 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 City's net position in the Internal Services Funds (ACFR page 117) decreased by \$1.9 million to \$27.3 million at June 30, 2021. The decrease was primarily attributed to a \$4.4 million decrease in the Liability Insurance Fund net position. The \$4.4 million decrease in net position was attributed to unbudgeted expenses of \$1.5 million in excess liability insurance premiums and an increase in claim expenses approved by City Council. The fund's available working capital covered the unbudgeted expenses, resulting in a \$4.4 million decrease in net position.
- On June 30, 2021, the City had bond and capital lease debt outstanding of \$14.8 million, a decrease of \$0.5 million from the prior fiscal year as the City pays down its existing obligations.
- PERS Miscellaneous Plan net pension liability increased by \$8.0 million with a resulting 74.52% funding ratio (ACFR page 83). PERS Safety Plan net pension liability increased by \$13.1 million with a resulting 64.23% funded ratio (ACFR page 85). PERS liability increases as of June 30, 2021 resulted from pension service costs, interest on the total pension liability and the difference between expected and actual experience of actuarial assumptions.

- OPEB (Other Post-Employment Benefits) liability decreased by \$2.1 million and the OPEB funded ratio as of June 30, 2021 is 0.18% (ACFR page 86). A change in the discount rate from 3.13% on June 30, 2020 to 2.47% on June 30, 2021 caused the decrease.

General Fund Ending Fund Balance

Fund Balance	General Fund FY 2020-21	General Fund FY 2019-20
<i>Nonspendable:</i>		
Inventories	6,528	6,646
Prepays	700	306,135
Land Held for Resale	2,900,768	2,900,768
Total Nonspendable	2,907,996	3,213,549
<i>Restricted:</i>		
Library – Foundation and Friends	692,770	672,186
115 Pension Trust Fund	589,967	
Deferred Compensation	55,580	
Donations	175,733	
Total Restricted	1,514,050	672,186
<i>Assigned:</i>		
Contingency Reserve	13,261,185	9,992,898
Building Permit Software	156,566	174,409
Street Projects	2,644,524	3,526,288
Laguna Lake Project	77,735	264,790
Total Assigned	16,140,010	13,958,385
Unassigned	-	217,388
Restatements		175,734
Ending Fund Balance	20,562,056	18,237,242

The General Fund reflects a non-spendable fund balance of \$2.9 million, which compares to non-spendable fund balance the previous year of \$3.2 million; a restricted fund balance of \$1.5 million, which compares to restricted fund balance the previous year of \$0.7 million; assigned fund balance of \$16.1 million, which compares to assigned fund balance the previous year of \$14.0 million and a \$0.0 unassigned fund balance compared to \$0.2 million the previous fiscal year. The total combined fund balance equals \$20.6 million, representing an increase of \$2.3 million over the previous fiscal year.

A \$487,000 transfer into the City's IRS Section 115 Pension Trust and \$175,733 in donations previously reported as fiduciary activities now reported as governmental activities from the implementation of GASB (Government Accounting Standards Board)

No. 84, *Fiduciary Activities* generated the largest increase in restricted fund balance. An additional \$55,580 is restricted for activities pertaining to Deferred Compensation retirement plan consulting.

City Council action designated assigned fund balances. City Council authorized designating any unassigned balances as contingency reserves to move closer to the goal of maintaining 17% reserve levels, resulting in an increase of \$3.3 million over the previous fiscal year. As of June 30, 2021, the contingency reserve totals \$13.3 million, which is 13.5% of General Fund expenditures. Remaining projects such as building permit software, street projects and the Laguna Lake Project fluctuate based on project costs incurred in the fiscal year.

Audit Communication Letter

The Audit Communication Letter provides City Council with any significant audit findings for the year, of which none auditors noted. The letter also describes new accounting standards, disagreements with management, limited procedures applied and any other issues deemed appropriate by the auditors, none of which auditors identified.

Independent Auditors' Report on Internal Control

The Independent Auditors' Report on Internal Control provides information on any internal control deficiencies, of which the auditors noted none that would consider material weakness.

Attachments:

- Attachment 1 – Annual Comprehensive Financial Report
- Attachment 2 – Auditor Communication Letter
- Attachment 3 – Report on Internal Controls