



Agenda Report

Fullerton City Council

MEETING DATE: DECEMBER 17, 2019

TO: CITY COUNCIL / SUCCESSOR AGENCY

FROM: KENNETH A. DOMER, CITY MANAGER

PREPARED BY: ELLIS CHANG, DIRECTOR OF ADMINISTRATIVE SERVICES

SUBJECT: COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2019

SUMMARY

To submit to the City Council the Comprehensive Annual Financial Report (CAFR) for the City of Fullerton for the Fiscal Year ended June 30, 2019.

RECOMMENDATION

Receive and file.

BUDGET POLICY PRIORITY STATEMENT

This item matches the following Budget Policy Priority Statement/s:

- Fiscal and Organizational Stability.

FISCAL IMPACT

No fiscal impact.

DISCUSSION

CAFR

Annually, Staff prepares and publishes the City's CAFR following the completion of an independent audit. The City's auditors, Lance, Soll & Lunghard, LLP (LSL), have completed the audit for Fiscal Year ended June 30, 2019 and have issued the CAFR attached to this report. While the annual budget and associated quarterly reporting is primarily focused on annual revenues / expenditures and spendable fund balances, the CAFR is a more exhaustive and comprehensive report of the City's overall financial condition.

The CAFR is prepared in compliance with the Governmental Accounting Standards Board (GASB) standards. Pursuant to GASB guidelines, the City's CAFR is divided into three sections: Introductory, Financial and Statistical. The Introductory section contains a Letter of Transmittal, which includes 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 was awarded for Fiscal Year ended June 30, 2018. The City will submit this year's CAFR with the expectation of receiving the award again.

The Financial section contains the independent auditors' opinion letter, Management's Discussion and Analysis (MD&A) and the Basic Financial Statements. The audit firm of LSL 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, 2019. The MD&A provides a narrative of how the financial report is presented, key highlights of some of the changes in financial position and tables showing comparative information from fiscal year ended June 30, 2018 to ended June 30, 2019.

The final section of the CAFR is the Statistical section. This section presents data useful in analyzing the City's financial and operational 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.

CAFR Highlights:

- The Government-Wide Financial Statement of Net Position (see page 15) indicates the City's overall financial condition. As of June 30, 2019, the City's net position (total assets less total liabilities) totaled \$447.1 million representing a net increase of \$32.3 million over the previous Fiscal Year due primarily to the increase in capital assets. Of the total net position, \$558.6 million is invested in capital assets (net of related debt), \$42.3 million is restricted for specific governmental operations and \$(153.8) million is unrestricted. A negative unrestricted is now commonplace due to the recognition of pension and other post-employment benefit (OPEB) liabilities on the Statement of Net Position.
- The City's Governmental (General, Special Revenue, Debt Service and Capital Projects) Funds (see page 19) reported combined ending fund balances of \$42.4 million, a decrease of \$7.8 million in comparison with the prior year, primarily due to timing of capital projects.
- The General Fund assigned fund balance includes contingency reserve of \$9.5 million in accordance with the Council's policy of 10% of General Fund expenditures. The General Fund unassigned fund balance of \$5.4 million represents an increase of \$5.3 million over prior year. In Fiscal Year 2017-18, some restricted and assigned General Fund fund balances were reported in unassigned fund balance. Had the restricted and assigned fund balance been properly designated, the unassigned General Fund fund balance would have been reflected as \$133,495 (see table below).

General Fund Fund Balance	06/30/2018	06/30/2018 (Reclassified)	06/30/2019	Increase / Decrease
Nonspendable	\$289,647	\$289,647	\$6,528	\$(283,119)
Restricted	\$0	1,225,170	\$1,386,437	\$161,267
Assigned:				
Contingency	\$8,992,321	\$8,992,321	\$9,513,445	\$521,124
Roads	\$0	\$3,148,703	\$5,647,643	\$2,498,940
Building Permit	\$0	\$492,103	\$225,189	\$(266,914)
Laguna Lake	\$0	\$0	\$270,000	\$270,000
Unassigned	\$4,999,471	\$133,495	\$5,431,932	\$5,298,437
Total Fund Balance	\$14,281,439	\$14,281,439	\$22,481,174	\$8,199,735

- The General Fund ended the year with \$103.3 million in revenue and other financing sources (see page 22), an increase of \$9.8 million over the prior year due to increases in property tax and sales tax along with the one-time sale of underground utility credits. General Fund expenditures and other financing uses totaled \$95.1 million for the year, an increase of \$5.2 million from the previous fiscal year. The increase is primarily related to the change in the ambulance contract. Rather than receive net proceeds from ambulance service provider, the City now directly collects revenues and expenses its cost for ambulance services.
- The City's Enterprise Funds account for operations where the intent of the cost of providing goods or services is recovered primarily through user charges. These funds, including water, sewer, airport, Brea Dam, parking facilities and CNG, ended the year with a net position of \$122.7 million at June 30, 2019, representing an increase of \$6.7 million over the previous fiscal year (see page 27). Increases in net position include \$4.5 million in the Water Fund, \$2.6 million in the Sewer Fund and \$100,000 in the Airport Fund.
- 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, workers' compensation, group insurance, equipment maintenance, information technology, building maintenance and facility capital repair. The City's net position in the Internal Service Funds (see page 27) increased by \$4.1 million in the previous fiscal year to \$23.6 million at June 30, 2019. The increases are reflected in the Liability Insurance, Vehicle Replacement, Workers' Compensation and Group Insurance Funds.
- The City's total non-current liabilities (long-term debt) totaled \$322.6 million at June 30, 2019, representing a net decrease of \$6.1 million, primarily due to reductions in principal payments and changes in OPEB assumptions which resulted in a net OPEB liability decrease (see page 15). Net pension and OPEB liabilities total \$242.8 million and \$30.1 million, respectively.
- PERS Miscellaneous Plan net pension liability decreased by \$1.7 million, resulting in a 75.75% funded ratio (see page 90). PERS Safety Plan net pension liability

increased by \$2.4 million, resulting in a 65.43% funded ratio (see page 92). PERS net liability increases at June 30, 2019 are primarily the result of changes in the PERS actuarial and investment assumptions.

- OPEB liability decreased by \$5.9 million and the OPEB funded ratio as of June 30, 2019 is 0.18% (see page 94). The decrease in ending OPEB liability is due to the changes in economic and demographic actuarial assumptions as well as changes in actuarial assumptions related to medical premiums.

Unassigned General Fund Fund Balance

The General Fund unassigned fund balance of \$5.4 million represents discretionary funds available for designation by City Council in the subsequent fiscal years. The positive General Fund unassigned fund balance is tempered by existing needs to update the City's Information Technology infrastructure, to fund road repair and maintenance needs, to support ongoing and negotiated investments in the labor force, to meet pension and OPEB liabilities and to build reserves for projected structural deficits beginning in Fiscal Year 2021-22.

Also, as previously shared with City Council, Staff are growing increasingly concerned about Fund 42, the Brea Dam Fund, of which the largest financial component is the City's golf course. Historically, golf course net position has subsidized the sports complex, tennis center and concerts in the park. The Fiscal Year 2018-19 subsidy of these programs was budgeted at \$330,000. In Fiscal Year 2018-19, golf course actual net position was negative by about \$150,000 resulting in a loss to the Brea Dam Fund of about \$500,000. The golf course revenue decline is largely attributable to weather impacted golf decline and resulting golf course maintenance issues, general decline in golf and the continuation of the management agreement resulting from improvements utilizing federal funding for the irrigation system. This loss negatively impacted the golf course's ability to subsidize the other components of the Brea Dam Fund. As a result, staff is reviewing operations and the golf management agreement, among other options. At worst, if losses continue related to the golf course, Brea Dam Fund operations may need to be subsidized by the General Fund.

Based on the previous five-year forecast (as shown below) shared with City Council in June 2019, the General Fund was projected to have a structural deficit (expenditures exceeding revenues) in Fiscal Year 2020-21. This projected structural deficit of \$333,924 includes a 4% vacancy rate used to balance the Fiscal Year 2019-20 adopted budget. The previous five year forecast also projects that the City will not have sufficient fund balance beginning in Fiscal Year 2021-22 to meet the minimum desired 10% reserve requirement. Additionally, because of the additional information technology infrastructure and road repair and maintenance needs, future expenditures are anticipated to quickly outpace revenues.

	ADOPTED FY 19-20	PROJECTED FY 20-21	PROJECTED FY 21-22	PROJECTED FY 22-23	PROJECTED FY 23-24
Beginning Fund Balance	\$14,129,993	\$14,329,993	\$13,996,069	\$13,764,563	\$13,729,407
Revenues	97,641,934	99,687,836	101,616,826	103,587,124	105,601,853
Transfers In	<u>300,000</u>	<u>300,000</u>	<u>300,000</u>	<u>300,000</u>	<u>300,000</u>
Total Revenues & Transfers In	\$97,941,934	\$99,987,836	\$101,916,826	\$103,887,124	\$105,901,853
Expenditures	97,641,934	100,321,760	102,148,332	103,922,280	105,160,311
Transfers Out	<u>100,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures & Transfers Out	\$97,741,934	\$100,321,760	\$102,148,332	\$103,922,280	\$105,160,311
Ending Fund Balance	\$14,329,993	\$13,996,069	\$13,764,563	\$13,729,407	\$14,470,949
Operating Surplus / (Deficit)	\$200,000	(\$333,924)	(\$231,506)	(\$35,156)	\$741,542
10% Reserve Requirement	\$9,764,193	\$10,032,176	\$10,214,833	\$10,392,228	\$10,516,031

As Staff turn their focus on developing the Fiscal Year 2020-21 budget, the previous five year forecast (as shown above) will be revisited and further refined to take into consideration the needs outlined above. Updated forecasts will be presented to City Council in early 2020.

Audit Communication Letter

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

Independent Auditors' Report on Internal Control

The Independent Auditors' Report on Internal Control provides information on any internal control deficiencies, of which none are noted. Staff is to be commended for their efforts to ensure that all policies, procedures and internal controls are followed which resulted in a smooth audit with no findings or deficiencies noted by the auditors.

Attachments:

- Attachment 1 – PowerPoint Presentation
- Attachment 2 – Comprehensive Annual Financial Report
- Attachment 3 – Audit Communication Letter
- Attachment 4 – Independent Auditors' Report on Internal Control