



Agenda Report

Fullerton City Council

MEETING DATE: FEBRUARY 2, 2021

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, 2020

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, 2020. Presentation of Fiscal Year 2019-20 financial results will occur at a separate financial update meeting.

RECOMMENDATION

Receive and file.

BUDGET POLICY PRIORITY STATEMENT

This item matches the following Budget Policy Priority Statement:

- 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, 2020. The CAFR has been issued and, while incorporated as part of this agenda packet, is available on the City's website. 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, 2019. 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, 2020. 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, 2019 to fiscal year ended June 30, 2020.

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 (CAFR page 15) indicates the City's overall financial condition. The City's net position totaled \$462.7 million at June 30, 2020, representing an increase of \$15.7 million over the previous fiscal year primarily due to increased water rates, grant revenues for infrastructure projects and COVID-19 CARES Act Federal grants. Of the total net position, \$584.3 million is the City's net investment in capital assets, while \$41.9 million is restricted for specific governmental operations, leaving a \$163.5 million negative unrestricted balance, increasing the negative unrestricted by \$9.7 million from last fiscal year.
- The City's Governmental (General, Special Revenue, Debt Service and Capital Projects) Funds (CAFR page 18) reported combined ending fund balances of \$18.1 million, representing a decrease of \$4.4 million in comparison with the prior year, primarily due to the reduction in restricted fund balance as it relates to reporting the PEG restricted revenues in a special revenue fund in the current fiscal year. Assigned fund balance also decreased for street projects as funds were expended for their intended purpose.
- The General Fund assigned fund balance includes contingency reserve of \$9.9 million in accordance with the Council's policy of 10% of General Fund expenditures. The General Fund unassigned fund balance of \$0.2 million

represents a decrease of \$4.7 million over prior year. The decrease in unassigned balance is due to one-time revenues generated in Fiscal Year 2018-19 and due to financial impacts of COVID-19 in Fiscal year 2019-20.

- The General Fund ended the fiscal year with \$97.0 million in revenue and other financing sources (CAFR page 20), a decrease of \$5.9 million over the prior year, most of the decline in revenues can be attributed to the COVID-19 pandemic as sales tax, transit occupancy tax, charges for services and rental income all decreased as many sectors of the economy were shut down. General Fund expenditures and other financing uses totaled \$99.9 million for the year, an increase of \$5.4 million from the previous fiscal year. The increase is primarily due to increased pension costs for all staff, agreed upon salary increases for public safety personnel, increased costs for professional services to maintain service levels, as well as increased legal services and operational costs.
- 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 \$132.8 million at June 30, 2019 (CAFR page 22), representing an increase of \$8.0 million over the previous fiscal year. Changes in net position include \$6.9 million in the Water Fund, \$1.4 million in the Sewer Fund and \$(0.5) million in the Airport Fund, and \$(0.4) million in Other 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, workers' compensation, group insurance, equipment maintenance, information technology, building maintenance and facility capital repair. The City's net position in the Internal Service Funds (CAFR page 115) increased by \$5.6 million over the previous fiscal year to \$29.2 million at June 30, 2020. This is the net of increases (decreases) reflected across all internal service funds.
- At the end of the current fiscal year, the City has bond and capital lease debt outstanding of \$15.2 million (CAFR page 15), a decrease of \$2.8 million from prior year as the City pays down its existing bond and capital lease obligations.
- PERS Miscellaneous Plan net pension liability increased by \$8.0 million with a resulting 75.84% funded ratio (CAFR page 81). PERS Safety Plan net pension liability increased by \$13.0 million with a resulting 65.22% funded ratio (CAFR page 83). PERS liability increases at June 30, 2020 are primarily the result of pension increases as part of CalPERS initial "ramp-up" or increase in employer costs for their recent strategy of shortening the amortization period for actuarial gains and losses, which is anticipated to level out and then decrease over the course of the 30-year amortization period.
- OPEB liability increased by \$2.9 million and the OPEB funded ratio as of June 30, 2020 is 0.17% (CAFR page 86). The increase in ending OPEB liability is due to changes in actuarial assumptions.

General Fund Ending Fund Balance

The General Fund ended FY 2019-20 with a fund balance of \$18.1 million, \$4.4 million less than in FY 2018-19. The table below provides a snapshot and break out of ending General Fund balance by category for both FY 2019-20 and FY 2018-19.

Fund Balance	General Fund FY 2019-20	General Fund FY 2018-19
<i>Nonspendable:</i>		
Inventories	6,646	6,528
Prepays	306,135	0
Land Held For Resale	2,900,768	0
Total Nonspendable	\$3,213,549	\$6,528
<i>Restricted:</i>		
PEG	0	692,992
Library – Foundation & Friends	672,186	693,445
Total Restricted	\$672,186	\$1,386,437
<i>Assigned:</i>		
10% Contingency Reserve	9,992,898	9,513,445
Building Permit Software	174,409	225,189
Street Projects	3,526,288	5,647,643
Laguna Lake Project	264,790	270,000
Total Assigned	\$13,958,385	\$15,656,277
Unassigned	\$217,388	\$5,431,932
Ending Fund Balance	\$18,061,508	\$22,481,174

The General Fund reflects a non-spendable fund balance of \$3.2 million, which compares to non-spendable fund balance the previous year of \$0.006 million; a restricted fund balance of \$0.7 million, which compares to restricted fund balance the previous year of \$1.4 million; assigned fund balance of \$14.0 million, which compares to assigned fund balance the previous year of \$15.7 million and an unassigned fund balance of \$0.2 million, which compares to unassigned fund balance the previous year of \$5.4 million, for a combined total of \$18.1 million, representing a decrease of \$4.4 million over the previous fiscal year.

The largest increase in non-spendable fund balance is due to the reclassification of property held for resale from the Successor Redevelopment Agency to the General Fund. This property is reported as non-spendable as the asset is not liquid.

Most of the reduction in restricted fund balance relates to reporting the PEG restricted fund balance in a special revenue fund in the current fiscal year. PEG was established as a separate special revenue fund in Fiscal Year 2019-20 and as such removed from reporting in the General Fund. Certain components are reported as restricted as they are deemed restricted by an external authority. PEG funds have restricted uses designated by the State of California.

Assigned fund balances are designated through City Council action. Assigned fund balance includes the City's 10% contingency reserve (10% of General Fund expenditures). In prior fiscal years, City Council assigned fund balance for projects such as streets, building permit software upgrades and the Laguna Lake project. Changes in these project assigned fund balances fluctuate based on project costs incurred in the given fiscal year.

What remains of the General Fund balance is unassigned fund balance which may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. This is available fund balance which may be designated for use by City Council in a subsequent fiscal year. As unassigned fund balances fluctuate in any given year based on operating surplus (deficit), transfers in (out) and designations of fund balance as non-spendable, restricted or assigned, unassigned fund balance should be treated as one-time available fund balance for designated use.

Brea Dam Fund – Continued Financial Challenges

As previously reported in prior financial updates to the City Council, Staff continue to express concern about Fund 42, the Brea Dam Fund, of which the largest operating activity is the golf course. Historically, golf course surpluses had subsidized the sports complex, tennis center and other Brea Dam recreational activities.

The Brea Dam Fund ended the fiscal year with a deficit of \$0.3 million as expenditures of \$2.6 million exceeded revenues of \$2.3 million (CAFR page 110). Revenues were 17% below budget. It should be noted that FY 2019-20 budgeted revenues was already reduced by \$238,000 from the FY 2018-19 budget. The Brea Dam's inability to operate on a self-supporting basis has been exacerbated by the pandemic. Concerns about the Brea Dam Fund are further heightened as General Fund's ability to subsidize these recreational activities are limited.

Auditor 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, none of which were identified. The one identified opportunity for improvement related to timely reconciliation of bank accounts which was primarily due to Fiscal Services staff turnover and was not deemed an issue relating to internal controls.

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 that the auditors would consider material weakness.

Attachments:

- Attachment 1 – Comprehensive Annual Financial Report (also on website)
- Attachment 2 – Auditor Communication Letter

- Attachment 3 – Report on Internal Controls