



CITY OF COMMERCE AGENDA REPORT

Item No. ____

TO: Honorable City Council

FROM: Ernie Hernandez, City Manager

SUBJECT: Annual Financial Comprehensive Report and the Auditor's Communication Related to Fiscal Year 2024-25 Annual Audit

MEETING DATE: March 10, 2026

RECOMMENDATION:

Staff recommend that the City Council receive and file the Annual Comprehensive Financial Report (ACFR) for the Fiscal Year (FY) ended June 30, 2025, and accept the report as presented by the city's independent auditors, The Pun Group, LLP.

BACKGROUND:

The ACFR provides a detailed overview of the City's financial position and operating results for FY 2024-25. The report was prepared by the Finance Department in accordance with generally accepted accounting principles (GAAP) and applicable Government Accounting Standards Board (GASB) requirements.

The City's independent auditors issued an unmodified ("clean") opinion, indicating that the City's financial statements fairly present the financial position of the City in all material respects in accordance with GAAP. The ACFR includes management's discussion and analysis, government-wide financial statements, fund financial statements, notes to the financial statements, and required supplementary information.

Preparation of the ACFR reflects the City's commitment to fiscal transparency and accountability by providing stakeholders and regulatory agencies with a comprehensive review of the City's financial activities.

DISCUSSION

Professional auditing standards require independent auditors to communicate with the City Council regarding various matters related to the audit. These include the auditors' responsibilities, the scope and timing of the audit, compliance requirements, identified audit risks, the City's significant accounting practices, any difficulties encountered during the audit, misstatements in the financial reports, disagreements between the auditors and City

management, and other relevant information pertaining to the audit engagement. Please refer to Attachment 3 for the auditors' communication letter.

Financial Highlights

The ACFR reflects several notable financial outcomes for FY 2024-25.

Overall, the City's net position increased by approximately \$14.1 million, bringing the City's total net position to \$182.6 million. Net position represents the difference between what the City owns (assets such as cash, investments, infrastructure, and property) and what it owes (liabilities such as debt and other obligations). In simple terms, it reflects the City's overall financial position after all obligations have been accounted for.

Governmental activities accounted for the majority of this increase, reflecting continued investment in infrastructure improvement and capital projects throughout the City.

The General Fund remains financially strong (through June 30, 2025), with an unassigned fund balance of approximately \$115.7 million, representing roughly 117.8% of annual General Fund expenditures. This level of reserves provides the City with significant financial flexibility to address economic uncertainties or potential loss of revenue.

In recognition of the City's strong reserve position, the City Council adopted a General Fund Reserve Policy as part of the FY 2025-26 budget process. The policy establishes guidelines for maintaining reserve levels to address emergencies and economic uncertainty while promoting responsible financial planning.

During the fiscal year, the City continued to advance several major infrastructure and capital improvement projects, contributing to an increase of approximately \$23 million in net capital assets. These investments include roadway improvements, infrastructure projects, connectivity improvements, and environmental remediation efforts such as work associated with Veterans Park.

The report also reflects changes in several key revenue sources. While property tax revenues increased in comparison to FY 2023-24, the City experienced declines in sales tax and card club license revenues. These trends reinforce the importance of continued monitoring of the City's major revenue streams.

Transportation Fund

The ACFR reflects ongoing financial challenges within the City's Transportation Fund. During FY 2024-25, operating expenditures exceeded revenues by approximately \$3.0 million, resulting in an operating deficit for the year.

Over time, similar operating deficits have accumulated, resulting in a structural deficit of approximately \$14.3 million in the Transportation Fund's net position. In other words, the fund has historically experienced expenditures that exceed available revenues, and those annual deficits have accumulated over multiple years. This accumulation has resulted in the current structural deficit reflected in the Transportation Fund.

It is important to note that transit systems in general often rely on grant funding and subsidies to support operations, as revenues alone typically do not cover the full cost of service.

To address the projected operating deficit for FY 2025-26, staff has developed a deficit reduction plan. This plan includes allocating overhead costs from the CNG/LNG Fund to the Transportation Fund for fiscal years 2022-23 through FY 2025-26 and participating again in the Proposition A Local Return fund exchange program, as approved through the Mid-Year Budget amendments. These measures are expected to help offset the projected deficit for FY 2025-26.

Staff will continue evaluating additional strategies as part of the FY 2026-28 budget process to address the long-term structural imbalance in the fund. Potential strategies may include operational adjustments or the reallocation of certain activities to the General Fund.

Measure AA Fund

The ACFR reflects expenditures of \$26.4 million within the Measure AA fund, which continues to support the City's capital improvement plan (CIP). Measure AA revenues along with grants from other agencies have been used to fund various street improvements, traffic improvements, facility improvements, and mobility enhancements throughout the City.

Total revenues for the year were approximately \$10.8 million, while expenditures totaled \$26.4 million, primarily reflecting the completion of several capital improvement projects. As a result, expenditures exceeded revenues during the year, resulting in a decrease in fund balance of approximately \$13.9 million. This decrease was largely driven by the timing of capital project expenditures and related grant reimbursements. Many of the projects completed during the fiscal year are eligible for reimbursement through grant funding sources; however, the reimbursements are often received in subsequent months or even subsequent fiscal years after project completion and reimbursement requests are processed.

Despite the decrease in fund balance, the Measure AA fund continues to maintain a positive fund balance of approximately \$12.8 million and there are several projects being completed that are grant-eligible.

Enterprise Fund Performance

The City's business-type activities, which include operations such as transit, water, and compressed natural gas (CNG) station, experienced a net position decrease of approximately \$2.8 million during the fiscal year. The decline was primarily driven by operating losses within the Transit Fund, partially offset by stable performance in other enterprise operations.

Accounting Standards Implementation

During the fiscal year, the City implemented GASB Statement No. 101 – Compensated Absences, which updated accounting and reporting requirements for leave liabilities.

Implementation of this standard required restatement of certain beginning balances to ensure compliance with the updated accounting guidance.

Financial Management Improvements

Beginning in FY 2025-26, the City has implemented several improvements to strengthen financial management practices and enhance oversight of the City's financial operations.

Key improvements implemented during the fiscal year include:

- Strengthening the City's budget monitoring process and financial reporting practices
- Conducting regular monthly, quarterly, and mid-year budget reviews to monitor revenue and expenditure performance and make proactive adjustments, as needed
- Enhancing coordination between the Finance Department and other Departments to improve financial planning and budget oversight.
- Reinforcing the use of budget appropriation forms to properly document budget amendments, ensure alignment with City Council-approved actions, and facilitate timely recording in the City's financial system.
- Training departments on generating monthly budget-to-actual reports and conducting periodic meetings to review departmental spending and ensure compliance with adopted budget limits.

Additionally, the City completed the FY 2024-25 financial statements significantly earlier than in prior years. Staff initiated several process improvements that helped streamline the

preparation and reporting of financial information, which reduced issues encountered during past audit process.

City staff remain committed to continuing these improvements and maintaining timely financial reporting practices, with a goal of issuing future financial statements no later than January 31 of each year.

FISCAL IMPACT

There is no direct fiscal impact associated with this action. All audit and reporting-related costs were included in the annual operating budget.

ALTERNATIVES:

1. Accept the ACFR as recommended.
2. Provide direction to staff for further revisions or review.

ATTACHMENTS:

1. Annual Comprehensive Financial Report (ACFR) – FY 2024–25
2. Report on Agreed-Upon Procedures Applied to Appropriation Limit Worksheet

3. Auditor Communications to the City Council

Recommended by: Alvaro Castellon, Director of Finance

Respectfully submitted: Ernie Hernandez, City Manager

Approved as to form: Noel Tapia, City Attorney