



City Council Report

DATE: March 24, 2026

TITLE: **Acceptance of Fiscal Year 2025 Annual Comprehensive Financial Report and Auditor's Written Communication on Internal Control**

RECOMMENDED ACTION:

That the City Council accept the Fiscal Year 2025 Annual Comprehensive Financial Report and Auditor's written communication on internal control structure and the audit process as submitted with this report.

BACKGROUND

The Finance Department prepares an Annual Comprehensive Financial Report (ACFR) to report the City's financial results for the fiscal year. The financial statements, and the accounts comprising them, are subjected to an independent audit as required by Campbell Municipal Code Section 2.08.080. The City's audit firm, Eide Bailly LLP, issued their report (opinion) on these financial statements which is contained on [page 1](#) of the ACFR document that is available to you as **Attachment 1** of this report.

At the conclusion of the audit process, the auditor also issues its communication to the City Council, in the form of various letters, regarding the audit process and the City's internal control structure and reports its findings and/or recommendations for improvement (**Attachments 2 and 3**).

DISCUSSION

Annual Comprehensive Financial Report for Fiscal Year Ending June 30, 2025

The ACFR is divided into three basic parts: 1) Introductory Section 2) Financial Section and 3) Statistical Section. The introductory section includes a letter of transmittal, award certificate and a listing of City officials, staff, Board and Commissions. The financial section includes the auditors' report, management discussion and analysis, basic financial statements, fund financial statements, notes to the financial statements, required supplementary information and other supplementary information. The statistical section contains various schedules of trend information that provides useful information for analytical purposes.

The ACFR document is submitted annually to the Government Finance Officers Association (GFOA) award program which grants a Certificate of Achievement for Excellence in Financial Reporting to qualifying ACFRs. The City has received this award

for the past 37 consecutive years and has again submitted this year's document for consideration.

As shown on [page 1](#) of the ACFR, the "Independent Auditor's Report" reflects an unmodified, "clean opinion" on the financial statements, meaning that it meets the standards of generally accepted accounting principles.

Next is the "Management's Discussion and Analysis," or MD&A which begins on [page 5](#) of the ACFR, and contains significant financial highlights for the fiscal year ending June 30, 2025, as well as an explanation of the different types of financial statements and other information found in the ACFR. Included in the discussion are tables which compare the audit year financial results to the prior year, and an explanation of the significant changes between years.

Fiscal Year 2025 highlights from the ACFR are as follows:

As shown on [page 9](#) of the ACFR, City-wide, the City ended its fiscal year with total revenues of \$91.9 million, an increase of \$10.8 million from the previous year, and total expenses of \$83.0 million, an increase of \$2.4 million compared to the previous year. Excluding property taxes, general revenues; comprised of sales and use taxes, other taxes, investment income, and miscellaneous revenues, decreased \$2.3 million. Other financial highlights of the past year are as follows:

City-wide (All Funds):

- As shown on [page 8](#) of the ACFR, total City assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$68.2 million. Of this amount, \$77.7 million represents the net investment in capital assets while \$22.7 million is restricted for various purposes including affordable housing, streets and roads, and community development. The negative \$32.2 million in unrestricted net position decreased by \$4.0 million since last year. While the City's overall net position is positive, the unrestricted net position specifically accounts for the City's Net Pension Liability of \$75.9 million, resulting in a negative unrestricted net position of \$32.2 million.
- As also shown on [page 8](#) of the ACFR, total net position increased from the previous year by \$8.9 million primarily due to an increase in capital assets with construction of the police operations building and renovations to the City library now underway.

Fund level:

- As shown on [page 20](#) of the ACFR, total governmental fund balances were \$66.0 million at fiscal year-end, a decrease of \$18.6 million from the previous year total governmental fund balances of \$84.6 million (as shown on [page 20](#) of the FY 2023 ACFR). This decrease is primarily attributed to the Measure O Capital Fund, whose fund balance decreased by \$25.9 million from construction costs related to the police operations building and City library.
- As shown on [page 22](#) of the ACFR, General Fund revenues, excluding transfers, increased \$4.9 million to \$68.0 million from the previous year General Fund

revenues of \$63.1 million (as shown on [page 22](#) of the FY 2024 ACFR). This is largely attributable to increases in property tax, sales tax, and licenses and permits; offset by decreases in other taxes.

- As shown on [page 22](#) of the ACFR, related General Fund expenditures of \$64.5 million increased by \$3.0 million from the previous year General Fund expenditures of \$61.5 million (as shown on [page 23](#) of the FY 2024 ACFR). This is largely attributable to cost increases in all operating department.
- As shown on [page 22](#) of the ACFR, the General Fund's fund balance of \$26.4 million increased by \$5.4 million from the previous year General Fund's fund balance of \$21.0 million (as shown on [page 23](#) of the FY 2024 ACFR).
- As shown on [page 56](#) of the ACFR, total Nonspendable General Fund balance of \$0.2 million is reserved for leases and prepaid costs. Total Restricted General Fund balance of \$1.7 million is for Measure K sales tax receipts and accrued interest. Total Committed General Fund balance of \$3.6 million is for future contingencies and capital improvement projects. Total Assigned General Fund balance of \$2.9 million is for CalPERS retirement costs and other postemployment benefits, and the remaining \$18.0 million is for unassigned and available for to be determined general government purposes, City Council objectives, economic fluctuations, and emergencies.

General Fund Highlights

As shown on [page 13](#) of the ACFR, the General Fund realized an excess of revenues over expenditures of \$3.6 million, excluding transfers and other sources. General Fund revenues of \$68.0 million, excluding transfers, increased \$4.9 million from the previous year General Fund revenues of \$63.1 million (as shown on [page 13](#) of the FY 2024 ACFR). Property taxes, sales and use taxes, other taxes, licenses and permits, and charges for services all exceeded budgeted amounts. These were partially offset by fines and forfeitures, investment income, rents and leases, intergovernmental, and miscellaneous revenues, which were less than budgeted amounts.

As shown on [page 13](#) of the ACFR, Property Tax is the General Fund's largest revenue source. Budgeted at \$22.90 million in the final amended budget, actual property tax revenue received was \$22.95 million. That represents \$0.05 million greater than budgeted. The positive variance is attributed to slightly greater receipt of current secured property taxes and the Education Revenue Augmentation Fund (ERAF).

As shown on [page 13](#) of the ACFR, Sales and Use Tax is the General Fund's second largest revenue source, budgeted at \$16.2 million in the final amended budget. The City received \$18.0 million or \$1.8 million over the final budget. The largest categories of sales tax producers comprise of restaurants and hotels, building and construction, business and industry, and general consumer goods. The positive variance is attributed to the collection of Measure K sales tax receipts.

As shown on [page 13](#) of the ACFR, Charges for services amounted to \$6.4 million, which is comprised largely of fees for services provided by the Recreation, Community

Development, and Public Works departments. The City received \$0.2 million or 3.2% greater than budgeted in the final amended budget.

As shown on [page 13](#) of the ACFR, General Fund expenditures, excluding transfers, were \$64.5 million, an increase of \$3.0 million from the previous year total of \$61.5 million (as shown on [page 13](#) of the FY 2024 ACFR). When compared to the final budget, general fund expenditures were \$2.8 million or 4.2% under budget. The savings are mostly attributed to both the Community Development and Public Works departments, which came under budget by 28.4% and 9.2%, respectively. The positive variance is due to lower-than-expected incurred expenditures as it relates to personnel costs and professional services within the General Fund.

As shown on [page 13](#) of the ACFR, The General Fund's fund balance at fiscal year-end was \$26.4 million, an increase of \$5.4 million from the previous year General Fund balance of \$21.0 million (as shown on [page 13](#) of the FY 2024 ACFR). This is primarily due to the closeout and transfer of ARPA funds into the General Fund to reimburse the General Fund for allowable expenditures approved by the City Council. As again shown on [page 56](#) of the ACFR, Nonspendable fund balance at year end was \$0.2 million, reserved for leases and prepaid costs. Restricted fund balance at year end was \$1.7 million, comprised solely of Measure K sales tax receipts and accrued interest. Committed and Assigned fund balances at year end were \$3.6 million and \$2.9 million, respectively. These balances are utilized to fund operational costs such as capital projects, compensated absences, and to maintain a reserve for PERS and OPEB related costs. Unassigned fund balance of \$18.0 million serves as an additional reserve for unanticipated needs that may arise including a \$9.5 million reserve for economic fluctuations and \$3.2 million for emergencies. A detailed listing of each reserve account, its balances, and its description can be found in **Attachment 4**.

Per City Administrative Financial Policies, the economic fluctuations reserve target is set at 16.67% of operating expenditures for use during economic downturns. The City's Fiscal Year 2026 Adopted General Fund expenditures was \$67.7 million, an increase of \$0.9 million from the Fiscal Year 2025 Adopted General Fund expenditures. As such, the economic fluctuation reserve target increased to \$11.3 million, resulting in a FY 2025 balance of \$9.5 million that is \$1.8 million below the targeted level. Furthermore, the emergency reserve is to be set at 10% of revenue and used for unexpected physical or fiscal emergency. For fiscal year ending June 30, 2025, the emergency reserve balance remained at \$3.2 million, which is \$3.4 million below its targeted level of \$6.6 million.

For Fiscal Year 2025, the City did not need to draw upon its economic fluctuation or emergency reserve. Although both the economic fluctuation and emergency reserves are below targeted levels, the City continues to maintain strong General Fund reserve balances. The GFOA recommends, at a minimum, a General Fund unrestricted fund balance of no less than two months (or 16.67%) of general fund operating expenditures. At fiscal year-end, the City maintained an unassigned reserve ratio of 26.65%. This increases to 28.12% if the General Fund PERS reserve is also taken into account. The PERS reserve is intended to either pay down unfunded pension liabilities or mitigate pension premium increases from year to year. Thus, an appropriate use of the PERS reserve, as authorized by Council and consistent with usage in both the FY 2025 and FY 2026 Adopted Budgets of \$1,252,000 and \$558,000, respectively, could be to fund annual ongoing pension premium costs in any given year. Please note that at the end of FY

2026, the PERS Reserve is expected to have a remaining balance of \$442,000 due to these previously approved uses.

Written Communications Letters

The auditor, as required by auditing standards, issues several letters regarding the audit process and results (**Attachments 2 and 3**) as well as any observations and/or findings related to the internal control structure as noted during their audit. There were no findings considered to be a “material weakness” or “significant deficiency.”

Finance Sub-Committee Meeting

The results of the audit and written communications were presented by City staff and Eide Bailly LLP and discussed with the City’s Finance Sub-Committee on February 19, 2026. The Sub-Committee reviewed and asked questions of staff regarding the City’s General Fund reserve ratio, PERS reserve, compensated absences balance, and OPEB liability.

The Sub-Committee was satisfied with the presentation and the answers provided by the auditor and staff and recommended the FY 2024-25 ACFR and auditor’s written communication be accepted by the City Council on March 24, 2026.

FISCAL IMPACT

There is no fiscal impact as a result of accepting the ACFR and the auditor’s written communications.

ALTERNATIVES

1. Do not accept the ACFR and/or written communications as submitted.
2. Provide other direction to staff.

PREPARED BY: Norite Vong, Assistant Finance Director

Report Approval Details

Document Title:	Report - Acceptance of Fiscal Year 2025 Annual Comprehensive Financial Report and Auditor's Written Communication on Internal Controls.docx
Attachments:	Attachment 1 - ACFR - FY2024-25.pdf Attachment 2 - AU-C 260 Governance Letter.pdf Attachment 3 - GAGAS Letter.pdf Attachment 4 - General Fund Comparison FYE 06-30-24 to 06-30-25.pdf
Final Approval Date:	March 18, 2026

This document and all of its attachments were approved and signed as outlined below:



Will Fuentes, Finance Director



Andrea Sanders, City Clerk



Brian Loventhal, City Manager