



City of Fullerton

Task One – Readout to City Council

June 16, 2026



Engagement Overview

- The City of Fullerton (the “City”) engaged Grant Thornton Advisors LLC to analyze specific FYE 2025 accounting transactions and budget items.
- Our scope included assessing whether transactions were conducted at arm’s length, aligned with generally accepted accounting principles, followed the City’s policies, and supported a legitimate and reasonable City purpose.
- Grant Thornton Advisors LLC was not retained to investigate specific allegations of fraud or misconduct, and the procedures applied were not designed to surface every document, piece of information, or analysis that may relate to this matter. Grant Thornton Advisors was not engaged to perform a forensic review.
- The scope also included analysis of the City’s budgeting process and communications to City Council for the fiscal year ending June 30, 2025, to identify errors or miscommunication.
- The work centered on two matters affecting the City’s financial reporting for the fiscal year ended June 30, 2025:
 - a \$2.9 million prior period adjustment tied to accounting errors, and
 - depletion of roughly \$10 million in unassigned fund balance.
- This presentation and the accompanying report summarizes the results of the review, with observations limited to the scope described. Grant Thornton Advisors LLC was not retained to perform an audit or provide attest services.

Key Takeaways

The \$2.9 million adjustment reflects accounting errors *in how a transaction was recorded, not issues with the underlying transaction or its purpose.*

The \$10 million decline in unassigned fund balance was *primarily driven by a planned budget deficit*, along with transfers, accounting adjustments, and changes in fund balance classifications.

Based upon the procedures performed, *no indicators of fraud or intentional misconduct were identified*; the issues identified relate to governance, accounting, and financial reporting practices.

The primary issue was a *lack of clear governance, reconciliation, and presentation of financial information*, which limited the ability of the City Council to understand the City's financial position.

\$2.9 Million Accounting Adjustment

- Property purchase/sale occurred; issue limited to accounting treatment
- Errors occurred in recording the transfer and subsequent reversal
- Entries incorrectly impacted cash and fund balance
- Errors were not fully corrected in 2022
- Effects remained in financial records until corrected in FYE 2025
- \$2.9 million prior period adjustment recorded to correct errors

LAWYERS TITLE COMPANY
 18551 Von Karman Avenue, Suites 100-200, Irvine, CA 92612
 (800) 800-2582
BUYERS/BORROWERS CLOSING STATEMENT
Final

Buyer/Borrower: Fullerton Redevelopment Agency

Escrow No: 05000452-500 KH
 Close Date: 05/19/2004
 Proration Date: 05/19/2004
 Date Prepared: 05/20/2004

Property: 515 North Pomona Avenue
 Fullerton, CA

Address	Parcel #	Value	
1) 515 N. Pomona, Fullerton CA	029-033-03	752,306.96	
2) 511 N. Pomona, Fullerton CA	029-033-04	729,521.72	
3) 509 N. Pomona, Fullerton CA	029-033-05	509,734.28	84-1401
4) 501 N. Pomona, Fullerton CA	029-033-06	909,204.70	2,900,767.66

Property purchased in 2004 by Fullerton Redevelopment Agency.

TICOR TITLE COMPANY OF CALIFORNIA

4400 MacArthur Blvd, Suite 800, Newport Beach, CA 92660

Phone: (714) 289-3300 Fax: (714) 289-3368

Sellers Settlement Statement
FINAL

Escrow No: 00838625 - 021 DN3 Close Date: 12/30/2022 Proration Date: 12/30/2022 Disbursement Date:

Seller(s): City of Fullerton
 Property: 501, 509, 511, 515 North Pomona Avenue
 Fullerton, CA 92832
 Brief Legal:

Description	Debit	Credit
TOTAL CONSIDERATION:		1,600,000.00
Total Consideration		
ESCROW AND TITLE CHARGES:		
Escrow Fee to Ticor Title Company of California	1,337.50	
ADDITIONAL CHARGES:		
Natural Hazard Disclosure Report to JCP-LGS Reports Natural Hazard Disclosures	219.00	
Sub Totals	1,556.50	1,600,000.00
Proceeds Due Seller	1,598,443.50	
Totals	1,600,000.00	1,600,000.00

Property sold in 2022. Sale was unanimously approved by the City Council on November 15, 2022.

Communications Initiating Transfer

From: Hannah Chang
Sent: Thursday, December 10, 2020 12:42 PM
To: Ellis Chang <EChang@cityoffullerton.com>; Claire Moynihan <CMoynihan@cityoffullerton.com>
Cc: John Ji <John.Ji@cityoffullerton.com>; Sylvina Kho <sylvina.kho@cityoffullerton.com>
Subject: FW: [EXTERNAL MAIL]Capital Asset Requests

Hi Ellis, Claire

There is a land held for resale in account 89-1401 (\$2,900,767.66). The auditor is asking what the City's intention is with the land since the status hasn't been changed for years. Do you have any information I can forward to the auditors?

Thank you.

From: Ellis Chang
Sent: Thursday, December 10, 2020 12:57 PM
To: Kellee Fritzal <KFritzal@cityoffullerton.com>
Cc: Ramona Castaneda <ramona.castaneda@cityoffullerton.com>; Hannah Chang <Hannah.Chang@cityoffullerton.com>; Claire Moynihan <CMoynihan@cityoffullerton.com>; Sylvina Kho <sylvina.kho@cityoffullerton.com>; John Ji <John.Ji@cityoffullerton.com>
Subject: FW: [EXTERNAL MAIL]Capital Asset Requests
Importance: High

Kellee,

What is the \$2.9 M land/asset held for re-sale? Project status?

Ellis Chang
 Director of Administrative Services
 City of Fullerton

4

From: Ramona Castaneda
Sent: Thursday, December 10, 2020 3:04 PM
To: Ellis Chang <EChang@cityoffullerton.com>; Kellee Fritzal <KFritzal@cityoffullerton.com>
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Subject: RE: [EXTERNAL MAIL]Capital Asset Requests

Below is a screenshot of the summary in the long range property plan. Asset #4 is the parking lot designated to be retained by the City for future economic development purposes. Title should have been transferred to the City before Linda Mansfield left.

#	Address/Description	APN	Purpose			
			Gov't Use	Econ. Dev.	Liquid.	Enf. Oblig.
1	Costco / AMC Theatre Parking Lot Parcels	073-060-16 073-060-25	X (per SB 107)			
2	Fox Block – Fox Theatre Complex	029-033-20 029-033-21		X		
3	Fox Block- Peck Parking Structure Site	029-033-09 029-033-10 029-033-27 029-033-28 029-033-35		X		
4	Fox Block- Public Parking Lot	029-033-03 029-033-04 029-033-05 029-033-06		X		

Journal Entry Errors

Journal Entry Instructions:

From: Sylvina Kho
Sent: Tuesday, December 15, 2020 11:46 AM
To: Theodore Kho
Cc: Claire Moynihan
Subject: Assets held for resale...Requests

Hi Theo,

Please prepare this June JE...

Transfer assets held for resale from fund 89 to 10

515 N. Pomona, Fullerton CA	029-033-03	752,306.96
511 N. Pomona, Fullerton CA	029-033-04	729,521.72
509 N. Pomona, Fullerton CA	029-033-05	509,734.28
501 N. Pomona, Fullerton CA	029-033-06	909,204.70

Dr. 10-1401
Cr. 89-1401 \$2,900,767.66

Sylvina Kho
City of Fullerton

Each fund has to balance independently – interfund entries not included.

Journal Entries, As Recorded

General Fund

Dr Assets Held for Resale
Cr ~~Claim on Cash~~

~~Dr Claim on Cash~~
Cr Fund Balance

Successor Agency

~~Dr Claim on Cash~~
Cr Assets Held for Resale

~~Cr Claim on Cash~~
Dr Fund Balance

No exchange of cash. Fund balance incorrectly included in entries.

Result:

1. Fund balance overstated in the General Fund
2. Claims on cash overstated in the General Fund

Both corrected with adjusting entry recorded in FYE 2025

Reversing Entry, As Recorded

General Fund

Dr Claim on Cash
Cr Assets Held for Resale

Successor Agency

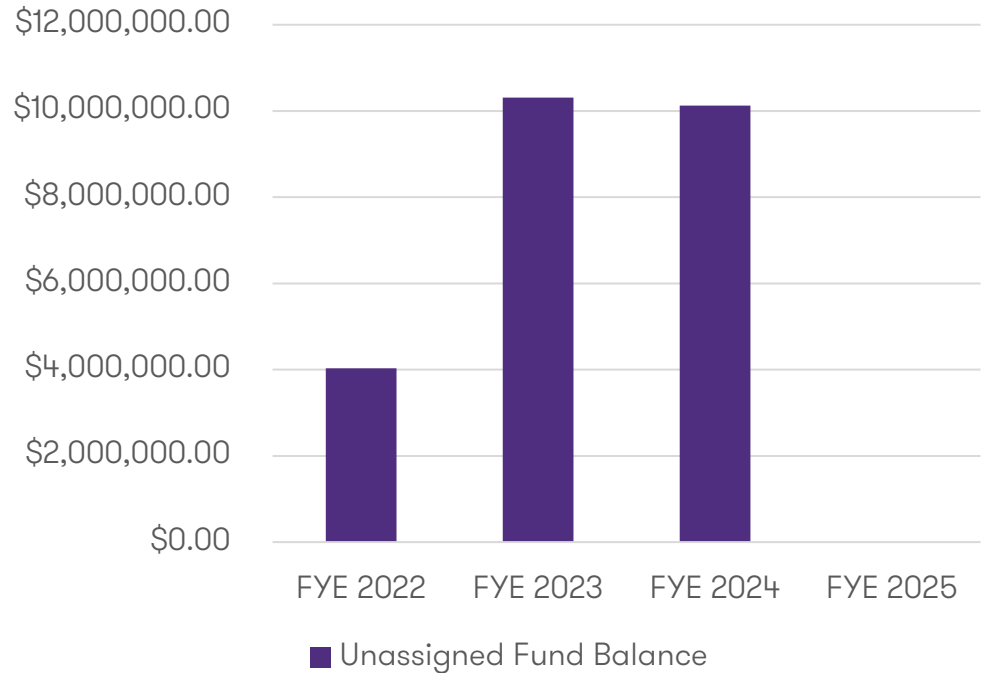
Dr Assets Held for Resale
Cr Claim on Cash

No exchange of cash. Cash amounts were cancelled out in prior entry. Fund balance never reversed.

Unassigned Fund Balance Trend

- Unassigned fund balance increased from ~\$4.0 million in FYE 2022 to ~\$10.1 million in FYE 2024
- Increase reflects General Fund inflows exceeding outflows during this period.
- Fund balance was fully depleted in FYE 2025

Unassigned Fund Balance



Balances reflect amounts reported in the City's ACFR for the respective fiscal years.

Reconciliation of Fund Balance Depletion

Beginning Unassigned Fund Balance	\$ 10,121,144
Less: FYE 2025 Operating Deficit	(7,446,761)
Less: FYE 2025 Net transfers	(4,535,530)
Add: FYE 2025 Other financing sources	6,267,992
Less: \$2.9 million error correction	(2,900,768)
Less: Increase in Assigned, Committed, Restricted Fund Balances	<u>(2,754,284)</u>
Remaining Unassigned Fund Balance	\$ (1,248,207)
Reduction in Contingency Reserve	<u>\$ 1,247,917</u>
Remaining difference	<u>\$ (290)</u>

Planned Budget Deficit and Its Impact

The primary driver of the decline in unassigned fund balance was a planned operating deficit:

Budget Study Session – April 23, 2024

	Adopted Budget FY 23-24	CM Proposed Budget FY 24-25
Beginning Fund Balance	\$29,248,686	\$27,011,519
Revenues	120,671,857	127,641,540
Transfers In:	7,150,000	1,320,164
<i>Transfers In from Traffic Safety Fund</i>	200,000	200,000
<i>Transfers In from IT Fund - Server Loan</i>	-	378,087
<i>Transfers In from ARPA Revenue Replacement</i>	6,950,000	742,077
Total Revenues and Transfers In	127,821,857	128,961,704
Expenditures	(120,884,437)	(132,720,675)
Transfers Out:	(4,174,587)	(5,603,000)
<i>Transfers Out to Infrastructure Fund</i>	(2,674,587)	(2,926,062)
<i>Transfers Out to Residential Streets (CIP)</i>	(1,500,000)	(1,000,000)
<i>Transfers Out to IT Fund - IT Projects</i>	-	(1,676,938)
Total Expenditures and Transfers Out	(125,059,024)	(138,323,675)
Net Operating Surplus/(Deficit)	2,762,833	(9,361,971)
MOE Reserve	(5,000,000)	5,000,000
Ending Fund Balance	\$27,011,519	\$22,649,548

Budget Approval – June 4, 2024

	Adopted Budget FY 23-24	Proposed Budget FY 24-25
Beginning Fund Balance	\$29,248,686	\$27,011,519
Revenues	120,671,857	127,716,541
Transfers In:	7,150,000	1,320,164
<i>Transfers In from Traffic Safety Fund</i>	200,000	200,000
<i>Transfers In from IT Fund - Server Loan</i>	-	378,087
<i>Transfers In from ARPA Revenue Replacement</i>	6,950,000	742,077
Total Revenues and Transfers In	127,821,857	129,036,705
Expenditures	(120,884,437)	(132,859,319)
Transfers Out:	(4,174,587)	(5,603,000)
<i>Transfers Out to Infrastructure Fund</i>	(2,674,587)	(2,926,062)
<i>Transfers Out to Residential Streets (CIP)</i>	(1,500,000)	(1,000,000)
<i>Transfers Out to IT Fund - IT Projects</i>	-	(1,676,938)
Total Expenditures and Transfers Out	(125,059,024)	(138,462,319)
Net Operating Surplus/(Deficit)	2,762,833	(9,425,614)
MOE Reserve	(5,000,000)	5,000,000
Ending Fund Balance	\$27,011,519	\$22,585,905



This document is intended solely for the use of the City of Fullerton Management and City Council. It is not intended for, and should not be used by, any other party unless approved by Grant Thornton Advisors LLC.

Clarity of Budget and Financial Information

Budget Approval – June 4, 2024

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Revenues	120,671,857	127,716,541
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Net Operating Surplus/(Deficit)	2,762,833	3. (9,425,614)
MOE Reserve	2. (5,000,000)	5,000,000
Ending Fund Balance	\$27,011,519	4. \$22,585,905

1. Beginning fund balance did not clearly reconcile to audited financial statements
2. MOE Reserve was not properly classified as assigned fund balance.
3. Presentation of net operating surplus (deficit) included transfers, which may obscure underlying operating performance
4. Ending fund balance only includes unassigned and contingency reserve, which is not made clear.

Conclusion

No indicators of fraud or intentional misconduct were identified based upon the procedures performed.

The issues identified relate to financial governance and oversight, accounting treatment, financial reporting, and budget presentation.

The decline in unassigned fund balance was driven by operating results, including a planned budget deficit, along with transfers, accounting adjustments, and fund balance classification changes.

These factors were not clearly reconciled or presented, which limited the ability of City Council to understand the City's financial position and the drivers of change.

Recommendations

Description	Observation	Recommendation
Financial Governance and Oversight	Financial oversight responsibilities and review processes are not clearly defined or consistently applied.	Establish a formal governance structure with defined roles and responsibilities, including structured oversight of budgeting, financial reporting, and changes in fund balance.
Accounting for Interfund Transactions	Interfund transactions were not consistently recorded using appropriate fund accounting treatment, resulting in errors.	Establish standardized procedures for interfund transactions consistent with GAAP, including use of due to/from accounts and required review of non-routine entries.
Budget Presentation and Transparency	Budget materials did not clearly reconcile to audited financials or distinguish fund balance classifications.	Reconcile budget to audited fund balance, clearly present classifications, and separate operating results from transfers.
Fund Balance Monitoring and Reporting	Changes in fund balance were not presented in a clear or traceable format.	Implement periodic fund balance rollforwards showing changes by category in a consistent format.
Financial Policy Design and Clarity	Financial policy lacks sufficient operational guidance for consistent implementation.	Update financial policy to clarify expectations for budgeting, classification, and reporting.



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City of Fullerton Task One Report

June 16, 2026

This report is intended solely for the use of the City of Fullerton Management and City Council. It is not intended for, and should not be used by, any other party unless approved by Grant Thornton Advisors LLC. This report, including summaries, schedules and working papers of any kind generated in connection with our work, shall not be used or disseminated for any other purpose without our prior written consent.

Background & Scope

Grant Thornton Advisors LLC (“GT Advisors”, “us”, or “we”) was engaged by the City of Fullerton (“Fullerton” or “City”) per our Statement of Work, dated April 30, 2026, to evaluate selected accounting transactions and budget items to determine if transactions were completed at arm’s length, according to generally accepted accounting principles, were performed in accordance with Fullerton policies, and can be traced to a legitimate and reasonable City purpose. Additionally, we were asked to analyze the City’s budgeting process and communications to City Council for the fiscal year ending June 30, 2025¹, for potential errors or miscommunication. Specifically, our analysis included the following focus areas:

1. \$2.9 million audit adjustment recorded in FYE 2025; and
2. Depletion of approximately \$10 million in unassigned fund balance in FYE 2025.

Limitations

This report presents the results of our analysis. The observations and findings are limited to the work described in this report.

GT Advisors was not engaged to perform an audit or provide attest services under AICPA or Government Accountability Office (“GAO”, also known as “Yellowbook”) auditing or attestation standards or to provide any form of attest report or opinion under such standards in conjunction with this engagement.

GT Advisors was not engaged to perform an investigation or examination into specific allegations of fraud or misconduct. Accordingly, we did not perform forensic procedures, investigative testing, or targeted analyses designed to identify or substantiate potential instances of fraud, misconduct, or other irregularities.

Our engagement was limited in scope. Accordingly, our procedures were not designed to identify, nor should they be relied upon to have identified, all relevant documents, information, or analysis related to this matter. GT Advisors is not responsible for any loss or liability arising from information that was not identified but could influence this matter.

EXECUTIVE SUMMARY

This report addresses two separate issues affecting the City’s financial reporting for the fiscal year ended June 30, 2025:

- A \$2.9 million prior period adjustment related to accounting errors.
- The depletion of approximately \$10 million in unassigned fund balance.

These items are distinct, but both contributed to significant misunderstandings regarding the City’s actual financial position.

\$2.9 Million Accounting Adjustment

The \$2.9 million accounting adjustment (which was booked by Administrative Services in December, 2020) reflects the correction of prior accounting errors related to the transfer and subsequent reversal of the transfer of property between the General Fund and the Successor Agency (defined below).

Based on the information analyzed, the underlying property transaction appears to have occurred, and, based on the procedures performed, nothing came to our attention to indicate that the transaction was not undertaken at arm’s length or for a legitimate City purpose. The issue was limited to how the transaction was recorded by Administrative Services.

The accounting entries used to record and later reverse the transaction did not appropriately reflect its

¹ The City’s fiscal year runs from July 1 through June 30. For purposes of this report, fiscal years are documented using the ending year (e.g., the fiscal year July 1, 2024 through June 30, 2025 will be documented as “FYE 2025”).

nature and were not recorded in accordance with generally accepted accounting principles. In particular:

- Entries introduced impacts to cash and fund balance that were not supported by the underlying activity.
- Subsequent entries did not fully correct the original errors.

As a result, the effects of these errors remained in the City's financial records, directly impacting the book balance of claims on cash (overstated by \$2.9 million) and fund balance (overstated by \$2.9 million) until they were identified through the City's external audit and corrected in FYE 2025 through a \$2.9 million prior period adjustment.

Depletion of Unassigned Fund Balance (~\$10 Million)

The decline in unassigned fund balance reflects the combined effect of budget decisions, financial activity, and accounting adjustments during FYE 2025.

The most significant driver was a planned operating deficit. The adopted FYE 2025 budget included a deficit of more than \$9 million, which would have substantially reduced unassigned fund balance during the year.

In addition to operating results, fund balance was affected by:

- Transfers and other financing activity of \$6.3 million
- The \$2.9 million accounting adjustment described above
- Changes in fund balance classifications (e.g., amounts designated as assigned, committed, or restricted) of \$2.8 million.

Unassigned fund balance had increased in prior years as revenues exceeded expenditures. The FYE 2025 budget anticipated using those accumulated balances to support operations and fund the 2025 budget. As a result of the combined factors above, unassigned fund balance was fully depleted during 2025 and contingency reserves declined.

Clarity of Budget and Financial Information

The primary issue identified during our analysis of the City's budget and these transactions is not the existence of these financial changes, but how they were presented.

Budget and financial materials provided to City Council did not consistently present a clear, reconcilable view of fund balance. Specifically:

- Beginning balances in budget presentations did not clearly reconcile to audited financial statements;
- Materials did not consistently distinguish between total fund balance, contingency reserves, and unassigned fund balance; and
- The presentation of operating results included transfers, which may obscure underlying operating performance.

In addition, the combined effects of operating results, transfers, accounting adjustments, and classification changes were not presented in a single, traceable format.

As a result, the drivers of changes in fund balance were not clearly communicated, limiting the ability of City Council and the public to fully understand how the City's financial position changed in FYE 2025.

Conclusion and Opportunities for Improvement

Based on the procedures performed and information analyzed, we did not identify indicators of fraud or apparent intentional misconduct.

The issues identified relate to financial governance and oversight, accounting treatment, financial reporting, and budget presentation. Collectively, these issues limited transparency and contributed to

misunderstanding of the City’s financial position. We recommend the following steps to improve clarity, consistency, and oversight including:

- Strengthening financial governance and oversight by formalizing roles, responsibilities, and review processes, including establishing structured oversight of budgeting and financial reporting;
- Standardizing accounting for interfund transactions to ensure non-cash activity is recorded appropriately and consistently in accordance with generally accepted accounting principles;
- Improving budget presentation and reconciliation to audited financial information, including clearly agreeing beginning fund balance in budget materials to audited financial statements;
- Enhancing monitoring and reporting of changes in fund balance by presenting operating results, transfers, adjustments, and classification changes in a clear, traceable format; and
- Updating financial policies to provide clearer operational guidance related to budgeting practices, fund balance classifications, and financial reporting expectations.

These improvements are intended to support more transparent reporting, clearer communication, and better-informed decision-making.

DETAILED FINDINGS AND ANALYSIS

The sections that follow provide detailed analysis supporting the conclusions summarized above. This includes an overview of key accounting concepts relevant to the transactions reviewed, followed by a detailed discussion of the \$2.9 million accounting adjustment and the depletion of unassigned fund balance. The analysis is based on the information provided and procedures performed, and is intended to provide additional context, supporting detail, and technical explanation for the observations and recommendations provided.

Key Accounting Concepts²

Both focus areas in our analysis rely on the concept of “fund balance,” which is a key measure in governmental accounting. Fund balance represents the difference between a fund’s assets and liabilities. It essentially reflects the resources available after obligations have been met.

While fund balance is measured at a point in time, it is affected by the City’s annual financial activity. When revenues exceed expenditures, fund balance increases. When expenditures exceed revenues, fund balance decreases. As a result, budget decisions and actual operating results directly impact the level of fund balance over time.

A positive fund balance generally indicates that the entity is better positioned to support operations and absorb fluctuations in revenues or expenditures. A declining or negative fund balance may indicate potential financial stress if not addressed over time.

Fund balance is classified into five categories: unassigned, assigned, committed, restricted, and nonspendable. These classifications reflect the level of constraint placed on how funds may be used, with unassigned fund balance providing the most flexibility. Definitions of these categories are:

- Unassigned – fund balance that is available for general use and is not otherwise restricted, committed, or assigned;
- Assigned – amounts intended to be used for a specific purpose, as determined by the City Council or its designee. In Fullerton, this authority may be delegated to the Director of Administrative Services;³
- Committed – amounts that can only be used for specific purposes as established by formal action of the City Council;

² This section summarizes concepts found in Governmental Accounting Standards Board (“GASB”) Statement no. 54 – *Fund Balance Reporting and Governmental Fund Type Definitions*

³ Annual Comprehensive Financial Report for the FYE 2025, page 47

- Restricted – amounts that are constrained by external parties such as grantors, bond covenants, or laws and regulations of other governments; and
- Nonspendable – amounts that are not in spendable form (i.e., inventory or prepaid items) or are legally or contractually required to be kept intact.

Operational Context

The governing body of Fullerton is the City Council, which is comprised of five members elected by district. Council members serve four-year terms, with elections held on a staggered basis. The mayor is not a separately elected position but is appointed annually by the City Council from among its members. The same process applies to the Mayor Pro Tem.

The City established a fiscal policy in 2019 requiring the maintenance of a minimum General Fund balance of 10 percent of annual expenditures, with a goal of increasing that level to 17 percent.⁴ Under this policy, the minimum level is classified as assigned fund balance and is described in the Annual Comprehensive Financial Report as “Contingency Reserve.”

The City has experienced turnover in key leadership positions since 2024. Both the Director of Administrative Services and the City Manager departed their roles during this period. The City Manager position was subsequently filled on an interim basis and later on a permanent basis by Eddie Manfro. Steven Avalos is currently serving as the Interim Director of Administrative Services.

\$2.9 Million Audit Adjustment

In FYE 2025, Fullerton recorded a \$2.9 million prior period adjustment proposed by its external auditors related to an interfund transfer and subsequent reversal of property held for sale between the General Fund and the Successor Agency to the Former RDA⁵ (“Successor Agency”). The original transfer appears to have resulted from confusion regarding ownership of the property and included multiple journal entry errors. When the transaction was reversed in 2022, not all components of the original entry were corrected, resulting in additional errors. It was confirmed the property was purchased in 2004⁶ and was sold in 2022⁷ in an apparent arm’s length transaction⁸.

Transfer from Successor Agency to General Fund

The transfer of the property was initiated after the City’s external auditor inquired regarding plans for the land held for resale in the Successor Agency. In a series of emails occurring between December 9, 2020 and December 15, 2020, members of the City’s Administrative Services Department and the Successor Agency researched the property and ownership and determined the property should be transferred to the General Fund:

⁴ Statement of Financial Policies dated March 19, 2019, section 4.1 (a).

⁵ Successor agencies were created under California law (California Health & Safety Code Part 1.85 §34173) following the 2012 dissolution of redevelopment agencies and assume their remaining obligations. They are responsible for administering enforceable obligations and disposing of assets under state oversight through the Recognized Obligation Payment Schedule and are accounted for separately from the City’s general operations and financial reporting.

⁶ Lawyer’s Title Company Closing Statement, dated August 9, 2004.

⁷ Tricor Title Company of California, dated December 30, 2022; Sale was unanimously approved by the City Council on November 15, 2022.

⁸ The property was purchased by Fox Harbor LLC. Publicly available corporate records indicate the owners of Fox Harbor LLC are not City Council members

Figures 1, 2 and 3: Email communication discussing transfer

From: Hannah Chang
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 Director of Administrative Services
 City of Fullerton

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Subject: RE: [EXTERNAL MAIL]Capital Asset Requests

Below is a screenshot of the summary in the long range property plan. Asset #4 is the parking lot designated to be retained by the City for future economic development purposes. Title should have been transferred to the City before Linda Mansfield left.

#	Address/Description	APN	Purpose			
			Gov't Use	Econ. Dev.	Liquid.	Enf. Oblig.
1	Costco / AMC Theatre Parking Lot Parcels	073-060-16 073-060-25	X (per SB 107)			
2	Fox Block – Fox Theatre Complex	029-033-20 029-033-21		X		
3	Fox Block- Peck Parking Structure Site	029-033-09 029-033-10 029-033-27 029-033-28 029-033-35		X		
4	Fox Block- Public Parking Lot	029-033-03 029-033-04 029-033-05 029-033-06		X		

The following instruction was provided to record the transaction:

Figure 4: Instructions for Journal Entry⁹

From:	Sylvina Kho
Sent:	Tuesday, December 15, 2020 11:46 AM
To:	Theodore Kho
Cc:	Claire Moynihan
Subject:	Assets held for resale...Requests

Hi Theo,

Please prepare this June JE...

Transfer assets held for resale from fund 89 to 10

	515 N. Pomona, Fullerton CA	029-033-03	752,306.96
	511 N. Pomona, Fullerton CA	029-033-04	729,521.72
	509 N. Pomona, Fullerton CA	029-033-05	509,734.28
Dr. 10-1401	501 N. Pomona, Fullerton CA	029-033-06	909,204.70
Cr. 89-1401			\$2,900,767.66

Sylvina Kho
City of Fullerton

The journal entry in Figure 1 is incorrect. In government or fund accounting, each fund must balance independently. As a result, interfund transactions must be recorded using due to/from accounts rather than direct entries across funds. The journal entry that should have been posted is:

General Fund

Debit – Assets Held for Resale \$2.9 million
 Credit – Due to Other Funds (\$2.9 million)

Successor Agency

Debit – Due from Other Funds \$2.9 million
 Credit – Assets Held for Resale (\$2.9 million)

The journal entry that actually posted was:

General Fund

Debit – Assets Held for Resale \$2.9 million
 Credit – Claim on Cash (\$2.9 million)

Successor Agency

Debit – Claim on Cash \$2.9 million
 Credit – Assets Held for Resale (\$2.9 million)

This journal entry is not appropriate, as there was no exchange of cash between the two funds. On December 28, 2020, the following correcting entry was posted:

General Fund

Debit – Claim on Cash \$2.9 million

⁹ This figure uses common accounting abbreviations. “Dr” means debit; “Cr” means credit. The numbers next to the abbreviations correspond to general ledger accounts titled “Assets Held for Resale”.

Credit – Fund Balance (\$2.9 million)

Successor Agency

Debit – Fund Balance \$2.9 million

Credit – Claim on Cash (\$2.9 million)

This journal entry was also not appropriate and resulted in an overstatement of fund balance in the General Fund of \$2.9 million and a corresponding understatement in the Successor Agency.

Reversal of Transfer

Per Steven Avalos, who was Budget & Purchasing Manager at the time, the City determined in 2022 that the transfer of the property from the Successor Agency to the City was incorrect. Email communication documenting the decision was not provided, and it is unclear if such communication exists. When this was determined, the journal entries posted in 2020 should have been reversed, which would have corrected the errors in the General Fund. Instead, the following journal entry was posted:

General Fund

Debit – Claim on Cash \$2.9 million

Credit – Assets Held for Resale (\$2.9 million)

Successor Agency

Debit – Assets Held for Resale \$2.9 million

Credit – Claim on Cash (\$2.9 million)

This entry is also not appropriate. While it correctly addresses the assets held for resale, it introduces errors in claims on cash and does not address the fund balance errors recorded in 2020. These errors were corrected by the audit adjustment recorded in 2025.

Budget Process and Depletion of ~\$10 Million Unassigned Fund Balance

Beginning in FYE 2022, Fullerton began accumulating unassigned fund balance in the General Fund, meaning General Fund inflows exceeded outflows and the surplus was not otherwise assigned, committed, or restricted. The unassigned fund balance increased from ~\$4 million in FYE 2022 to ~\$10 million in FYE 2024, before being depleted in FYE 2025 (see table below).

Table 1: Unassigned Fund Balance¹⁰

	FYE 2022	FYE 2023	FYE 2024	FYE 2025
Unassigned Fund Balance	\$ 4,033,848	\$ 10,311,002	\$ 10,121,144	\$ -

The depletion of unassigned fund balance was the impetus for engaging GT Advisors as both City Council and the residents of Fullerton are unclear as to how the fund balance was depleted. Based on analysis of the budgeting process and analysis of documents¹¹ provided to City Council and presented in public meetings, unassigned fund balance appears to have been depleted due to planned budget deficits, correction of the \$2.9 million error described above, and changes in fund balance classifications. Confusion surrounding the reasons for the depletion was exacerbated by errors and unclear presentation

¹⁰ Unassigned fund balance amounts obtained from Annual Comprehensive Financial Reports for each year listed.

¹¹ Budget presentations for the City of Fullerton were prepared by Steven Avalos and Ellis Chang, who was Director of Administrative Services at the time.

of financial information.

Errors and Lack of Clarity in Budgeting Process

We reviewed materials presented to the City Council for the FYE 2025 budget. The budget was initially presented to City Council on April 23, 2024, and was approved by City Council on June 4, 2024. Both versions of the presented budget reflected a planned deficit of over \$9 million. At the time the budget was presented to City Council, complete financial results for FYE 2024 were not available. Projected actual results were not presented as part of the budget materials. Analysis of the documents provided to City Council at both of these meetings shows both errors in the presentation and presentation style that are unclear and confusing. Table 2 shows the FYE 2024 and FYE 2025 budgets as presented to City Council during the FYE 2025 budget process. Errors in the presentation are boxed in red, and items where presentation is unclear are boxed in orange:

Table 2: Budgets As Presented

	Adopted Budget FYE 2024	Proposed Budget FYE 2025 - 4/23/2024	Proposed Budget FYE 2025 - 6/4/2024
Beginning Fund Balance	\$ 29,248,686	\$ 27,011,519	\$ 27,011,519
Revenues	120,671,857	127,641,540	127,716,541
Transfers In:	7,150,000	1,320,164	1,320,164
Transfers In from Traffic Safety Fund	200,000	200,000	200,000
Transfers In from IT Fund - Server Loan	-	378,087	378,087
Transfers In from ARP-A Revenue Replacement	6,950,000	742,077	742,077
Total Revenues and Transfers In	127,821,857	128,961,704	129,036,705
Expenditures	(120,884,437)	(132,720,675)	(132,859,319)
Transfers Out:	(4,174,587)	(5,603,000)	(5,603,000)
Transfers Out to Infrastructure Fund	(2,674,587)	(2,926,062)	(2,926,062)
Transfers Out to Residential Streets (CIP)	(1,500,000)	(1,000,000)	(1,000,000)
Transfers Out of IT Fund - IT Projects		(1,676,938)	(1,676,938)
Total Expenditures and Transfers Out	(125,059,024)	(138,323,675)	(138,462,319)
Net Operating Surplus (Deficit)	2,762,833	(9,361,971)	(9,425,614)
MOE Reserve	(5,000,000)	5,000,000	5,000,000
Ending Fund Balance	\$ 27,011,519	\$ 22,649,548	\$ 22,585,905

Sources: Budget Presentation dated April 23, 2024 and Budget Presentation dated June 4, 2024

We noted the following issues with the budget presentation:

- Beginning Fund Balance does not match audited financials:** The beginning fund balance in the budget does not match the audit financial statements for FYE 2023. Per discussions with Steven Avalos, the beginning fund balance in the budget only shows what is “available for spending,” meaning only contingency reserve and unassigned fund balance. This is not clear in the budget presentation and limits the City Council’s ability to make changes to fund balance classifications to address budget concerns. Additionally, even after removing all classifications with the exception of the contingency reserve and unassigned fund balance, the beginning balance in the budget is ~\$468,000 less than the audited financial statements.
- MOE Reserve was not properly classified:** Per Steven Avalos, \$5,000,000 in fund balance was supposed to be classified as assigned in FYE 2024 for measure of effort reserves related to a funding match from Orange County for roads. This amount was never classified as assigned for

this purpose and remained in unassigned fund balance meaning it was not separately identified and could not be clearly incorporated into the budget presentation in FYE 2025.

- **Ending Fund Balance is not accurate:** The ending fund balance is not accurate due to the errors in beginning fund balance and the misclassification of the MOE Reserves. Additionally, visibility into how much of the ending fund balance consists of contingency reserves, which are assigned, and unassigned fund balance was not provided.
- **Net Operating Surplus (Deficit) is confusing:** The presentation of “Net Operating Surplus (Deficit)” includes transfers in and out in addition to revenues and expenditures. While not prohibited by generally accepted accounting principles, this presentation may obscure the extent to which the General Fund’s operations are supported by interfund transfers.

For comparison purposes, we recreated a schedule showing the classification of fund balance, as presented, between contingency reserves and unassigned fund balance – assuming the City maintained a contingency reserve balance at its goal level of 17 percent of expenditures:

Table 3: Remaining Fund Balance – as presented.

<i>Remaining Fund Balance:</i>	Adopted Budget FYE 2024	Proposed Budget FYE 2025 - 4/23/2024	Proposed Budget FYE 2025 - 6/4/2024
Contingency Reserve at 17%	\$ 20,550,354	\$ 22,562,515	\$ 22,586,084
Unassigned Fund Balance	\$ 6,461,165	\$ 87,033	\$ (179)

As shown in the table, the budgeted deficit in FYE 2025 would have depleted all of the unassigned fund balance in FYE 2025. The Proposed Budget presented to City Council on June 4, 2024 was approved in a 4-1 vote.

To demonstrate the effect the errors and presentation had on the budget, we prepared a corrected schedule with corrected fund balance, removal of the MOE reserves, and a corrected calculation of Net Operating Surplus (Deficit):

Table 4: Corrected Budget

	Adopted Budget FYE 2024	Proposed Budget FYE 2025 - Study Session	Proposed Budget FYE 2025 - Approval
Beginning Fund Balance - All Classifications	\$ 33,487,199	\$ 36,250,032	\$ 36,250,032
Contingency Reserve & Unassigned	\$ 29,717,407	\$ 32,480,240	\$ 32,480,240
Revenues	120,671,857	127,641,540	127,716,541
Expenditures	(120,884,437)	(132,720,675)	(132,859,319)
Net Operating Surplus (Deficit)	(212,580)	(5,079,135)	(5,142,778)
Transfers In:			
Transfers In from Traffic Safety Fund	200,000	200,000	200,000
Transfers In from IT Fund - Server Loan	-	378,087	378,087
Transfers In from ARPA Revenue Replacement	6,950,000	742,077	742,077
Transfers Out:			
Transfers Out to Infrastructure Fund	(2,674,587)	(2,926,062)	(2,926,062)
Transfers Out to Residential Streets (CIP)	(1,500,000)	(1,000,000)	(1,000,000)
Transfers Out of IT Fund - IT Projects		(1,676,938)	(1,676,938)
Net Surplus (Deficit) after Transfers	2,762,833	(9,361,971)	(9,425,614)
Ending Fund Balance - All Classifications	\$ 36,250,032	\$ 26,888,061	\$ 26,824,418
Contingency Reserve & Unassigned	\$ 32,480,240	\$ 23,118,269	\$ 23,054,626
<i>Fund Balance Detail</i>			
Contingency Reserve at 17%	\$ 20,550,354	\$ 22,562,515	\$ 22,586,084
Unassigned Fund Balance	\$ 11,929,886	\$ 555,754	\$ 468,542

Sources: Budget Presentation dated April 23, 2024 and Budget Presentation dated June 4, 2024

This presentation shows beginning fund balance agrees to the audited financial statements and clarifies the amounts classified as contingency reserves and unassigned fund balance. Additionally, the MOE reserves that were never assigned are removed from the calculation. We have also moved transfers below Net Operating Surplus (Deficit), which demonstrates that the General Fund budgeted to operate at a deficit in FYE 2025 prior to any transfers to or from other funds. The revisions demonstrate that even with the corrections, unassigned fund balance would have been mostly depleted in FYE 2025 using the approved budget, and assuming a contingency reserve balance of 17 percent of expenditures.

Depletion of ~\$10 million in Unassigned Fund Balance

While the FYE 2025 budget anticipated depleting most of the unassigned fund balance, the actual financial results varied significantly from budget, leading to questions about why the fund balance was completely depleted in FYE 2025 and why contingency reserves dropped from 17 percent of expenditures to 14 percent of expenditures. Table 5 shows the actual financial results from the audited financial

statements for both FYE 2024 and FYE 2025:

Table 5: Actual Financial Results

	FYE 2024	FYE 2025
Beginning Fund Balance - All Classifications	\$ 33,487,199	\$ 38,656,835
Contingency Reserve & Unassigned	\$ 29,717,407	\$ 31,196,742
Revenues	123,608,312	136,604,460
Expenditures	(123,978,000)	(144,051,221)
Net Operating Surplus (Deficit)	(369,688)	(7,446,761)
Transfers In	7,261,334	1,017,328
Transfers Out	(1,872,125)	(5,552,858)
Other Financing Sources	150,115	6,267,992
Net Surplus (Deficit) after Transfers	5,169,636	(5,714,299)
Restatements - correction of an error		(2,900,768)
Ending Fund Balance - All Classifications	\$ 38,656,835	\$ 30,041,768
Contingency Reserve & Unassigned	\$ 31,196,742	\$ 19,827,681
<i>Fund Balance Detail:</i>		
Contingency Reserve	\$ 21,075,598	\$ 19,827,681
Unassigned Fund Balance	\$ 10,121,144	\$ -
Contingency as a % of Expenditures	17%	14%

Source: Annual Comprehensive Financial Reports for FYE 2024 and FYE 2025

As the table demonstrates, the net operating deficit for the General Fund exceeded budget. However, the change in fund balance was affected by adjustments classified as “other financing sources”¹² and by the prior period adjustment correcting the \$2.9 million error. Additionally, increases in amounts classified as assigned, committed, and restricted further reduced unassigned fund balance and the contingency reserve. We were able to recalculate the depletion of the \$10 million unassigned fund balance within \$290. See table 6 below:

¹² Per discussion with Steven Avalos and analysis of the ACFR for FYE 2025, the amounts included in “other financing sources” related to journal entries recorded to account for leases and subscriptions in accordance with Governmental Accounting Standards Board (“GASB”) statements 87 and 96. Confirmation of the accuracy of these entries is outside of the scope of our engagement.

Table 6: Depletion of Unassigned Fund Balance

Beginning Unassigned Fund Balance	\$	10,121,144
Less: FYE 2025 Operating Deficit		(7,446,761)
Less: FYE 2025 Net transfers		(4,535,530)
Add: FYE 2025 Other financing sources		6,267,992
Less: \$2.9 million error correction		(2,900,768)
Less: Increase in Assigned, Committed, Restricted Fund Balances		(2,754,284)
Remaining Unassigned Fund Balance	\$	(1,248,207)
Reduction in Contingency Reserve	\$	1,247,917
<i>Unexplained difference</i>	\$	<i>(290)</i>

Observations and Recommendations

The following observations and recommendations are based on our review of the City’s financial records, supporting documentation, and information presented to City Council. These observations are intended to highlight areas where accounting treatment, financial reporting, and budget presentation could be improved to enhance clarity, consistency, and transparency. The recommendations are designed to provide practical steps the City can take to strengthen financial management processes and support informed decision-making:

1. Financial Governance and Oversight Structure

Observation: The issues identified in this report, including errors in accounting treatment, lack of clarity in budget presentation, and limited transparency into changes in fund balance, indicate that financial oversight is not supported by a clearly defined governance structure. Financial reporting, budgeting, and fund balance monitoring appear to be performed without a formal structure for detailed review and accountability. In addition, turnover in key financial leadership positions may contribute to inconsistency in financial practices.

Recommendation: The City should formalize its financial governance structure to strengthen oversight and consistency in financial management. This should include establishing a standing finance committee of the City Council to review financial information and designating a senior financial leadership role (e.g., Chief Financial Officer) responsible for oversight of accounting, financial reporting, and budgeting functions.

2. Accounting for Interfund Transactions and Financial Reporting

Observation: The City did not consistently apply appropriate accounting treatment for interfund transactions involving the transfer of assets between the General Fund and the Successor Agency. Specifically, transactions were recorded using cash and fund balance accounts rather than due to/from accounts, resulting in misstatements of financial position. In addition, subsequent correcting entries did not fully address the original errors, which contributed to the need for a \$2.9 million prior period adjustment.

Recommendation: The City should establish and implement standardized procedures for recording interfund transactions consistent with generally accepted accounting principles for governmental entities. These procedures should require that non-cash interfund activity be recorded using due to/from accounts so that each fund reflects its financial position independently. Procedures should also require that journal entries are supported by clear documentation describing the nature of the transaction and its appropriate accounting treatment. In addition, non-routine journal entries should be reviewed and approved by qualified accounting personnel prior to posting.

3. Budget Presentation and Transparency

Observation: Budget materials presented to City Council did not clearly reconcile to audited financial statements and did not consistently distinguish between total fund balance, contingency reserves, and unassigned fund balance. In addition, the presentation of “Net Operating Surplus (Deficit)” included transfers in and out, which may obscure the extent to which General Fund operations are supported by interfund activity. These factors limited the ability of the City Council and the public to clearly understand the City’s financial position and the drivers of changes in fund balance.

Recommendation: The City should enhance budget presentation and supporting materials to improve transparency and clarity. Budget documents should include a reconciliation between audited fund balance and budgeted beginning fund balance and clearly present fund balance by classification, including contingency reserves and unassigned amounts. The City should also present operating results separately from transfers and other financing activities to provide greater visibility into the underlying financial condition of the General Fund.

4. Fund Balance Monitoring and Reporting

Observation: The depletion of unassigned fund balance resulted from a combination of planned operating deficits, prior period adjustments, and changes in fund balance classifications. However, these changes were not presented in a consolidated or clearly traceable manner within budget or financial reporting materials, contributing to confusion regarding the drivers of fund balance depletion.

Recommendation: The City should implement enhanced monitoring and reporting of fund balance, including the preparation of periodic rollforwards that clearly identify changes by category. Reporting should include beginning balances, operating results, transfers, adjustments, and classification changes. This information should be presented in a consistent format to support informed decision-making by City Council and improve transparency for the Public.

5. Financial Policy Design and Clarity

Observation: The City’s Statement of Financial Policies establishes high-level guidance for financial management but relies primarily on general and aspirational statements and does not provide sufficient operational details regarding budgeting practices, fund balance classification, or financial reporting. As a result, the policy may not provide clear guidance to support consistent implementation, particularly during periods of staff turnover or changes in responsibility.

Recommendation: The City should review and update its financial policy to improve clarity and operational usefulness. The revised policy should include more specific guidance related to budgeting processes, fund balance classifications, and financial reporting expectations. In particular, the policy should clearly define how fund balance is measured, monitored, and presented, and establish expectations for consistency between budget documents and audited financial statements.