Agenda Item: 14.A
Date of Meeting: August 24, 2026
Department: Finance

STAFF REPORT

To:	City Council
From:	Ethan Aukee
Subject:	**Acknowledgment of Fiscal Year 2025-26 Police Department Budget Variance and Ratification of Corrective Actions**
Prepared On:	August 11, 2026

Background/History:

During the Fiscal Year 2025-26 year-end closing process, Finance staff identified accounting adjustments required in connection with the City's implementation of Governmental Accounting Standards Board Statement No. 96 (GASB 96) that are expected to cause Police Department expenditures to exceed the department's final expenditure budget.

The primary driver of the variance is an approximately $200,100 Flock Safety subscription arrangement that was paid in advance and reported as a prepaid asset at June 30, 2025. The applicable subscription arrangement commenced during Fiscal Year 2025-26, requiring the prepaid amount to be reclassified and recognized as governmental fund capital outlay during the current fiscal year, with the related subscription asset recognized and amortized over the agreement term for government-wide financial reporting purposes.

Additional GASB 96 year-end entries also require recognition of governmental fund expenditures together with corresponding other financing sources. As a result, the projected departmental variance is attributable to the timing and technical accounting treatment required for subscription arrangements rather than additional Fiscal Year 2025-26 cash spending.

Finance identified the resulting budgetary impact during the normal year-end closing process and is bringing the matter to the City Council prior to completion of the Fiscal Year 2025-26 annual audit.

Analysis/Discussion:

The City's audited financial statements provide that actual expenditures may not exceed budgeted appropriations at the fund level. They further provide that management may modify individual budget line items within established limits, but that the overall departmental budget may not be exceeded without City Council approval.

Finance has reviewed available Police Department appropriations and made, or will make, management-level adjustments within existing authority where appropriate. Following those adjustments, the Police Department is currently projected to exceed its Fiscal Year 2025-26 departmental expenditure budget by approximately $25,310.52, subject to completion of all remaining year-end closing activity.

Of this projected departmental expenditure variance, approximately $22,185 relates to GASB 96 accounting entries that are accompanied by an equal other financing source. This accounting presentation increases reported governmental fund expenditures but provides an offsetting financing source and therefore does not, by itself, reduce General Fund fund balance. This treatment is consistent with GASB 96 requirements for initial recognition of applicable subscription obligations. The City's prior audited financial statements similarly present subscription obligations as other financing sources in governmental funds.

The remaining approximately $3,125.52 of the projected departmental expenditure variance does not have a corresponding GASB 96 other financing source. This distinction does not eliminate the approximately $25,310.52 departmental expenditure variance for budgetary-control purposes; however, it provides important context regarding the nature and financial effect of the variance.

Total General Fund expenditures are not anticipated to exceed the General Fund's overall appropriation. The matter is therefore limited to the Police Department's departmental budgetary control level.

Staff is not recommending that the City Council retroactively amend the Fiscal Year 2025-26 adopted budget. Instead, this action is intended to formally acknowledge the condition identified during closing, document management's response, and provide a clear record of the corrective steps taken prior to completion of the annual audit.

Finance will record all year-end accounting activity in the appropriate fiscal period regardless of the resulting budgetary variance. This ensures that the City's financial records accurately reflect the underlying transactions rather than altering accounting treatment to achieve a particular budgetary result.

Finance acknowledges that the potential departmental budget impact associated with these year-end accounting requirements should have been identified earlier in the fiscal year. The resulting variance is primarily attributable to the timing and technical accounting treatment of subscription arrangements identified during year-end closing and **is not reflective of the Police Department's management of its operating budget**. Finance has incorporated additional year-end review procedures to improve identification of similar budgetary impacts in future periods.

As a corrective measure, Finance will incorporate a specific review of prepaid expenditures, leases, subscription arrangements, and other significant year-end accounting items into the City's year-end budget monitoring process so that potential departmental budget impacts can be identified, when practicable, prior to fiscal year-end.

Council action will document management's identification of the variance, evaluation against the City's established budgetary-control requirements, use of available management-level adjustment authority, disclosure to the City Council, and implementation of an additional control procedure intended to reduce the likelihood of recurrence.

Impacts to Council Goals and Strategic Planning Priorities:
The proposed action supports the City Services and Functionality strategic priority by promoting responsible budgeting, transparent financial reporting, and improved internal controls. It also supports Public Safety by ensuring Police Department financial activity is accurately reported and appropriately monitored.

Budget Impacts:

The proposed action does not authorize an additional cash expenditure.

The primary driver of the year-end budgetary impact is approximately $200,100 in previously paid Flock Safety subscription-related costs that were carried as prepaid expenses pending commencement of the subscription arrangement. Under the applicable GASB 96 accounting treatment, the prepaid amount becomes subject to recognition as governmental fund capital outlay when the subscription commences, with the related subscription asset recognized and amortized over the agreement term for government-wide financial reporting purposes.

Because the cash expenditure occurred in the prior fiscal year, this accounting treatment creates a significant Fiscal Year 2025-26 expenditure recognition without a corresponding Fiscal Year 2025-26 cash outlay. This timing and classification issue was identified during the technical year-end closing process.

Following management-level budget adjustments, the Police Department is currently projected to exceed its Fiscal Year 2025-26 departmental expenditure budget by approximately $25,310. Approximately $22,185 of that amount relates to separate GASB 96 expenditure recognition accompanied by an equal other financing source. Approximately $3,125 of the projected departmental variance is not accompanied by a corresponding GASB 96 financing source.

Total General Fund expenditures are not anticipated to exceed the General Fund's overall appropriation.

Legal Review:
The City Attorney has reviewed this item and finds that the recommended action complies with the law.

Recommended Action:
Acknowledge the anticipated Fiscal Year 2025-26 Police Department expenditure budget variance identified during year-end closing; ratify management-level budget adjustments made within existing authority; authorize the Finance Director to record all accounting entries necessary to properly close Fiscal Year 2025-26; and direct staff to implement additional year-end budget monitoring procedures and provide the resulting documentation to the City's independent auditor.

Approved By: Ethan Aukee 8/11/2026
Approved By: Alison Bishop 8/12/2026
Approved By: Dean Pucci 8/12/2026
Approved By: Pam Foster 8/17/2026