City of Los Banos
At the Crossroads of California

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January 20, 2026

Honorable Mayor,
Members of the City Council, and
Citizens of the City of Los Banos

SUBJECT: Annual Comprehensive Financial Report – June 30, 2025

We are pleased to submit the Annual Comprehensive Financial Report (ACFR) of the City of Los Banos (City) for the fiscal year ended June 30, 2025. This report is published in accordance with local ordinance and state law requirements that financial statements be presented in conformity with Generally Accepted Accounting Principles (GAAP) and audited in accordance with Generally Accepted Auditing Standards by a firm of licensed certified public accountants.

This report consists of management's representations concerning the finances of the City. Management assumes full responsibility for the completeness and reliability of all information presented in this report. In order to provide a reasonable basis for making these representations, management of the City has established an internal control framework designed both to ensure the assets of the government are protected from loss, theft or misuse, and to ensure adequate accounting data is compiled to allow for the preparation of the financial statements in conformity with GAAP. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. As a recipient of federal, state, and local financial assistance, the City is also responsible for ensuring that an adequate internal control structure is in place to ensure and document compliance with applicable laws and regulations related to the appropriate programs. This internal control structure is subject to periodic evaluation by management.

CliftonLarsonAllen LLP, a firm of licensed certified public accountants approved by the City Council, has audited the City's financial statements. The goal of the independent audit is to provide reasonable assurance that the financial statements of the City for the fiscal year ended June 30, 2025 were free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation.

CliftonLarsonAllen LLP concluded that there is reasonable basis for rendering an unmodified ("clean") opinion for the City's financial statements for the fiscal year ended June 30, 2025, were fairly presented in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

In addition, the City may be required to undergo an annual Single Audit in accordance with the provisions of the Federal Single Audit Act and Title 2 of the U.S. Code of Federal Regulations, Part 200. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on internal controls and compliance with legal requirements related to the administration of federal awards. The Single Audit, when required, is issued separately from this ACFR. However, for the current fiscal year, a Single Audit of federal awards was not required, as the City did not expend federal awards in excess of the applicable expenditure threshold.

Generally accepted accounting principles require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A).

This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City's MD&A can be found in the financial section of this document, immediately following the report of the independent auditor.

Profile of the City Los Banos

The City, incorporated in 1907 as a General Law City has a population of 47,419 and is the second largest city in Merced County. The City is located near the geographical center of California in the San Joaquin Valley approximately 70 miles northwest of Fresno, 80 miles east of the Pacific Ocean and 120 miles south of Sacramento. The Crossroads of California describes Los Banos because State Highway 33, 165 and 152 pass through the City and Interstate 5 is six miles to the west. Los Banos is famous for its agricultural products, including melons, almonds, walnuts, apricots, cotton, tomatoes, and dairy products.

The City delivers a full range of municipal services which include Police, Fire, Community and Economic Development, Recreation, Park Maintenance, Streets, Solid Waste, Street Sweeping, Water and Sewer under the Council-Manager form of government. The City Council meets the first and third Wednesdays of every month. Policy making and legislative authority are vested in the City Council, which consists of a mayor and four Council Members. The Mayor is elected at-large by the people and serves a two-year term. Four Council Members, a City Clerk, and a City Treasurer are elected and serve four-year terms. The City Manager is appointed by the City Council and is responsible for implementing policies and overseeing the day-to-day operations of the City.

The City Council is required to adopt a budget no later than the close of the prior fiscal year. The budget is prepared by fund (e.g., General Fund) and department (e.g., Police). After adoption, departmental adjustments may be done with the approval from the City Manager provided that there is no change to the fund balance. Budget amendments to increase appropriations may be taken to the City Council for their approval throughout the year.

Local Economy

The economic condition and outlook at the national, state, and city levels play a vital role in shaping community dynamics. In Los Banos and Merced County, economic forecasts continue to show encouraging signs of recovery. Retail stores, fitness centers, and restaurants are operating at full capacity, driving improvements in sales and transient occupancy tax revenues within our city. Indicators of economic recovery are promising, with inflation trending downward and recent Federal Reserve rate cuts enhancing the overall outlook. However, some challenges remain, including elevated oil prices, the persistent risk of stagflation, and sale tax leakage to other jurisdictions outside of Merced County.

The unemployment rate for the City has risen to 13.4% from 12.10% the previous year. Meanwhile, Merced County experienced a decrease in unemployment, falling to 8.50% from 9.60% of the prior year. California's unemployment rate saw a slight uptick, moving from 5.30% to 5.60%. This according to the Bureau of labor statistics Metro Area employment and unemployment. Recognizing employment as a vital component of the local economy, City staff continues to collaborate with two recruitment firms to attract potential businesses to the community. These partnerships—one with a retail recruiter and the other with an industrial recruiter—are aimed at soliciting national retailers, major businesses, and industries to establish themselves in the City of Los Banos.

As more businesses relocate to the City through these efforts, the community stands to benefit significantly from job creation, increased sales tax revenue, and a broader property tax base. During the 2024/25 fiscal year, five (5) commercial building permits were issued, including tenant improvements for Kagome, Ono Hawaiian BBQ, Dutch Bros, UG Plumbing & Electrical, and Los Banos Express Car Wash. Other finalized commercial projects includes El Pollo Loco and Starbuck. Additionally, in the residential sector, over 145 new permits were issued, and 53 permits were finalized. Rising costs of construction and interest rates have caused a slowdown in the housing market. Despite these challenges, we anticipate a gradual recovery in residential permits during Fiscal Year 2025/26.

Long Term Financial Planning

The City adopts an annual budget, which serves as the cornerstone of its financial planning and control framework. These measures are designed to ensure compliance with the legal provisions outlined in the annual appropriated budget approved by the City Council. Budgetary oversight is maintained at the departmental level for the General Fund and at the fund level for all other funds. Department heads, with the City Manager's approval, may reallocate resources within their departments. Additionally, the City Council may amend funds through an affirmative vote during any regular or special City Council meeting.

To reinforce fiscal stability and emergency preparedness, the City Council has established a policy to maintain a 30% General Fund reserve. The City also incorporates a 5-year Capital Improvement Plan with the budget approval process. This plan is a tool that is used for strategic decision making and presents further context for balancing short-term and long-term goals.

Retirement contribution rates have increased in recent years due to CalPERS policy changes, including a shortened amortization period for unfunded accrued liabilities and the phased reduction of the discount rate adopted in prior years. Although CalPERS achieved a favorable 11.6% investment return, the discount rate remained at 6.9%, resulting in an overall funded status of approximately 79%. As a result of recent investment performance and stabilized assumptions, employer contribution rates are projected to level off over the next several years.

In anticipation of these challenges, the City has assigned $2,000,000 to mitigate the impact of increased employer contribution rates. Strategies under consideration include investing in a Section 115 Trust, reducing the unfunded accrued liability, or using the funds to offset future employer contributions. These efforts underscore the City's commitment to sound fiscal management and long-term financial resilience.

Even with sound financial planning and long-term forecasting, not all future outcomes can be predicted. In recognition of this uncertainty, the City has taken proactive steps by building financial reserves, adopting strong fiscal policies, and approving key revenue measures to support City services. Nevertheless, like other public agencies, the City will continue to face unmet needs in an environment of limited resources.

Major Achievements and Future Objectives

The City's continued exploration of new revenues sources as well as expense management has proven positive in its efforts as the City strives to keep up with personnel, infrastructure and equipment needs. There is an outlined five-year Capital Improvement Plan in the current budget to recognize capital needs throughout the City.

Some of those objectives by department are highlighted as follows:

Administration
- ERP Tyler Software Project

Community and Economic Development
- Downtown Gateway Signage
- Civic Center Project
- Tyler Land Management and Permitting System

Police
- Fleet Replacement
- Body Cameras

Fire
- Fire Station #4 and EOC
- Fire Station #3

Streets
- Street Overlay Rehabilitations
- Alley Overlays
- Pioneer Road Widening Project
- Transportation masterplan updates

Parks & Recreation
- Pickleball Courts
- Ag Sports Complex Improvements
- Colorado Ball Park Improvements

Utilities
- Mercey Springs Water Line
- Sewer Lift Stations Rehabilitations
- Water quality and treatment – Chromium 6
- Water, Sewer, and Storm Drain masterplan updates

Solid Waste

- Old Landfill Closure

Facilities Maintenance

- ADA Transition Plan
- HVAC Replacement

Information Technology

- Desktop/Laptop Replacement
- Network/Server Replacement
- City facilities interconnectivity
- SB 707 implementation

Cash Management

The City finance staff focuses on safety, liquidity and yield of investments. The highest priority of cash management and investments is to ensure adequate funds are available to meet the City's obligations and all investments are in safe instruments. Yield, while important, is considered in third priority after safety and liquidity. The City invests in the Local Agency Investment Fund (LAIF) operated by the state for the benefit of local governments. The City also has investments in Wells Fargo Institutional Securities. Bond proceeds, debt service monies, debt service reserves, etc. are invested according to the bond covenants of each issue. Finance staff continues to work on updating the City's investment policy in order to improve the rate of returns on the City's investments, while still maintaining the safety and liquidity needs of the City.

Awards and Acknowledgments

The City submitted an application for the Government Finance Officers Association of the United States and Canada (GFOA) award of a Certificate of Achievement of Excellence in Financial Reporting to the City of Los Banos for its annual comprehensive financial report for the fiscal year ended June 30, 2024. The City's application is still under review. For nine consecutive years, the City has achieved this prestigious award. In order to receive the Certificate of Achievement, a government must publish an easily readable and efficiently organized annual comprehensive financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current annual comprehensive financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

We would like to recognize the Mayor and City Council for their guidance and support in the City's pursuit of excellence in financial reporting. The preparation of the Annual Comprehensive Financial Report (ACFR) was made possible by the dedicated service of the entire Finance Department staff. We are profoundly proud of the ACFR and our department is committed to producing financial statements that are accountable and informative to the public. Credit must also be given to all members of the departments who assisted and contributed to the preparation of this report. The City continues to strive to maintain fiscal sustainability, efficiency in services, and a safe and healthy community for our citizens to live and thrive.

Respectfully submitted,

Minerva Moreno
Finance Director

Soknirorn Than
City Manager