

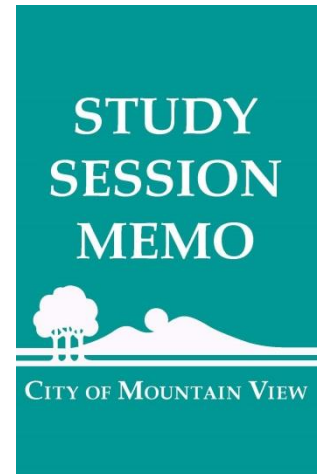
DATE: December 12, 2017

TO: Honorable Mayor and City Council

FROM: Grace Zheng, Accounting Manager
Patty J. Kong, Finance and Administrative
Services Director

VIA: Daniel H. Rich, City Manager

TITLE: **Comprehensive Annual Financial Report and
Other Related Reports for the Fiscal Year
Ended June 30, 2017**



PURPOSE

1. Hear and discuss comments by staff and Mr. David Bullock of Macias Gini & O'Connell, LLC (MGO), the City's external auditors, regarding the City's financial audit and Comprehensive Annual Financial Report for the fiscal year ended June 30, 2017.
2. Review the following financial and independent auditor's reports pertaining to the fiscal year ended June 30, 2017:
 - City of Mountain View Comprehensive Annual Financial Report and Independent Auditor's Reports (Attachment 1).
 - Single Audit Report (Attachment 2).
 - Article XIII-B Appropriations Limit (Attachment 3).
 - Pedestrian/Bicycle Facilities Grant (Attachment 4).
 - Report to the City Council – Required Communications (Attachment 5).

These reports are attached and are available for public review at the City Clerk's Office, the Library, and the Council Agenda page of the City's website (www.mountainview.gov).

BACKGROUND

In accordance with Section 1106 of the City Charter, the City Council employs an independent certified public accountant who shall examine the books, records, inventories, and reports of all officers and employees who receive, handle, or disburse public funds. The City Council appointed MGO, an experienced firm specializing in

audit services for California public agencies, to perform the functions of the independent certified public accountant as set forth in the City Charter for Fiscal Year 2016-17.

Charter Section 1106 also requires after the end of each fiscal year that a final audit and report be submitted by the independent certified public accountant to the City Council. City Council Policy B-6, Selection of External Auditor, requires the external auditor to present the results of the annual audit and any findings at a Study Session of the City Council. Mr. David Bullock of MGO will be present at this Study Session to discuss the audit with the Council.

The auditor's opinion letter is at the beginning of the Financial Section in the attached Comprehensive Annual Financial Report (CAFR). The CAFR contains financial information and data regarding City finances and economics in addition to the final audited financial statements. The report was prepared in accordance with generally accepted accounting principles (GAAP) and audited in compliance with the independence requirements stated in Government Auditing Standards, issued by the Comptroller General of the United States.

DISCUSSION

City of Mountain View Comprehensive Annual Financial Report and Independent Auditors' Reports

The CAFR includes all funds and account groups and component government entities of the City of Mountain View (City) and is presented in four sections:

- Introductory;
- Financial;
- Statistical; and
- The Mountain View Shoreline Regional Park Community.

A description of the information contained in each section is as follows:

The Introductory Section includes a letter of transmittal, a directory of principal officials, an organizational chart of the City, and the Government Finance Officers Association (GFOA) award.

The Financial Section includes the independent auditor's report on the financial statements and schedules, management's discussion and analysis (MD&A) regarding management's analysis of the financial information in the report, the basic financial statements, the notes to the financial statements, the required supplementary

information (RSI), and the other supplementary information, which includes the non-major governmental funds, internal service funds, and agency funds.

The Statistical Section includes tables containing historical financial data, debt statistics, and miscellaneous social and economic data of the City that may be of interest to potential investors in the City's bonds and to other readers. The data includes 10-year revenue and expenditure information, as well as 10 years of net position/fund balance information.

In accordance with legal requirements, a separate independent audit report is presented with the combined financial statements of the Mountain View Shoreline Regional Park Community (Shoreline Community), a blended component unit of the City.

The CAFR has been prepared using the expanded financial reporting requirements as prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. The first two basic financial statements, the statement of net position and the statement of activities (Pages 19 and 20, respectively) present information on a government-wide, full-accrual accounting basis which reflects the overall financial position of the City and its various funds. This is different from the amounts available for budgetary purposes.

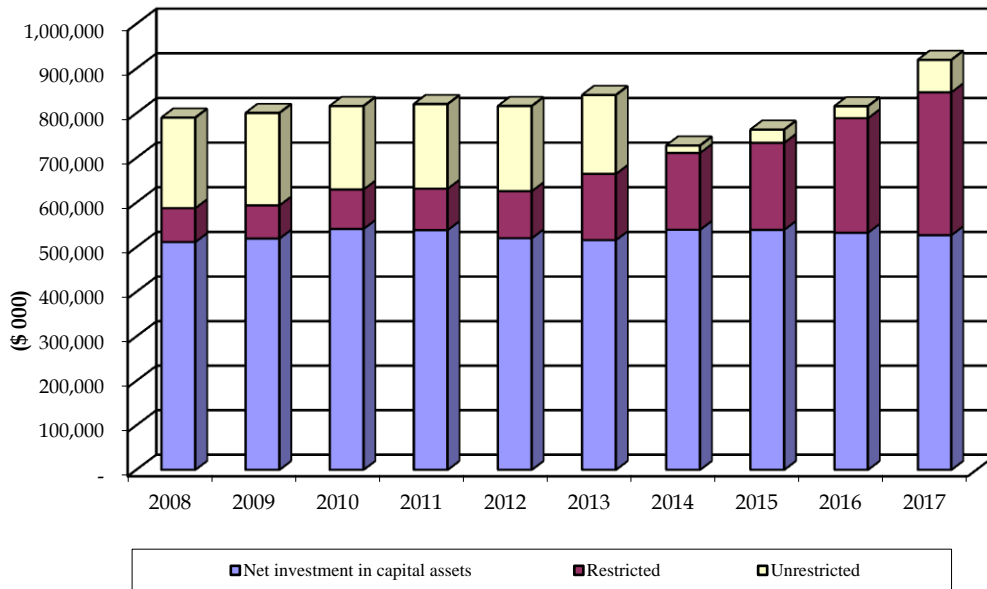
Fund information is also presented for major funds individually and non-major funds combined in a single column in the basic financial statements. The Shoreline Regional Park Community, the Housing, the General Capital Projects, and Park Land Dedication Funds meet the criteria of major funds and are reported separately in the Governmental Fund schedules. Budgetary comparisons are presented as part of the basic financial statements for the major funds that have legally adopted budgets, except the budgetary comparison for Park Land Dedication Capital Projects Fund is presented as part of the Other Supplementary Information.

Staff suggests Councilmembers may wish to focus their attention on the MD&A (Pages 3 through 18). The MD&A provides a narrative introduction, overview, and analysis of the basic financial statements. The notes to the basic financial statements (Pages 41 through 106) provide required detailed disclosures and a description of the financial statements.

The Statement of Net Position (Page 19) may serve as a useful indicator of a government's financial position. The City (in total, all funds) has a positive net position of \$919.6 million at fiscal year-end. The City's total net position increased by \$103.8 million over the prior fiscal year. The increase is primarily the result of higher revenues during the fiscal year due to increases in property taxes and development-related contributions and fees (Housing, Park Land Dedication, etc.) associated with

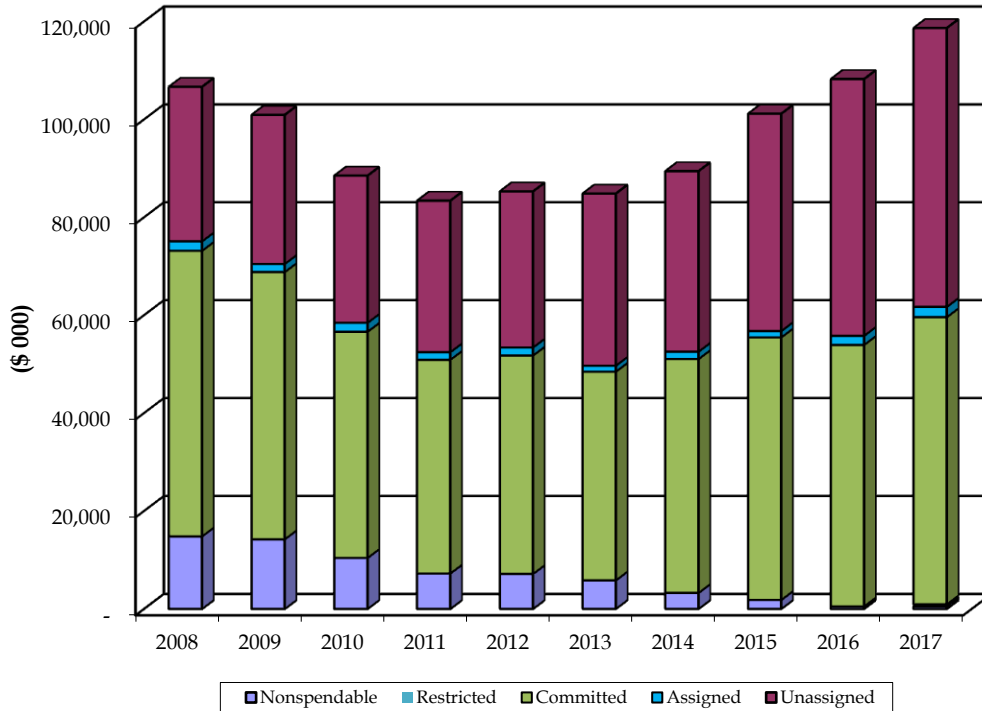
development activity and the continued strong economy. The largest portion of net position, \$527.1 million, represents the net investment in capital assets. Restricted net position of \$320.0 million are resources that are subject to external restrictions on how they may be used. The remaining \$72.5 million represents unrestricted net position and may be used to meet the City’s ongoing obligations. The unrestricted net position is Citywide and does not represent current resources available for budgetary purposes.

A trend of the City’s net position by component for governmental and business-type activities is as follows:



For results on a fund basis (Pages 22 to 27), total governmental fund balances increased by \$85.3 million from the prior fiscal year. The significant components for the increase are increases of \$30.0 million in the General Capital Projects Fund, \$19.1 million in Other Governmental Funds, \$14.8 million in the Shoreline Regional Park Community Fund, \$10.4 million in the General Fund, \$8.9 million in the Housing Fund, and \$2.1 million in the Park Land Dedication Capital Projects Fund. The increases in the General Fund and the Shoreline Community Fund are primarily related to increases in taxes, with increases in the Housing Fund and Park Land Dedication Capital Projects Fund primarily due to development-related fees generated from the current high level of development activity. The increase in Other Governmental Funds is also primarily due to increased development activity, generating additional in-lieu fees in the Other Developer Fees Funds.

A trend of the City’s General Fund Balance is as follows:



For the fiscal year ended June 30, 2017, revenues for governmental funds increased by \$51.3 million (24.8 percent) to \$258.6 million, and expenditures increased by \$4.3 million (2.6 percent) to \$168.2 million from the prior fiscal year. This is due to general increases in all funds offset by a decrease of \$2.9 million in Other Governmental Funds. The decrease is primarily related to the final repayment of debt in the prior fiscal year. For the fiscal year ended June 30, 2017, revenues for all governmental funds exceeded expenditures by \$90.4 million. This is prior to any Other Financing Sources, including transfers out, and primarily represents funds to be accumulated for housing and capital projects.

Incorporated within the CAFR at the beginning of the Financial Section is the annual Independent Auditor’s Report as required by the City Charter. In the auditor’s opinion, the basic financial statements present fairly, in all material respects, the financial position of the City as of June 30, 2017. The opinion is unmodified, in other words is considered a “clean” opinion.

The CAFR is the major document used to communicate the City’s financial condition. It is distributed to various bond-rating agencies, investors in City debt, educational institutions, and the State Controller for use in evaluating City finances. Standard and Poor’s reconfirmed the City’s underlying “AAA” credit rating in July 2014.

As noted above, the financial statements in the CAFR are prepared on a GAAP basis. It should be noted the net position and fund balances reported in the CAFR do not reconcile in all funds to the budget report or the annual budget document. This is because the CAFR aggregates funds for reporting purposes (i.e., all General Fund and General Fund Reserves are grouped and are reported as the General Fund, etc.) and net position and fund balances (equity) are reported in the CAFR without regard to availability of funds for current budgetary purposes. Balances used in the budget are those amounts which are available in the coming fiscal year. There were no major findings as a result of the audit that would impact the balances used for the Fiscal Year 2017-18 Budget.

A detailed analysis of the audited financial results for the General Operating Fund for Fiscal Year 2016-17 is attached to the Council Report for the CAFR on the Council's Consent agenda for this evening. In that report, staff presents the Fiscal Year 2016-17 financial position of the General Operating Fund of the City adjusted, as necessary, for budget purposes.

Single Audit Report

As a recipient of Federal and State funds, the City is responsible for ensuring that an adequate internal control structure is in place in order to maintain compliance with applicable laws and regulations related to the purpose of the funds.

As part of the City's single audit, tests were performed to determine the City's compliance with the types of requirements that could have a direct and material effect on the City's major federal programs in accordance with Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The results of the City's single audit for Fiscal Year 2016-17 indicated no compliance findings or instances of significant deficiencies or material weaknesses for the City's internal control over compliance for its major federal programs.

Report on Compliance with the Appropriations Limit Increment

Article XIII (B) of the State Constitution, also known as the Gann Amendment, established an annual appropriations limit for governmental entities and specified certain indicators to be used in calculating the annual appropriations limit increase. The appropriations limit calculation for Fiscal Year 2016-17 is \$242,260,201. The appropriations subject to limitation total is \$81,914,959, and accordingly, the City is substantially under the Constitutional limit on appropriations funded from taxes.

Bicycle/Pedestrian Projects

The City receives allocations of Transportation Development Act funds for pedestrian and bicycle projects through the Metropolitan Transportation Commission (MTC). The regulations relating to these allocations require a separate audit report be prepared.

The results of the audit show the City presented the information fairly and that it was in compliance with regulations governing these allocations.

Report to the City Council – Required Communications

As part of the City's annual external audit, MGO reviews and comments on the City's internal control over financial reporting for the purpose of the audit of the financial statements. The comments are intended to advise management of the existence of any material weaknesses in the City's internal control. In addition, the report provides assistance to City staff for improving its records and operations and communicates other advisory information, such as future accounting and reporting requirements that may have an effect on the City.

No material weaknesses were noted by MGO in the City's internal control. A material weakness is a significant deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis.

The last part of this report is the required communications from MGO. The purpose of this report is to provide timely observations, arising from the audit, that are relevant to the Council's responsibility of oversight. Statement on Auditing Standards 114 (SAS 114), *The Auditor's Communication with Those Charged with Governance*, details the significant matters encountered during the audit that should be communicated to Council. They may include changes in accounting policies, unusual transactions, controversial or emerging areas, unacceptable or inappropriate accounting practices, difficulties experienced during the audit, corrected or uncorrected misstatements in the financial statements, disagreements with management, management's consultation with other accountants, significant matters discussed with management, and other audit findings or issues.

MGO included communications related to new GASB pronouncements that were implemented during the reporting period as follows:

1. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*;
2. Statement No. 77, *Tax Abatement Disclosures*;

3. Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*; and
4. Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*.

It is noted the implementation of these statements did not have a significant impact on the City for the fiscal year ended June 30, 2017. They also noted there were no disagreements with management, audit adjustments proposed by MGO that would have a significant effect on the financial statements, and there were no misstatements identified during the audit to report.

Mr. David Bullock, Partner at MGO, and staff will be present to address Council questions.

RECOMMENDATION

Accept and acknowledge the City of Mountain View's comprehensive annual financial report and other related reports for the fiscal year ended June 30, 2017 at the Council's meeting of December 12, 2017.

NEXT STEPS

Council is being presented the financial reports at their meeting later this evening for acceptance and acknowledgement.

PUBLIC NOTICING – Agenda posting.

GZ-PJK/5/CAM
525-12-12-17SS-E

- Attachments:
1. City of Mountain View Comprehensive Annual Financial Report and Independent Auditor's Reports
 2. Single Audit Report
 3. Article XIII-B Appropriations Limit
 4. Pedestrian/Bicycle Facilities Grant
 5. Report to the City Council – Required Communications