

**MEMORANDUM**

Finance and Administrative Services Department

DATE: December 6, 2023

TO: Council Finance Committee

FROM: Helen He, Accounting Manager
Derek Rampone, Finance and Administrative Services Director

SUBJECT: **Annual Financial Audit Results and Review of Fiscal Year 2022-23 Annual Comprehensive Financial Report**

RECOMMENDATION

Review and discuss the audit results and recommend that the City Council accept the City's Annual Comprehensive Financial Report and required communications for the fiscal year ended June 30, 2023 at the December 12, 2023 City Council meeting.

INTRODUCTION

Mr. Scott Diem, Director, from Macias Gini & O'Connell, LLC, the City's independent audit firm, will be presenting the results of the annual financial audit, including required communications as part of their audit. In addition, the City's Annual Comprehensive Financial Report ("ACFR") for the fiscal year ended June 30, 2023 will be reviewed and discussed.

The following documents are included as attachments :

- Annual Comprehensive Financial Report and Independent Auditor's Reports (Attachment 2).
- Report to the City Council—Required Communications (Attachment 3).

BACKGROUND

In accordance with Section 1106 of the City Charter, the City Council employs an independent certified public accountant who examines the books, records, inventories, and reports of all officers and employees who receive, handle, or disburse public funds. During Fiscal Year 2014-15, the City Council appointed Macias Gini & O'Connell, LLC (MGO), to a four-year contract with an option to extend for an additional two years. An agreement was signed in April 2020 to extend MGO's auditing services for Fiscal Years 2019-20 and 2020-21. In February 2022, the City Council approved to modify this agreement to include consulting services for the implementation of

Governmental Accounting Standards Board (GASB) Statement No. 87 and extend the audit services agreement for two additional years (Fiscal Year 2021-22 and Fiscal Year 2022-23). The firm has extensive experience in auditing California public agencies and performs the functions of the independent certified public accountant as set forth in the City Charter. The City will be issuing a Request for Proposal for audit services in early 2024.

City 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 the External, Independent Auditor, requires the independent auditor to present the results of the annual audit and any findings to the Council Finance Committee (CFC). As noted previously, Mr. Diem of MGO will present the results of the audit and answer questions from the CFC.

The auditor's opinion letter, which is "unmodified," can be found at the beginning of the Financial Section in the attached ACFR. An "unmodified" opinion is when the auditor concludes that the financial statements of a given entity are presented fairly, in all material respects, in accordance with generally accepted accounting principles. Also contained in the document are financial information and data regarding City finances and economics in addition to the final audited financial statements. The financial statements were 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

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

- Introductory
- Financial
- Statistical
- 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 a copy of the Government Finance Officers Association (GFOA) award.

The Financial Section includes the independent auditor's report on the financial statements; management's discussion and analysis (MD&A), which includes management's analysis of the

financial information in the report; the basic financial statements; the notes to the basic financial statements; the required supplementary information (RSI), which includes detailed information on the City's pension and other postemployment benefit liabilities; and the other supplementary information, which includes a budget versus actual schedule for the Park Land Dedication Capital Projects Fund and financial statements for the nonmajor governmental funds, internal service funds, and custodial 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.

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

The ACFR has been prepared using the expanded financial reporting requirements as prescribed by GASB 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

The MD&A (Pages 5 to 19) provides a narrative introduction, overview, and analysis of the Basic Financial Statements, and is considered an important disclosure in the ACFR because it summarizes the financial results and provides context to the City's financial performance.

The Notes to the Basic Financial Statements (Pages 45 to 100) provide required detailed disclosures and a description of the financial statements.

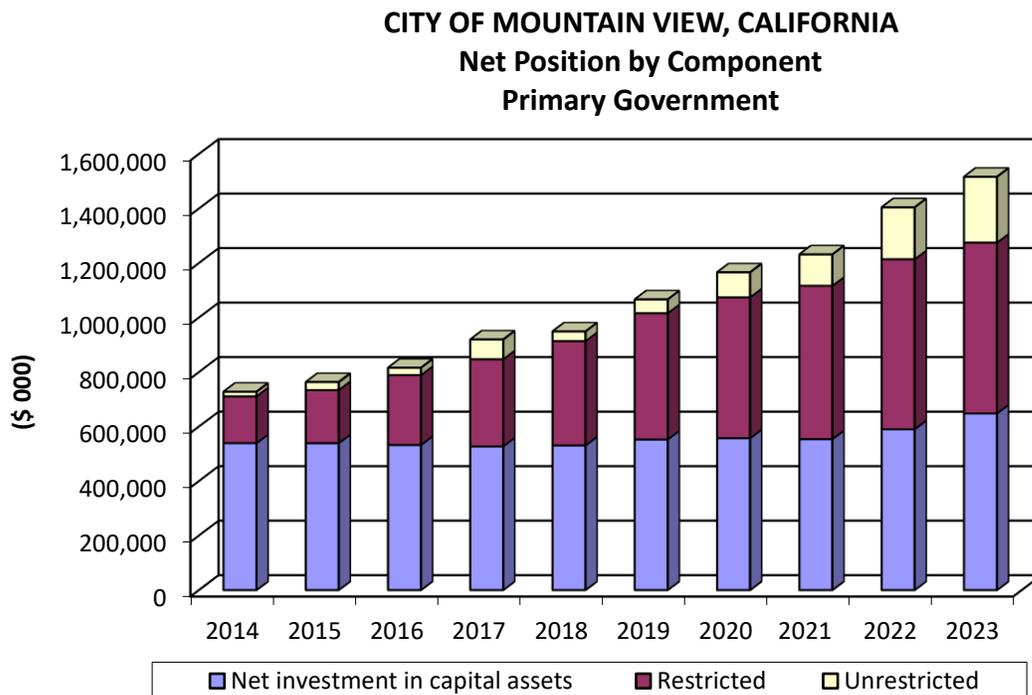
The first two basic financial statements, the Statement of Net Position and the Statement of Activities (Pages 21 and 22, respectively), present information on a government-wide, full-accrual accounting basis, comparable to the private sector, and reflects the overall financial position of the City and its various funds. However, this presentation perspective is different from the amounts available for budgetary purposes.

Fund information is presented for major funds individually and nonmajor funds combined in a single column in the basic financial statements. The General Fund, Shoreline Regional Park Community Fund, Housing Fund, General Capital Projects Fund, and Park Land Dedication Capital Projects Fund 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 the

Park Land Dedication Capital Projects Fund is presented as part of Other Supplementary Information.

The Statement of Net Position (Page 21) may serve as a useful indicator of a government’s financial position. The City (in total, all funds) has a positive net position of \$1.5 billion at fiscal year-end. The City’s total net position increased by \$112.0 million over the prior fiscal year. Of this amount, \$89.8 million was generated by governmental activities and \$22.2 million by business-type activities. The largest portion of the \$1.5 billion net position, \$648.2 million, represents the net investment in capital assets. An additional \$626.8 million represents resources that are subject to external restrictions on how they may be used. The remaining \$241.6 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:

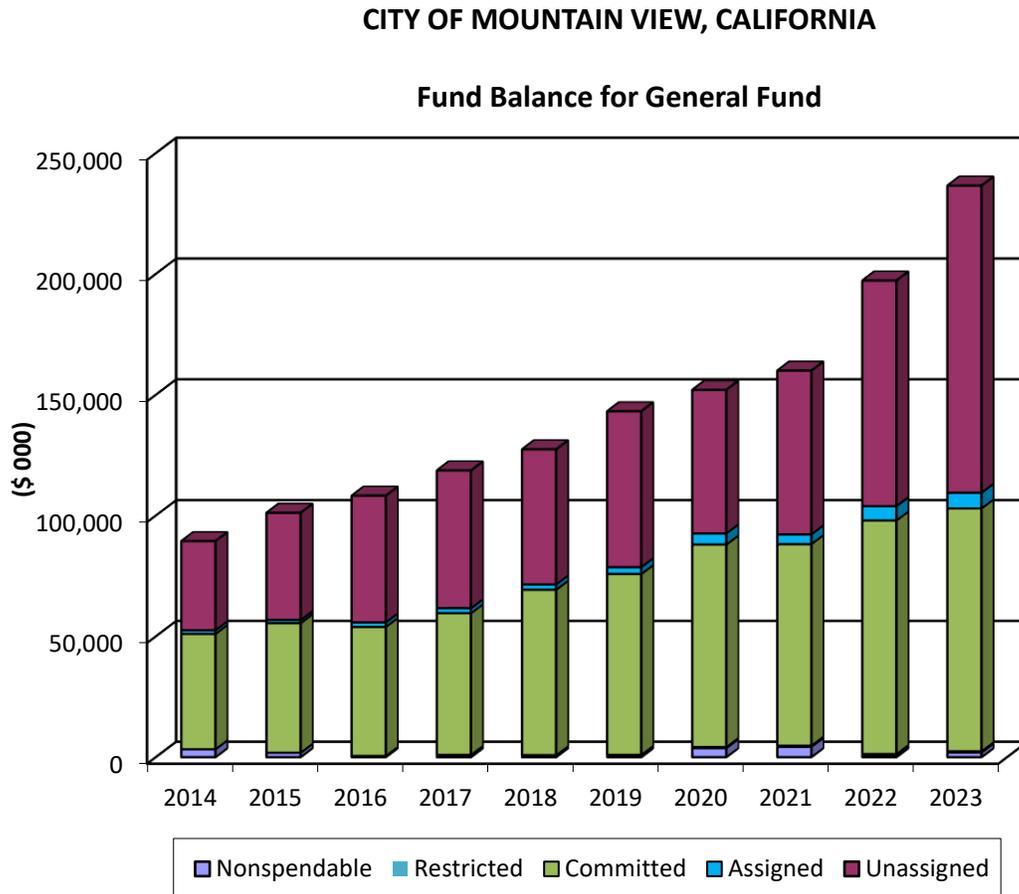


For results on a fund basis (Pages 24 to 25 and 28 to 29), total governmental fund balances increased by \$37.5 million from the prior fiscal year. The significant components for the increase are increases of \$39.3 million in the General Fund, \$10.3 million in the Shoreline Regional Park Community Fund, \$6.9 million in the Capital Projects fund, and \$0.6 million in the Housing Fund,

offset by a decrease of \$11.3 million in the Park Land Dedication Fund and \$8.3 million in Other Governmental Funds.

For the General Fund, revenues exceeded expenditures due, in large part, to the growth in property taxes, sales taxes, and other taxes and grant funding received. The increase in the Shoreline Regional Park Community Fund is due primarily to growth in property taxes. The Housing Fund’s revenue and expenditure both decreased, resulting in a modest increase of ending fund balance. Increases in the General Capital Projects Fund are due to increased interfund transfer from other funds. The decreases in the Park Land Dedication Capital Projects Fund are primarily due to increased transfer out to other funds for capital projects.

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



For the fiscal year ended June 30, 2023, revenues for governmental funds decreased by \$17.4 million (4.7%) to \$350.8 million, and expenditures increased by \$33.6 million (12.0%) to \$312.9 million from the prior fiscal year. Revenue decreases are primarily due to decreases in

developer fees and contributions (\$56.0 million) and other revenues (\$8.0 million) offset by increases in use of money and property (\$35.9 million) and property tax revenue (\$14.3 million). The increase in expenditures was primarily due to \$18.8 million in capital outlay expenditures for the 909 and 917 San Rafael Avenue Property Acquisition and \$12.9 million in capital outlay expenditure for the 87 East Evelyn Avenue Property Acquisition. For the fiscal year ended June 30, 2023, revenues for all governmental funds exceeded expenditures by \$37.9 million.

Incorporated within the ACFR at the beginning of the Financial Section is the annual Independent Auditor's Report. **The independent auditor concluded, based upon their audit, that there was a reasonable basis for rendering an unmodified "clean" opinion on the City's basic financial statements as of, and for, the fiscal year ended June 30, 2023, and they are fairly presented in conformity with GAAP.**

The ACFR is the primary document used to communicate the City's financial condition and health. It is utilized by various stakeholders, such as bond-rating agencies, investors in City debt, educational institutions, and the State Controller. In 2001, the City was awarded an "AAA" underlying issuer credit rating (ICR) from Standard and Poors (S&P), which is the highest rating possible. This rating was last reviewed by S&P in April 2023. Additionally, S&P upgraded the Mountain View Shoreline Regional Park Community's underlying credit rating to "A+" in November 2018. This rating was last reviewed in February 2023.

As noted above, the financial statements in the ACFR are prepared in accordance with GAAP. It should be noted the net position and fund balances reported in the ACFR do not match in all funds to the budget report or the Annual Budget document. This is because the ACFR aggregates funds for reporting purposes (i.e., all General Fund and General Fund Reserves are grouped and are reported in the aggregate as the General Fund), and net position and fund balances (equity) are reported in the ACFR 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.

A detailed analysis of the audited financial results for the General Operating Fund for Fiscal Year 2022-23 will be included with the Council report for acceptance of the ACFR at the December 12, 2023 Council meeting. That report will present the Fiscal Year 2022-23 financial position of the City's General Operating Fund adjusted, as necessary, for budget purposes.

Report to the City Council—Required Communications

The purpose of this report is to provide timely observations arising from the audit that are relevant to 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.

It was also noted there were no disagreements with management during the audit, nor any audit adjustments proposed by MGO that would have a significant effect on the financial statements.

As part of the City's annual financial audit, MGO reviews and comments on the City's internal controls 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 controls. A material weakness is a significant deficiency, or combination of deficiencies in internal controls, 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. Currently, no material weaknesses in the City's internal controls have been noted by MGO.

In addition, the report provides assistance to City staff for improving its records and operations and may communicate other advisory information, such as future accounting and reporting requirements, that could have an effect on the City's financial reporting.

The report on internal controls will be issued in early 2024 in conjunction with the Single Audit Report, which reports on the City's expenditures of Federal grant awards.

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- Attachments:
1. Attachment No. 2—Annual Comprehensive Financial Report and Independent Auditor's Reports
 2. Attachment No. 3—Report to the City Council—Required Communications