

**DATE:** December 10, 2019

**TO:** Honorable Mayor and City Council

**FROM:** Helen He, Accounting Manager  
Jesse Takahashi, 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, 2019**

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## **PURPOSE**

1. Hear and discuss comments by staff and Mr. Benjamin Lau of Macias Gini & O'Connell, LLC (MGO), the City's external audit firm, regarding the City's financial audit and Comprehensive Annual Financial Report for the fiscal year ended June 30, 2019.
2. Review the following financial and independent auditor's reports pertaining to the fiscal year ended June 30, 2019:
  - Comprehensive Annual Financial Report and Independent Auditor's Reports (Attachment 1).
  - Article XIII-B Appropriations Limit (Attachment 2).
  - Report to the City Council – Required Communications (Attachment 3).

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](http://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. During Fiscal Year 2014-15, the City Council appointed MGO to a four-year contract with an option to extend for an additional two years. The firm is

experienced in auditing California public agencies and performs the functions of the independent certified public accountant as set forth in the City Charter.

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. Benjamin Lau of MGO will be present at this Study Session to discuss the audit with the Council.

The auditor's opinion letter, which is unqualified, 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.

It is important to note that the CAFR looks at the City's financial condition through a different lens than the operating budget, and the two serve distinct purposes that are not easily comparable.

## **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
- 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 nonmajor 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 21 and 22, respectively) present information on a governmentwide, 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.

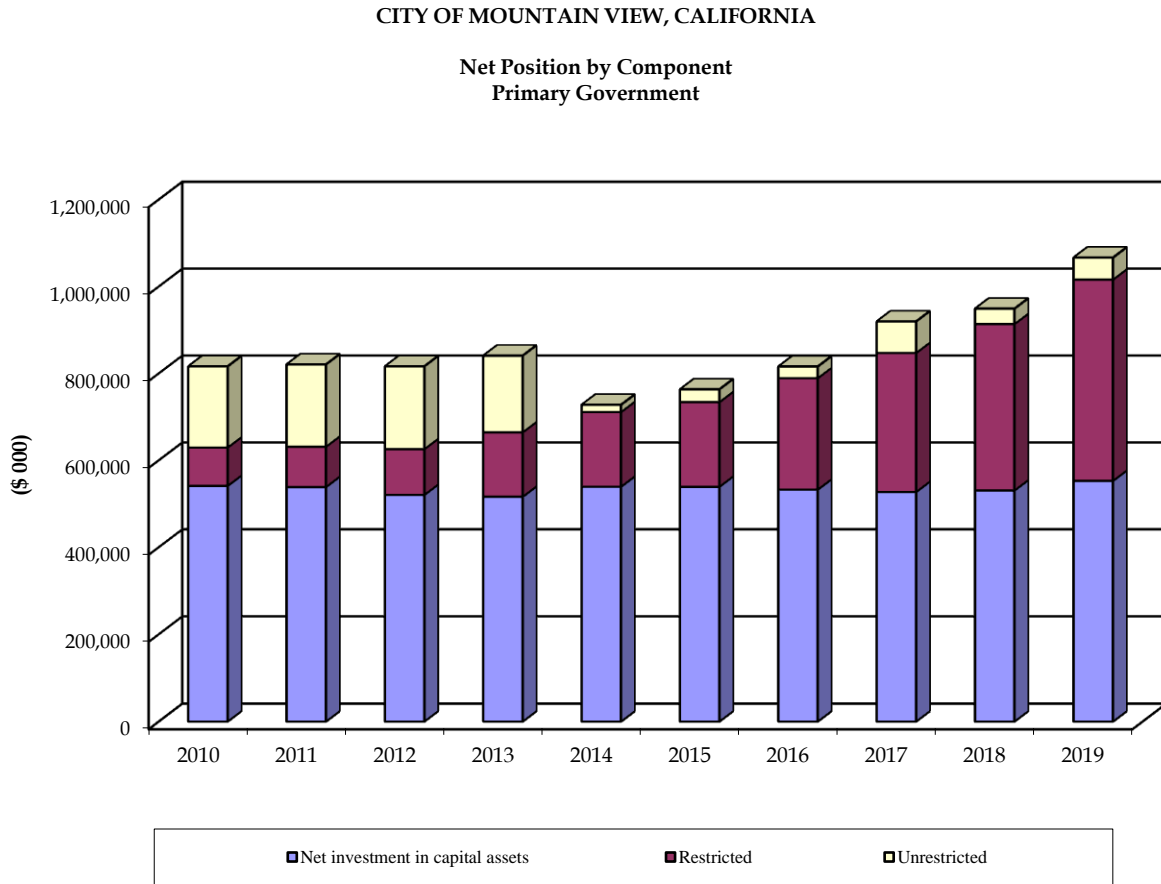
Fund information is also presented for major funds individually and nonmajor funds combined in a single column in the basic financial statements. The Shoreline Regional Park Community, Housing, General Capital Projects, and Park Land Dedication Funds meet the criteria of major funds and are reported 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 Other Supplementary Information.

Staff suggests Councilmembers may wish to focus their attention on the MD&A (Pages 5 through 20). The MD&A provides a narrative introduction, overview, and analysis of the basic financial statements. The notes to the basic financial statements (Pages 43

through 111) provide required detailed disclosures and a description of the financial statements.

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 \$1.07 billion at fiscal year-end. The City's total net position increased by \$117.6 million over the prior fiscal year. This is attributable to increased investment income as a result of growth in the portfolio, fair value adjustments, and higher interest earnings. It is also attributable to increased capital grants and contributions in governmental activities, primarily from a one-time public benefit contribution of \$11.4 million. Sales and property taxes have increased, and secured property values continue to remain strong. The largest portion of net position, \$552.8 million, represents the net investment in capital assets. Restricted net position of \$463.2 million are resources that are subject to external restrictions on how they may be used. The remaining \$50.6 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.

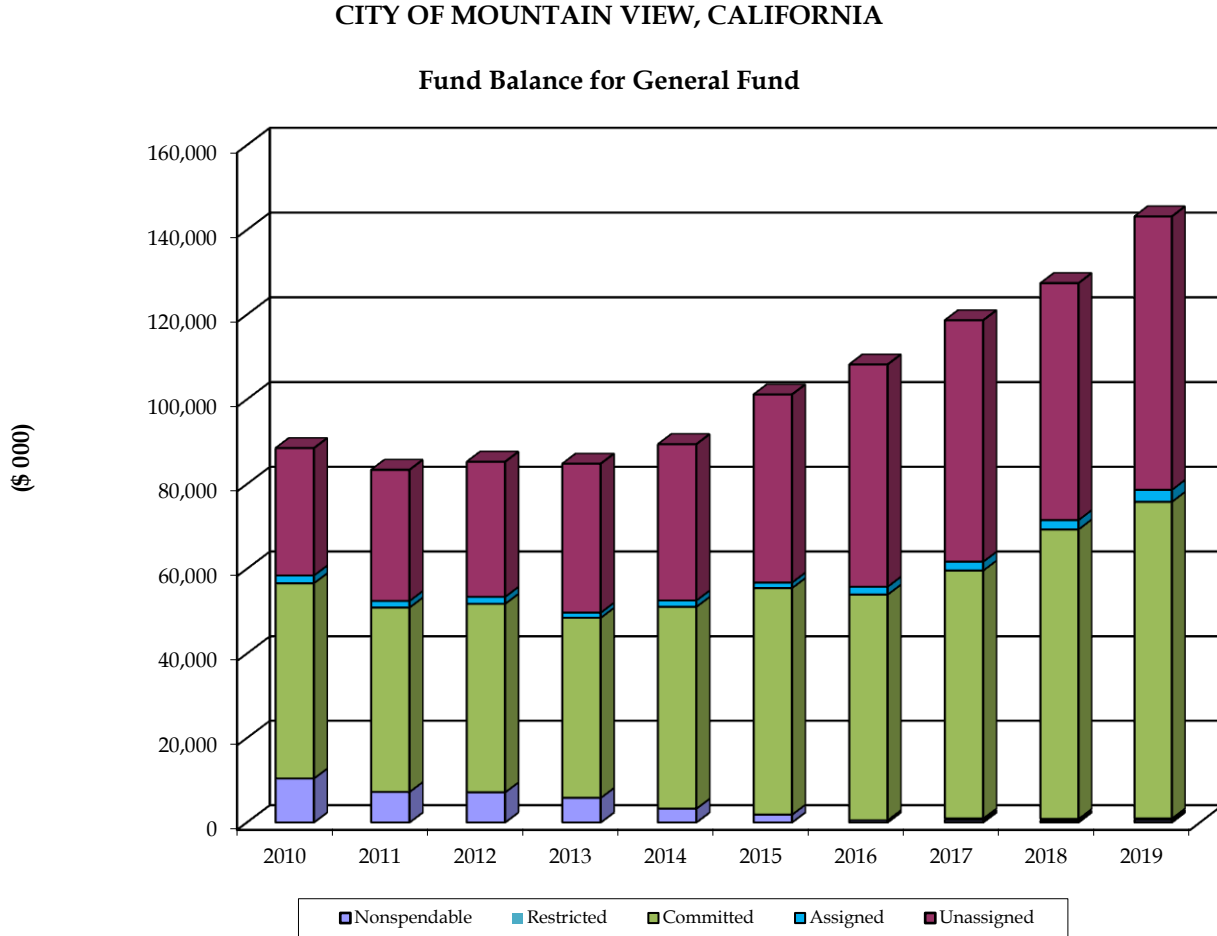
A trend of the City's net position by component for governmental and business-type activities is as follows:



For results on a fund basis (Pages 24 to 29), total governmental fund balances increased by \$163.5 million from the prior fiscal year. The significant components for the increase are increases of \$15.8 million in the General Fund, \$28.4 million in the Housing Fund, \$39.7 million in the General Capital Projects Fund, \$10.7 million in the Park Land Dedication Capital Projects Fund, \$63.0 million in the Shoreline Regional Park Community Fund, and \$6.0 million in the Other Governmental Funds. The increases in the General Fund, the Housing Fund, the General Capital Projects Fund, and the Park Land Dedication Capital Projects Fund are primarily related to increases in investment income, charges for services and taxes, higher transfers into the General Capital Projects Fund, and increases in the Housing Fund and the Park Land Dedication Capital Projects Fund primarily due to development-related fees generated from the current high level of development activity. The increase in the Shoreline Regional Park Community Fund

is due to the issuance of Shoreline Regional Park Community 2018 Revenue Bonds of \$63.8 million.

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



For the fiscal year ended June 30, 2019, revenues for governmental funds increased by \$38.5 million (13.9 percent) to \$316.1 million, and expenditures increased by \$9.1 million (4.3 percent) to \$219.1 million from the prior fiscal year. The increase in expenditures is due to general increases in all funds and a \$7.1 million increase in capital outlay. For the fiscal year ended June 30, 2019, revenues for all governmental funds exceeded expenditures by \$97.0 million.

Incorporated within the CAFR at the beginning of the Financial Section is the annual Independent Auditor's Report. 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, 2019. The opinion is unmodified and is considered a “clean” opinion.

The CAFR 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. The City maintains an “AAA” underlying issuer credit rating (ICR) from Standard and Poor (S&P). Additionally, S&P upgraded the Mountain View Shoreline Regional Park Community’s credit rating to “A+” in November 2018.

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 in the aggregate as the General Fund) 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 2019-20 Budget.

A detailed analysis of the audited financial results for the General Operating Fund for Fiscal Year 2018-19 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 2018-19 financial position of the General Operating Fund of the City adjusted, as necessary, for budget purposes.

### **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 2018-19 is \$265,968,636. The appropriations subject to limitation total is \$96,163,444; accordingly, the City is substantially under the Constitutional limit on appropriations funded from taxes.

### **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. 83, *Certain Asset Retirement Obligations*;
2. Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowing and Direct Placements*.

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. Benjamin Lau, Director at MGO, and staff will be present to address Council questions.



**RECOMMENDATION**

Discuss and acknowledge the City of Mountain View's Comprehensive Annual Financial Report and other related reports for the fiscal year ended June 30, 2019 at the Council's meeting of December 10, 2019.

**NEXT STEPS**

Council is being presented the financial reports at its meeting later this evening for acceptance.

**PUBLIC NOTICING** – Agenda posting.

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- Attachments:
1. Comprehensive Annual Financial Report and Independent Auditor's Reports
  2. Article XIII-B Appropriations Limit
  3. Report to the City Council – Required Communications