

**MEMORANDUM**

Finance and Administrative Services Department

DATE: December 6, 2024

TO: Council Finance Committee

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

SUBJECT: **Annual Financial Audit Results and Review of Fiscal Year 2023-24 Annual Comprehensive Financial Report**

INTRODUCTION

Mr. Ahmed Badawi, President, Badawi & Associates (Badawi), the City's independent audit firm, will be presenting the results of the annual financial audit, including their observations, conclusions, and any findings. In addition, the City's Annual Comprehensive Financial Report ("ACFR") for the fiscal year ended June 30, 2024 will be reviewed and discussed.

The following documents are included as attachments:

- Annual Comprehensive Financial Report (Attachment 1).
- Report to the City Council—Required Communications (Attachment 2).

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 through Fiscal Year 2022-23, Macias Gini & O'Connell, LLC (MGO) provided audit services to the City. Following the Request for Proposals (RFP) process in Fiscal Year 2023-24, the City Council appointed Badawi & Associates as the City's external audit firm to provide professional audit services for the fiscal years ending June 30, 2024 through June 30, 2027, with an option to extend for an additional two fiscal 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.

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. Badawi of Badawi & Associates will present the results of the audit and answer questions from the CFC.

The auditor's opinion letter, which is unqualified, can be found at the beginning of the Financial Section in the attached ACFR. Also contained in the document is 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 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.

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.

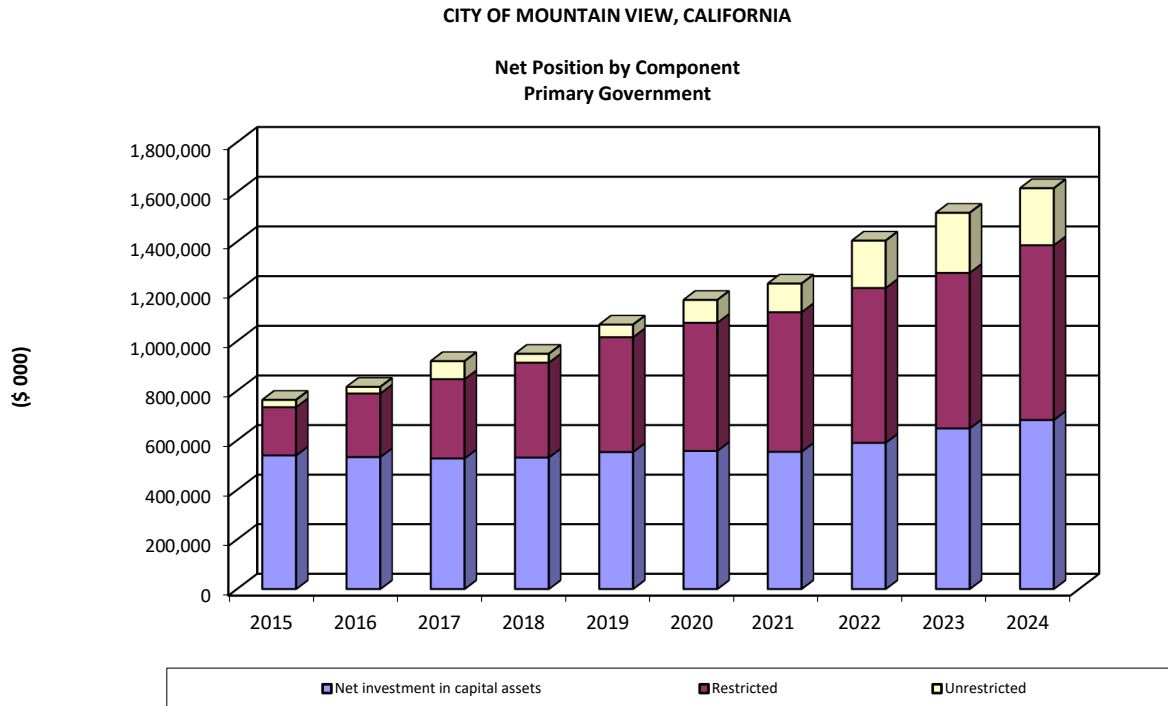
The ACFR has been prepared using the expanded financial reporting requirements as prescribed by GASB 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*. The first two basic financial statements, the Statement of Net Position and the Statement of Activities (Pages 27 and 28, 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 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 the Park Land Dedication Capital Projects Fund is presented as part of Other Supplementary Information.

The MD&A (Pages 5 to 22) provides a narrative introduction, overview, and analysis of the Basic Financial Statements. The Notes to the Basic Financial Statements (Pages 45 to 100) provide required detailed disclosures and a description of the financial statements.

The Statement of Net Position (Page 27) may serve as a useful indicator of a government’s financial position. The City (in total, all funds) has a positive net position of \$1.6 billion at fiscal year-end. The City’s total net position increased by \$98.8 million over the prior fiscal year. This is primarily attributable to property tax increases resulting from continued strength in the residential and commercial real estate markets as evidenced by another year of strong growth in assessed values. The largest portion of net position, \$682.2 million, represents the net investment in capital assets. An additional \$703.9 million represents resources that are subject to external restrictions on how they may be used. The remaining \$229.3 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.

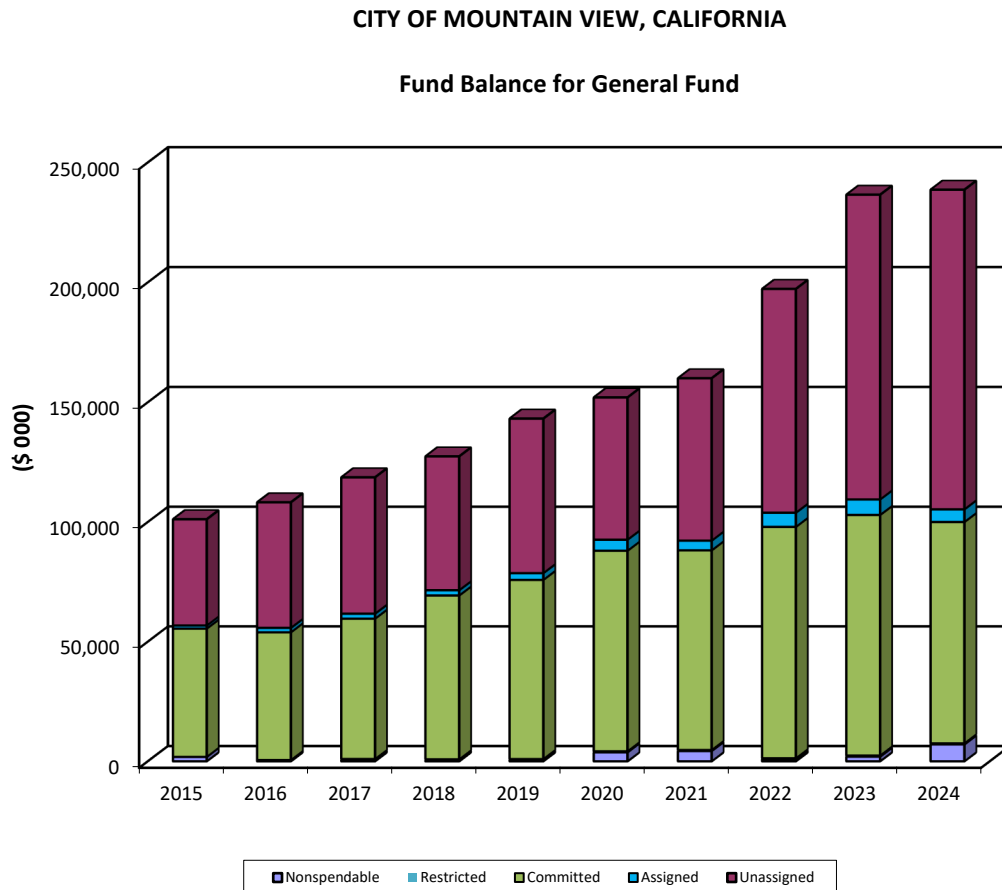
A trend of the City’s net position by component for governmental and business-type activities is as follows:



For results on a fund basis (Pages 32 to 37), total governmental fund balances increased by approximately \$70.0 million from the prior fiscal year. The significant components for the increase are increases of \$2.1 million in the General Fund, \$22.8 million in the Shoreline Regional Park Community Fund, \$8.5 million in the Housing Fund, and \$39.8 million in the Capital Projects fund, offset by a decrease of \$3.1 million in the Park Land Dedication Fund.

The increase in the Shoreline Regional Park Community Fund is due primarily to growth in property tax revenues and investment earnings. The Housing Fund’s revenues and expenditures were consistent with the prior fiscal year. Increases in the fund balance are primarily due to revenues exceeding expenditures by \$7.8 million. Increases in the General Capital Projects Fund are due to increased interfund transfers from other funds in order to sufficiently fund capital projects. The decreases in the Park Land Dedication Capital Projects Fund are primarily due to increased transfer out to other funds for capital projects and decreased developer contributions received.

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



For the fiscal year ended June 30, 2024, revenues for governmental funds increased by \$14.0 million (4.0%) to \$364.8 million, and expenditures decreased by \$22.3 million (7.1%) to \$290.6 million from the prior fiscal year. Revenue increases are primarily due to increases in property tax revenue and use of money and property offset by decreases in developer fees and contributions received. The decreases in expenditure were primarily due to the capital outlay expenditures for the 909 and 917 San Rafael Avenue Property Acquisition and the 87 East Evelyn Avenue Property Acquisition in the prior fiscal year. For the fiscal year ended June 30, 2024, revenues for all governmental funds exceeded expenditures (before transfers in/out) by \$74.2 million.

Incorporated within the ACFR at the beginning of the Financial Section is the annual Independent Auditor’s Report. The opinion is unqualified and is considered a “clean” opinion, which is the highest level possible.

The ACFR is the primary document used to communicate the City's most recent audited 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 February 2024. 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 2024.

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. As a result of the audit, there were no major findings that would impact the balances used for the Fiscal Year 2024-25 Budget.

A detailed analysis of the audited financial results for the General Operating Fund for Fiscal Year 2023-24 will be included with the Council report for acceptance of the ACFR at the December 17, 2024 Council meeting. That report will present the Fiscal Year 2023-24 financial position of the City's General Operating Fund adjusted, as necessary, for budget purposes.

Report to the City Council—Required Communications

As part of the City's annual financial audit, Badawi 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. No material weaknesses in the City's internal controls were noted by Badawi.

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 last part of this report is the required communications from Badawi. 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 nor audit adjustments proposed by Badawi that would have a significant effect on the financial statements.

RECOMMENDATION

Review and discuss the auditor's presentation of audit results and recommend the City Council accept the City's Annual Comprehensive Financial Report for the fiscal year ended June 30, 2024 at the December 17, 2024 Council meeting.

PUBLIC NOTICING—Agenda posting.

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- Attachments:
1. Annual Comprehensive Financial Report
 2. Report to the City Council—Required Communications