



# COUNCIL REPORT

**DATE:** December 12, 2023

**CATEGORY:** Consent

**DEPT.:** Finance and Administrative Services

**TITLE:** **Accept and File Fiscal Year 2022-23  
Annual Comprehensive Financial Report  
and Related Auditor Reports**

## **RECOMMENDATION**

Accept and file the following reports pertaining to Fiscal Year 2022-23: (1) City of Mountain View’s Annual Comprehensive Financial Report with Independent Auditor’s Report (Attachment 2 to the Council report); (2) Article XIII-B Appropriations Limit Agreed-Upon Procedures Report (Attachment 3 to the Council report); and (3) Report to the City Council—Required Communications (Attachment 4 to the Council report).

## **BACKGROUND**

Section 1106 of the City Charter and Council Policy B-6 require an independent certified public accountant, also called an independent auditor, to audit the City’s financial records at least on an annual basis. Macias Gini & O’Connell, LLP (MGO), serves as the City’s independent auditor. On December 6, 2023, Scott Diem of MGO presented the results of MGO’s annual audit of the City’s financial records, along with their observations, to the Council Finance Committee (CFC). A copy of the CFC staff memo is included as Attachment 5.

The presentation included an explanation of the various components of the Annual Comprehensive Financial Report (ACFR), highlights from the Independent Auditor’s Report, Management’s Discussion and Analysis, Notes to the Financial Statements, and other information that is required by auditing standards to be communicated to the City’s governing body. (The ACFR is included in this report as Attachment 2.) It was noted that the auditor’s opinion was of the highest level possible, an “unmodified” opinion. 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. The CFC discussed the audit results, which included the operating results of various funds of the City. The CFC then recommended the City Council accept and file the ACFR, as presented, as is scheduled at this December 12, 2023 Council meeting.

Copies of these documents are available for public review at the City’s Library and Finance and Administrative Services lobby on the second floor of City Hall. They are also available on the

Council Agenda page of the City's website at: [mountainview.gov/council/agendas/current\\_council\\_agendas.asp](https://mountainview.gov/council/agendas/current_council_agendas.asp).

## **ANALYSIS**

The City compiles an Annual Comprehensive Financial Report which is utilized by various organizations, including the State and credit rating agencies, that monitor and rate the City's bond issues. Action taken tonight will formally accept and file the ACFR and related auditor reports in order to comply with grant and other statutory requirements as well as for the benefit of investors, the community, and the public in general.

A detailed analysis of the General Operating Fund (GOF) audited results compared to the Budget is included as Attachment 1. For Fiscal Year 2022-23, the City had a year-end GOF balance of \$14.8 million. This was \$8.0 million higher than the \$6.8 million Estimated Operating Balance that was projected in June 2023 and \$21.6 million more than the Adjusted Budget, which includes Council-approved adjustments made subsequent to the Adopted Budget. Most of the positive variance resulted from higher revenue as the recovery from the COVID-19 pandemic continues. Property tax revenue came in \$1.6 million higher due to the higher-than-budgeted unsecured and supplemental tax distributions. Sales tax revenue was \$3.4 million above budget, primarily due to strength in new automobile sales, restaurants/hotels, and increases from the State and County pools as more consumers shop online. In addition, operating expenditures were significantly less than estimated, contributing to the higher final operating balance.

This analysis also shows the GOF balance allocations as adopted by Council in the Fiscal Year 2022-23 Adopted Budget. In recent years, the allocations were used to fund City needs, including limited-period expenditures, infrastructure needs, additions to the Compensated Absences Reserve, reducing long-term liabilities, and maintaining the General Fund Reserve.

## **Report on Compliance with Article XIII-B—Appropriations Limit**

Article XIII-B of the State Constitution, also known as the Gann Limit, established an annual appropriations limit for governmental entities and specified certain indicators to be used in calculation of the annual appropriations limit increase. The appropriations limit calculation for Fiscal Year 2022-23 is \$342,417,977. The appropriations subject to limitation total is \$119,596,661; accordingly, the City is significantly under the Constitutional limit on appropriations funded from taxes and, therefore, in compliance with the Gann Limit. (The Gann Limit report is included as Attachment 3.)

## **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 Report to the City Council (Report) 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. 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 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.

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.

## **FISCAL IMPACT**

Accepting the ACFR and related reports from the independent auditor does not have a fiscal impact to the City.

## **ALTERNATIVES**

1. Do not accept the ACFR and auditor's reports.
2. Provide other direction.

**PUBLIC NOTICING**—Agenda posting.

Prepared by:

Grace Zheng  
Assistant Finance and Administrative  
Services Director

Approved by:

Derek Rampone  
Finance and Administrative  
Services Director

Arn Andrews  
Assistant City Manager

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- Attachments:
1. Analysis of Fiscal Year 2021-22 Audited Financial Results for the General Operating Fund
  2. Annual Comprehensive Financial Report and Independent Auditor's Reports
  3. Article XIII-B Appropriations Limit
  4. Report to the City Council—Required Communications
  5. Council Finance Committee Staff Memo