

DATE: December 2, 2014

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, 2014**



PURPOSE

1. Hear and discuss comments by staff and Ms. Katherine Yuen of Maze & Associates (Maze), the City's external auditors, regarding the City's financial audit and Comprehensive Annual Financial Report for Fiscal Year 2013-14.
2. Review the following financial and independent auditors' reports pertaining to Fiscal Year 2013-14:
 - City of Mountain View Comprehensive Annual Financial Report and Independent Auditors' Reports (Attachment 1).
 - Single Audit Report (Attachment 2).
 - Report on Compliance with the Appropriations Limit Increment (Attachment 3).
 - Bicycle/Pedestrian Projects (Attachment 4).
 - Memorandum on Internal Control and Required Communications from Independent Auditors (Attachment 5).

These reports are attached and are available for public review in 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 Maze, 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 2013-14.

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. Ms. Katherine Yuen of Maze 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 on a generally accepted accounting principles (GAAP) basis 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.

The Introductory Section contains 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 contains management's discussion and analysis (MD&A) regarding management's analysis of the financial information in the report, the basic financial statements, notes to the financial statements, individual fund statements, as well as the independent auditors' report on these financial statements and schedules. The Statistical Section includes financial trend, revenue capacity, debt capacity, demographic and economic information, and operating information generally presented on a multi-year basis to give readers, credit-rating firms, investors in City debt, and other interested parties a more comprehensive view of the City.

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 22 and 23, respectively) present information on a government-wide, full-accrual accounting basis which reflects the overall financial position of the City and its various funds, not just 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. Due to the accumulation of funds, two additional funds, Below Market Housing and Park Land Dedication, have been determined to 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.

Staff suggests Councilmembers may wish to focus their attention on the MD&A (Pages 5 through 19) and the notes to the basic financial statements (Pages 43 through 101). The MD&A provides a narrative introduction, overview, and analysis of the basic financial statements. The notes provide required detailed disclosures and a description of the financial statements.

The Statement of Net Position (Page 22) may serve as a useful indicator of a government's financial position. The City (in total, all funds) has a positive net position of \$909.1 million at fiscal year-end. The City's total net position increased by \$45.3 million before special items, and increased \$68.2 million after special items, over the prior fiscal year. The increase is a result of a combination of net lower expenditures and

higher revenues during the fiscal year due to the improving economy. The \$22.9 million increase in net position for special items is the transfer of assets from the Successor Agency which is a result of the dissolution of the former Revitalization Authority as of June 30, 2014. The largest portion of the net position, \$539.3 million, represents the net investment in capital assets. Restricted net position of \$171.9 million are resources that are subject to external restrictions on how they may be used. The remaining \$198.0 million represents unrestricted net position and may be used to meet the City's ongoing obligations. Again, this is an overall financial position indicator and is not the amount of current resources available for budgetary purposes.

For results on a fund basis (Pages 24 and 28), total governmental fund balances increased by \$31.4 million from the prior fiscal year. The most significant components for the increase are the \$9.7 million in Below Market Housing Fund, \$13.1 million increase in the Park Land Dedication Capital Projects Fund, and \$4.8 million in Other Governmental Funds. The increases in Other Governmental Funds are primarily related to increased development activity, generating additional revenues related to Construction Conveyance Tax (\$1.1 million) and Downtown Parking In-Lieu Fees (\$2.6 million). An additional increase is from Grants received (\$1.4 million). For the fiscal year ended June 30, 2014, revenues for governmental funds increased by \$7.9 million (4.5 percent) to \$183.3 million, and expenditures increased by \$8.4 million (5.9 percent) to \$149.1 million from the prior fiscal year. This increase is primarily related to an increase in General Government. For the fiscal year ended June 30, 2014, governmental funds revenues exceeded expenditures by \$34.2 million or 23.0 percent.

Incorporated within the CAFR at the beginning of the Financial Section is the annual Independent Auditors' Report as required by the City Charter, Section 1106. In the auditors' opinion, the basic financial statements present fairly, in all material respects, the financial position of the City as of June 30, 2014. The opinion is unmodified or 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 (e.g., 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 2014-15 Budget.

A detailed analysis of the audited financial results for the General Operating Fund for Fiscal Year 2013-14 is attached to the Council Report for the financial statements on the Council's agenda for this evening. In that report, staff presents the Fiscal Year 2013-14 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 a part of the City's single audit, tests were made to determine the adequacy of the internal control structure, including that portion of the structure related to Federal financial assistance programs, as well as to determine that the City complied with all applicable laws and regulations. The results of the City's single audit for Fiscal Year 2013-14 indicated no instances of significant deficiencies or material weaknesses in the internal control structure.

However, the auditors did note an instance of noncompliance due to a semiannual report submitted after the required due date in accordance with the grant agreement. The department will file reports timely in the future.

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 2013-14 is \$211,601,193 and appropriations subject to limitation total \$64,210,026. 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.

Memorandum on Internal Control and Required Communications from Independent Auditors

As part of the City's annual external audit, Maze reviews and comments on the City's internal control. The comments are intended to advise management of the existence of any material weaknesses in the City's internal control, provide assistance to City staff for improving its records and operations, and communicate other advisory information such as future accounting and reporting requirements that may have an effect on the City.

No material weaknesses were noted by Maze 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 Maze. 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.

Maze included communications related to new GASB pronouncements that will require implementation over the next couple of years. They also noted there were no disagreements with management, audit adjustments proposed by Maze that would

have a significant effect on the financial statements, and there were no misstatements identified during the audit to report.

Staff and Ms. Katherine Yuen, Partner at Maze & Associates, will be present to address Council questions.

RECOMMENDATION

Accept and acknowledge the City of Mountain View's comprehensive annual financial reports and other related reports for the fiscal year ended June 30, 2014 at the Council's meeting of December 2, 2014.

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/3/CAM
525-12-02-14SS-E

- Attachments:
1. City of Mountain View Comprehensive Annual Financial Report and Independent Auditors' Reports
 2. Single Audit Report
 3. Report on Compliance with the Appropriations Limit Increment
 4. Bicycle/Pedestrian Projects
 5. Memorandum on Internal Control and Required Communications from Independent Auditors