



DATE: December 7, 2021

CATEGORY: Consent

DEPT.: Finance and Administrative Services

TITLE: **Accept and File the Annual Comprehensive Financial Report and Related Auditor Reports**

RECOMMENDATION

Accept and file the following reports pertaining to Fiscal Year 2020-2021: (1) City of Mountain View's Annual Comprehensive Financial Report with Independent Auditor's Report (Attachment 2); (2) Article XIII-B Appropriations Limit Agreed-Upon Procedures Report (Attachment 3); and (3) Report to the City Council – Required Communications (Attachment 4).

BACKGROUND

Section 1106 of the City Charter and Council Policy No. 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 November 22, 2021, Benjamin Lau of MGO presented the results of MGO's annual audit of the City's financial records, along with their observations, conclusions, and findings, to the Council Finance Committee (CFC). A copy of the CFC staff report 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 and that there were no conflicts or other negative findings from this year's audit. The CFC discussed the audit results, which included various questions on the financial statement revenues and expenditures. The CFC then recommended the City Council accept and file the ACFR, as presented, as is scheduled at this December 7, 2021 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.

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 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 2020-21, the City had an \$8.5 million year-end GOF balance. This was \$2.6 million higher than the \$5.9 million Estimated Operating Balance that was projected in June, 2021, and \$7.7 million more than the Adjusted Budget, which includes Council-approved adjustments made subsequent to the Adopted Budget. Most of the positive variance resulted from receipt of \$6.8 million in limited-period "Excess Educational Revenue Augmentation Fund" (Excess ERAF) property tax revenue received from the County. In past years, these funds have not been budgeted as they are considered nonrecurring revenues and, therefore, deposited into the General Non-Operating Fund (GNOF). Due to the uncertainties and unknown impacts caused by the COVID-19 pandemic, a strategy was developed to keep the GOF positive in Fiscal Years 2020-21 and 2021-22. Accordingly, at the April 27, 2021 Council meeting, staff recommended, and Council approved, the use of Excess ERAF funds to be recorded as GOF revenue for these two years. The County ultimately allocated \$2 million more in Excess ERAF funds to the City than originally expected. Excluding the Excess ERAF receipt, the GOF Operating Balance would have been \$1.7 million. 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 2021-22 Adopted Budget. In recent years, the allocations were used to fund City needs, including limited-period expenditures, infrastructure needs, the Compensated Absences Reserve, long-term liabilities, and the General Fund Reserve. In Fiscal Year 2020-21, the City was unable to set aside such payments given its uncertain fiscal situation.

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 2020-21 is \$293,019,226. The appropriations subject to limitation total is \$101,945,166; 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

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. No material weaknesses in the City's internal controls were 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, which could have an effect on the City's financial reporting. 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 Council's responsibility of oversight. It was also noted there were no disagreements with management nor audit adjustments proposed by MGO that would have a significant effect on the financial statements. (The Required Communications Report is included as Attachment 4.)

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.

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- Attachments:
1. Analysis of Fiscal Year 2020-21 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 Report Dated November 22, 2021