

**MEMORANDUM**

Finance and Administrative Services Department

DATE: December 2, 2025

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 2024-25**
Annual Comprehensive Financial Report

INTRODUCTION

Mr. Ahmed Badawi, President of Badawi & Associates (Badawi), the City's independent audit firm, will present the results of the annual financial audit, including the firm's observations, conclusions, and any findings. In addition, the City's Annual Comprehensive Financial Report (ACFR) for the fiscal year ended June 30, 2025, will be reviewed and discussed.

It is important to emphasize that the ACFR is prepared in accordance with Generally Accepted Accounting Principles (GAAP) and should not be used for direct comparison with budget documents. The ACFR presents historical financial information – a backward-looking assessment of the City's actual financial performance and position for the completed fiscal year – whereas the budget is a forward-looking document that projects anticipated revenues, expenditures, and service priorities. The net position and ending balances reported in the ACFR reflect GAAP-based accounting measures and do not represent the City's available resources for budgeting purposes.

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 to examine the books, records, inventories, and reports of all officers and employees who receive, handle, or disburse public funds. In April 2024, the City Council authorized Badawi & Associates to serve as the City's external audit firm and provide professional audit services for the fiscal years ending June 30, 2024, through June 30, 2027, with an option to

extend the contract for an additional two fiscal years. Badawi & Associates is experienced in auditing California public agencies and performs the duties of the independent certified public accountant as required under the City Charter.

City Charter Section 1106 also requires that, following the close of each fiscal year, a final audit and report be submitted by the City's independent certified public accountant to the City Council. In addition, City Council Policy B-6, Selection of the External, Independent Auditor, requires the independent auditor to present the results of the annual audit, including any observations or findings, to the Council Finance Committee (CFC). As noted previously, Mr. Ahmed Badawi of Badawi & Associates will present the Fiscal Year 2024-25 audit results and respond to any questions from the CFC.

The auditor's opinion letter – an unmodified opinion - is included at the beginning of the Financial Section of the ACFR. **An unmodified opinion is the highest level of assurance an audit firm can provide and indicates that the financial statements are fairly presented in all material respects, with no significant modifications required.**

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 Poor's (S&P), which is the highest rating possible. This rating was last reviewed by S&P on May 14, 2025. Additionally, S&P upgraded the Mountain View Shoreline Regional Park Community's Revenue Bonds rating to "AA+" on the same day.

The ACFR also includes extensive financial information and economic data that provide context for understanding the City's fiscal condition, in addition to the final audited financial statements. These financial statements were prepared in accordance with Generally Accepted Accounting Principles (GAAP) and audited in compliance with the independence and professional standards established in Government Auditing Standards, issued by the Comptroller General of the United States.

DISCUSSION

The ACFR includes all funds, account groups, and component units of the City of Mountain View and is presented in four sections:

- Introductory
- Financial
- Statistical
- The Mountain View Shoreline Regional Park Community

Overview of ACFR Sections

The Introductory Section includes the letter of transmittal, a directory of principal officials, the City's organizational chart, and recognition of the Government Finance Officers Association (GFOA) award.

The Financial Section contains the independent auditor's report; Management's Discussion and Analysis (MD&A), which provides management's narrative overview of the financial information; the basic financial statements; notes to the financial statements; required supplementary information (RSI); and other supplementary information, including combining statements for nonmajor governmental funds, internal service funds, and agency funds.

The Statistical Section includes 10-year historical financial, economic, demographic, and debt data. These tables assist readers – including potential investors in City bonds – in evaluating long-term trends in revenues, expenditures and net position/fund balance.

The Mountain View Shoreline Regional Park Community Section presents the basic financial statements and analysis of the Mountain View Shoreline Regional Park Community (Shoreline Community), a blended component unit of the City. In accordance with statutory requirements, a separate independent audit report is also provided for the combined financial statements of the Shoreline Community.

Financial Reporting Framework

The ACFR is prepared in accordance with the expanded financial reporting requirements of 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 31 and 32) - present a government-wide, full-accrual view of the City's finances, similar to private sector reporting. This perspective provides a long-term view of the City's overall financial position but differs from the amounts available for budgetary purposes.

Fund-level information is also provided, with major governmental funds presented individually and nonmajor funds presented in aggregate. The City's major funds include the Shoreline Regional Park Community, Housing, General Capital Projects, and Park Land Dedication Capital Projects Funds. Budgetary comparison schedules are included for all major funds with legally adopted budgets, except the Park Land Dedication Capital Projects Fund, whose comparison schedule is included in the Other Supplementary Information.

The MD&A (Pages 5 to 24) offers a narrative introduction, overview, and analysis of the Basic Financial Statements. The Notes to the Basic Financial Statements (Pages 53 to 107) provide essential disclosures and additional detail needed for a thorough understanding of the City's financial activities.

Financial Position Summary

The Statement of Net Position (Page 29) provides a snapshot of the City's financial position at fiscal year-end. Citywide (in total, all funds), the total net position is \$1.7 billion, an increase of \$96.7 million over the prior fiscal year. This growth is primarily attributable to continued strength in the residential and commercial real estate markets, reflected in another year of strong growth in assessed property values.

Of the City's total net position:

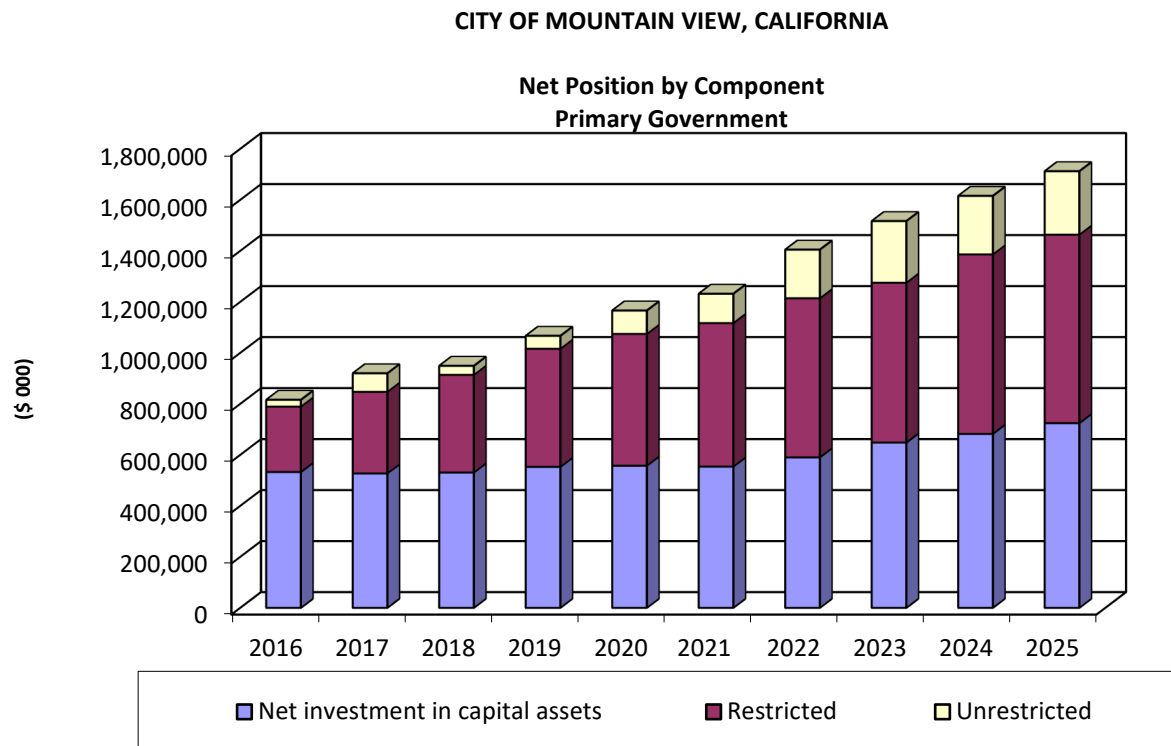
- \$724.3 million represents the City's net investment in capital assets.
- \$739.1 million reflects externally restricted resources that must be used for specific purposes.
- \$248.6 million is unrestricted net position, which may be used to meet the City's ongoing obligations.

It is important to note that the unrestricted net position is reported on a Citywide, GAAP basis and does not represent resources currently available for appropriation or budgetary decision-making.

Financial Position Details

Net Position

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



Results of Governmental Funds

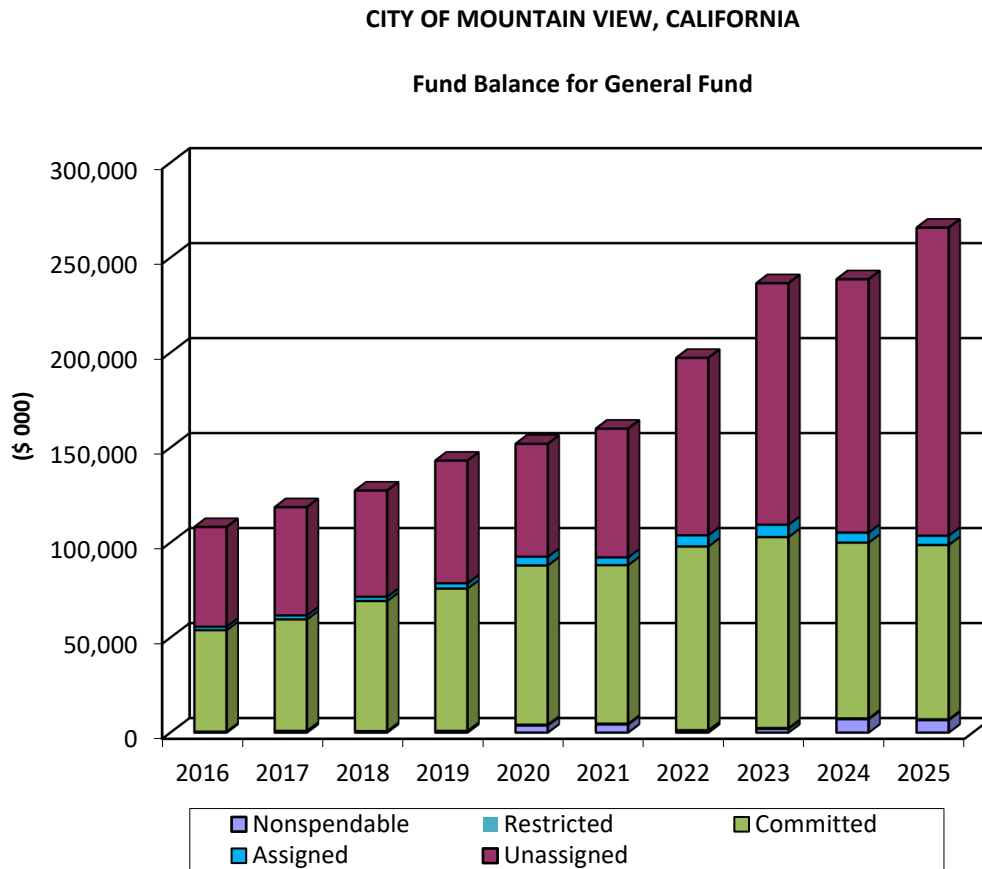
For results on a fund basis (Pages 38 to 39), total governmental fund balances increased by approximately \$60.9 million compared to the prior fiscal year. Key contributors to the overall increase include:

- General Fund: +\$27.2 million
- Shoreline Regional Park Community Fund: +\$20.3 million
- Housing Fund: +\$6.8 million
- General Capital Projects Fund: +\$9.6 million
- Park Land Dedication Capital Projects Fund: -\$3.7 million

The increase in the Shoreline Regional Park Community Fund is primarily attributable to continued growth in property tax revenues and higher investment earnings. Revenues and expenditures in the Housing Fund remained relatively stable compared to the prior fiscal year, with the fund increasing largely because revenues exceeded expenditures by \$6.2 million.

The General Capital Projects Fund increase is driven by higher interfund transfers from other funds to ensure sufficient resources for planned capital improvement projects. The Park Land Dedication Capital Projects Fund experienced a decline in fund balance due to the purchase of property and lower developer contributions received during the fiscal year.

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



For the fiscal year ended June 30, 2025, revenues for governmental funds totaled \$379.5 million, an increase of \$14.6 million (4.0%) from the prior fiscal year. Expenditures increased by \$29.7 million (10.2%) to \$320.3 million. Revenue growth was driven primarily by higher property tax revenues and increased use of money and property, partially offset by decreases in intergovernmental revenues and developer fees and contributions. The increase in expenditure is largely due to capital outlay expenditures for the acquisition of the 939 San Rafael Avenue

property and the recognition of Subscription-Based IT Assets, including Axon camera data storage software and Arctic Wolf cybersecurity software.

Overall, governmental fund revenues exceeded expenditures (before transfers) by \$59.2 million for Fiscal Year 2024-25.

A detailed analysis of audited Fiscal Year 2024-25 General Operating Fund results will be included in the Council report accompanying the ACFR for acceptance at the December 16, 2025 Council meeting. That analysis will present the City's General Operating Fund financial position, adjusted, as necessary, for budgetary purposes.

Report to the City Council—Required Communications

As part of the City's annual financial audit, Badawi evaluates and provides comments on the City's internal controls over financial reporting. These comments are intended to advise management of any identified material weaknesses. 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, in a timely manner. **Badawi did not identify any material weaknesses in the City's internal controls.**

In addition to the reporting on internal controls, the auditor report provides guidance to City staff to support continuous improvement of financial processes and may include advisory comments regarding upcoming accounting or reporting requirements that could affect future financial reporting.

The final section of this report includes the required communications pursuant to Statement on Auditing Standards (SAS) No. 114, *The Auditor's Communication with Those Charged with Governance*. The purpose of these communications is to provide timely information that is relevant to the City Council's oversight responsibilities. SAS 114 requires auditors to communicate significant matters encountered during the audit, which may include:

- Changes in accounting policies
- Unusual or non-routine transactions
- Emerging, controversial or complex accounting areas
- Unacceptable or inappropriate accounting practices
- Difficulties experienced during the audit
- Corrected or uncorrected misstatements
- Disagreements with management
- Management's consultation with other accountants
- Significant matters discussed with management
- Other audit findings or issues relevant to oversight

Badawi reported no disagreements with management and no audit adjustments 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 and related auditor's reports for the fiscal year ended June 30, 2025 at the December 16, 2025 Council meeting.

PUBLIC NOTICING—Agenda posting.

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