



CITY OF MILPITAS AGENDA REPORT (AR)

Item Title:	Accept the City's Comprehensive Annual Financial Report and Other Related Annual Audited Reports for the Fiscal Year Ended June 30, 2020
Category:	Leadership and Support Services
Meeting Date:	12/1/2020
Staff Contact:	Walter C. Rossmann, 408-586-3111
Recommendation:	Accept the City's Comprehensive Annual Financial Report and other Related Annual Audited Reports for the Fiscal Year ended June 30, 2020.

Background:

Annually, Maze and Associates, the City's external auditor audits the City's books and staff prepares the Comprehensive Annual Financial Report (CAFR) of the City of Milpitas. In conjunction with the CAFR for the fiscal year ended June 30, 2020, this staff reports presents Agreed Upon Procedures Report on Compliance with the Appropriations Limit Increment, Required Communications, and the Memorandum on Internal Control (MOIC) to the City Council for review.

Analysis:

The CAFR presents the operations and financial activity of all the City's various funds, including the General Fund. It includes an unqualified ("clean") audit opinion from Maze & Associates which means that the financial statements present fairly the results of operations for the fiscal year ended June 30, 2020, in conformance with Generally Accepted Accounting Principles (GAAP).

Highlights and items to note from the CAFR for the fiscal year ended June 30, 2020 are detailed below:

City-wide:

- The City's total net position was \$619.9 million at June 30, 2020. Of this total, \$409.5 million were Governmental and \$210.4 million were Business-type, a net increase of total \$9.9 million from prior year's total of \$610 million primarily due to a net increase in assets over liabilities. Net asset increases were primarily due to increases in cash and investments and capital assets offset by net liability increases primarily due to increased pension liabilities.
- City-wide revenues include program revenues of \$112.8 million, general revenues and transfers of \$84.9 million, totaling \$198 million, a decrease of \$18.2 million from the prior year's total of \$215.9 million primarily due to COVID-19 impact which resulted in slowing down project activities and collecting less developer fees as well as decreased sales tax, transient occupancy tax, and other tax receipts.
- Total City-wide expenses were \$188 million, an increase of \$22 million from the prior year's \$166 million primarily due to increase in personnel and benefit costs.

Fund Level:

- Governmental Fund balances were \$279.9 million, a net increase of \$7.4 million from fiscal 2019 primarily due to an increase of \$13.9 million in the Transit Area Impact Fee Fund offset with a decrease of \$5.9 million in the General Fund.
- Governmental Fund revenues were \$141.2 million in fiscal 2020, down \$20.1 million from the prior year's \$161.3 million, primarily due to COVID-19 related impacts which resulted in slowing down project

activities causing the City to collect less developer fees compared to the prior year as well as decreased sales tax, transient occupancy tax, and other tax receipts.

- Governmental Fund expenditures were \$139.1 million in fiscal 2020, an increase of \$17.2 million from fiscal 2019 level of \$121.9 million primarily due to increases in capital outlay and personnel and benefits cost.
- General Fund revenues of \$99.4 million represented a decrease of \$8.7 million from fiscal 2019 revenues of \$108.1 million caused primarily by decreased sales tax, transient occupancy tax, and other tax receipts.
- Net other financing uses of the General Fund were (\$2.5) million in fiscal 2020 while fiscal 2019 had a total other financing uses of (\$6.9) million. The decrease is due to less General Fund funds being transferred out to fund capital projects in fiscal year 2020.
- General Fund fund balance of \$94.8 million, which includes unassigned, assigned, committed and non-spendable fund balance accounts, at the fiscal 2020 year-end was net \$5.9 million less than the fund balance at fiscal 2019 year-end in the amount of 100.7 million primarily due to a decrease in the unassigned fund balance of \$6.3 million. The unassigned fund balance account net decreased from \$40.7 million to \$34.4 million primarily due to transfers to the General Government Capital Improvement Fund (\$4 million) and the Affordable Housing Unrestricted Fund (\$2 million).

Memorandum on Internal Control (MOIC) - Under generally accepted auditing standards, the City's auditors are encouraged to report certain matters regarding the City's internal control structure. The City's auditors have provided such a report in their Memorandum on Internal Control ("MOIC") for the Year Ended June 30, 2020. There are no items reported as significant deficiencies and material weakness by the auditors regarding the City's internal control structure. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is reasonable possibility that a material misstatement of the City's financial statements will not be prevented or detected and correct on a timely basis.

Required Communications Report – Our auditors are required to communicate information related to the audit and financial statements under generally accepted auditing standards and *Government Auditing Standards*. The City's auditors have provided such a report in their Required Communications for the Year Ended June 30, 2020. Please note the following from the Required Communications Report:

- 1) The City's auditors noted no transactions entered into the by the City during the year for which there was a lack of guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period. However, events that occurred during fiscal year June 30, 2020 discussed below could have an impact to financial statements.

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses and shelter in place orders for all but those deemed essential services. While the business disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings and whether shelter in place orders will be reinstated. Although many of the City's services are considered essential, City Hall was closed to the public, certain other services transitioned to online-only and because the City's major revenue sources, including businesses that collect sales and transient occupancy taxes, are directly impacted by these events, it is probable that

this matter will negatively impact the City. However, the ultimate financial impact and duration cannot be reasonably estimated at this time

- 2) The City's auditors encountered no significant difficulties in dealing with management in performing and completing their audit.
- 3) The City's auditors discovered no material misstatements, either individually or in their aggregate, to each opinion unit's financial statements taken as a whole.
- 4) The City's auditors encountered no disagreements with management during the course of their audit.

Agreed Upon Procedures Report on Compliance with the Appropriations Limit Increment - This report shows that the auditor applied specific procedures to validate the City's Appropriations Limit ("Gann Limit") calculations. The appropriations limitation imposed by Propositions 4 (1979) and later amended by Proposition 111 (1990) creates a restriction on the amount of government revenue which may be appropriated in any fiscal year. The Appropriations Limit is based on actual appropriations during the base year (1986-87 or the first full year of operation), and increases each year using specified growth factors. The Appropriations Limit applies only to those revenues defined as "proceeds of taxes." Certain expenditures of tax proceeds do not count as Appropriations Subject to Limit including those for voter approved debt, qualified capital outlay, and the costs of complying with court orders and federal mandates. Staff prepares an updated Appropriations Limit in May of each year and presents to Council for review and approval during the budget preparation process.

Policy Alternative:

Not applicable.

Fiscal Impact:

There is no fiscal impact from this report other than staff time to prepare the report.

California Environmental Quality Act:

Not applicable.

Recommendation:

Accept the City's Comprehensive Annual Financial Report and other Related Annual Audited Reports for the Fiscal Year ended June 30, 2020.

Attachments:

- A. Comprehensive Annual Financial Report for FY 2019-20
- B. Memorandum on Internal Control for FY 2019-20
- C. Required Communications for FY 2019-20
- D. Agreed Upon Procedures report on Compliance with the Appropriations Limit Increment FY 2019-20