



## CITY OF MILPITAS AGENDA REPORT (AR)

<b>Item Title:</b>	<b>Accept the City's Comprehensive Annual Financial Report and Other Related Annual Audited Reports for the Fiscal Year Ended June 30, 2019</b>
<b>Category:</b>	Consent Calendar-Leadership and Support Services
<b>Meeting Date:</b>	12/3/2019
<b>Staff Contact:</b>	<b>Walter C. Rossmann, 408-586-3111</b>
<b>Recommendations:</b>	Accept the City's Comprehensive Annual Financial Report and other Related Annual Audited Reports for the Fiscal Year ended June 30, 2019.

### **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, 2019, this staff report also presents the Bicycle/Pedestrian Projects Financial Statements, 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:**

#### **Comprehensive Annual Financial Report**

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, 2019, in conformance with Generally Accepted Accounting Principles (GAAP).

Highlights and items to note from the CAFR for the fiscal year ended June 30, 2019 are summarized below:

#### **City-wide (Governmental and Business-type activities)**

- The City's total net position was \$609.9 million at June 30, 2019. Of this total, \$406.7 million were for Governmental and \$203.2 million Business-type activities.
- City-wide revenues include program revenues of \$126.1 million, general revenues and transfers of \$89.8 million, totaling \$215.9 million, an increase of \$39.2 million from the prior year's total of \$176.7 million.
- Total City-wide expenses were \$166 million, an increase of \$17.2 million from the prior year's \$148.8 million.

#### **Fund Level**

- Governmental Fund balances were \$272.5 million, an increase of \$42.8 million from fiscal 2018.
- Governmental Fund revenues were \$161.3 million in fiscal 2019, up \$23 million from the prior year's \$138.5 million.
- Governmental Fund expenditures were \$121.9 million in fiscal 2019, an increase of \$8.9 million from fiscal 2018's level of \$113 million.

- General Fund revenues of \$108.1 million represented an increase of \$9 million from fiscal 2018's revenues of \$99.1 million.
- General Fund balance of \$100.7 million at the fiscal 2019 year-end was \$7.8 million more than the fund balance at fiscal 2018 year-end.

**General Fund Surplus**

For the fiscal year ended June 30, 2019, the City's General Fund realized revenues of \$108,104.033, other financing sources of \$6,910,105 (indirect cost payments of transfer in from utility funds offset by transfers out to capital projects, affordable housing, and equipment maintenance funds), and expenditures of \$93,348,742. This resulted in a one-time General Fund net surplus of \$7,845,186 and is shown on page 28 of the CAFR as Net Change in Fund Balance. The surplus resulted from slightly better than expected economic conditions, vacancy savings in several departments related to difficulties in filling positions and a tightening labor supply, and overall fiscal restraint citywide.

General Fund revenues that significantly exceeded expectations include the following:

- Property Taxes: \$0.5 million over budgetary estimates
- Sales Taxes: \$0.6 million over budgetary estimates
- Use of money and property: \$3.2 million (including \$0.7 million in investment market gain) over budgetary estimates

General fund expenditures that were significantly under budgetary appropriations by department include the following:

- Building and Safety: under budget by \$1.3 million
- Engineering: under budget by \$1.0 million
- Police: under budget by \$2.0 million
- Non-Departmental (includes utilities, contingency reserve expenditures, leave payouts, insurance settlements, etc.): under budget by \$4.0 million

Consistent with the General Fund Reserve Policies, staff allocated the FY 2018-19 budget surplus of \$11.9 million as outlined in the table below:

	<b>General Fund Surplus Allocation</b>	<b>Reserve Policy and other Adjustments</b>
<b>FY 2018-19 Budget Surplus prior to allocations</b>	<b>\$11.9 million</b>	
	(\$2.0 million)	CalPERS Savings allocated to CalPERS Rate Stabilization Reserve
<b>Subtotal</b>	<b>\$9.9 million</b>	
	(\$1.9 million)	20% transfer to the PERS Stabilization Reserve
	(\$1.9 million)	20% transfer to the General Government CIP Fund
	(\$1.0 million)	10% transfer to the Affordable Housing Fund
	(\$1.0 million)	10% transfer to the Transportation/Transit Fund
	(\$0.1 million)	Adjustment for SAFER Grant
	(\$4.0 million)	Allocation to the Unassigned General Fund Reserve
<b>FY 2018-19 Budget Surplus fully allocated</b>	<b>\$0</b>	

***Bicycle/Pedestrian Projects Financial Statements*** – The Bicycle/Pedestrian Projects Financial Statements includes Projects that were developed using Transportation Development Act (TDA) grant. The auditor issued an unqualified opinion on these statements.

***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, 2019. This report includes management's response to the auditor's recommendations on:

- Reconciliation of Parking Citations to Collections: The City's Police Department contracts with a third-party administrator to process and collect fees associated with parking citations. The City mails out the original parking citations to the third-party administrator for the processing of collections and delinquencies. On a monthly basis, the third-party will send a report along with the collected fees to the Finance Department. The parking citations provided to administrator should be reconciled to the collection fees remitted to the City on a monthly, or at least quarterly, basis.  
Management Response: Finance has worked with the Police Department to develop a monthly reconciliation process effective April 2019 to ensure tickets and receipts are accounted for on a timely basis.
- Compliance with CAL-Card Manual and Procedures over Review and Approval of Monthly Statements: The City's CAL-Card Manual dated August 25, 2017 requires that monthly Statement of Accounts must be reviewed, reconciled and approved by the Cardholder and Approving Official within a maximum of 10 working days from the Cardholder's receipt of the Statement of Account. The auditor selected two billing cycles, a total of six Statements for testing, and five out of the six were not reviewed within the 10-working day as required by the Manual. Delays in reviewing and approving Statements results in a delay in Accounts Payable processing the Statement for payment to the U.S. Bank, and potential fraudulent charges not being reported timely.  
Management Response: Staff is developing a process to improve timely submittal of approved monthly statements

These two items discussed above are identified as Schedule of Other Matters on the report. 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 our 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, 2019. 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.
- 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(s):**

Not applicable.

**Fiscal Impact:**

There is no fiscal impact from this report other than staff time to prepare the report. The General Fund surplus in the amount of \$7,845,186 was allocated in accordance with the City Council reserve policy.

**California Environmental Quality Act:**

Not applicable.

**Recommendations:**

Accept the City's Comprehensive Annual Financial Report and other Related Annual Audited Reports for the Fiscal Year ended June 30, 2019.

**Attachments:**

1. Comprehensive Annual Financial Report for FY 2018-19
2. Bicycle/Pedestrian Projects financial Statements Report for FY 2018-19
3. Memorandum on Internal Control for FY 2018-19
4. Required Communications for FY 2018-19
5. Agreed Upon Procedures report on Compliance with the Appropriations Limit Increment FY 2018-19