



Fremont City Council

3300 Capitol Avenue
Fremont, CA 94538

SCHEDULED

Meeting: 03/05/19 07:00 PM
Div/Dept: Finance Department
Category: Presentations

STAFF REPORT (ID # 3685)

Sponsors:
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FISCAL YEAR 2017/18 FINANCIAL AUDIT - Transmittal of Fiscal Year 2017/18 Audit Reports

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Executive Summary: The independent audit of the City's Comprehensive Annual Financial Report ("CAFR") for the fiscal year ended June 30, 2018 by the certified public accounting firm of Macias Gini & O'Connell LLP was completed on December 28, 2018 and posted to the City website. The Single Audit Report, as required for the City's major federal programs, was completed by the auditor on February 19, 2019. In addition, there are other audits that the City is required to undergo; these are generally financial and compliance audits of different sources of funds that the City receives. All of these audits and procedures resulted in unmodified ("clean") opinions from the City's independent auditors. Staff recommends that the City Council receive and file the audit reports.

BACKGROUND: Best financial practices as well as various financing covenants and regulations associated with restricted funding sources require the City to publish a complete set of financial statements each year presented in conformance with generally accepted accounting principles (GAAP). These statements, referred to as the Comprehensive Annual Financial Report or CAFR, are also audited by a firm of licensed certified public accountants. The CAFR for the fiscal year ended June 30, 2018 has been prepared by the City and audited by the certified public accounting firm of Macias Gini & O'Connell LLP (MGO). The CAFR and audit of the City's financial statements were completed on December 28, 2018, and posted on the City's website at that time, with the link provided to the City Council.

MGO has issued an unmodified ("clean") opinion on the CAFR which states that the financial statements are presented fairly, in all material respects. In addition to the opinion letter included in the CAFR document, MGO has prepared a separate Report to the City Council. The purpose of the Report to the City Council is to communicate the scope of audit procedures performed, significant findings, and other information, such as any disagreements with management, audit adjustments, and significant estimates that are not communicated in the audited financial statements.

Following completion of the CAFR, it was submitted to the Governmental Finance Officers Association (GFOA) Certificate for Excellence in Financial Reporting program. The GFOA is a nationally recognized nonprofit professional association serving more than 20,000 finance professionals in the United States and Canada, and the Certificate of Achievement is the highest form of recognition in the area of governmental accounting and financial reporting.

In addition to the audit of the City's financial statements and the Report to the City Council, MGO also prepares a report on compliance for each of the City's major federal programs,

the City's internal controls over compliance, and the City's schedule of expenditures of federal awards. This report, referred to as the Single Audit Report, is required under the audit provisions of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), which applies to all governments that expend \$750,000 or more per fiscal year in federal grant awards. In FY 2017/18 the City's federal expenditures totaled \$8.5 million.

The Single Audit Report is specifically designed to assure federal grantor agencies from which the City receives funds that internal control and compliance with the regulations are maintained, and that appropriate financial statements are properly prepared and submitted when due. The Single Audit Report was completed by MGO on February 19, 2019, with an unmodified opinion on compliance for all major grant programs and a finding of no material internal control weaknesses. If the auditors had found any material internal control weaknesses, they would have been required to report those directly to the City Council and to the federal government.

The reports the auditors issued as a result of the FY 2017/18 audit indicate the City continues to have no material internal control weaknesses.

DISCUSSION/ANALYSIS: The City's financial statements provide information about the finances of the City in its entirety, as well as information about individual funds. The CAFR is organized into the three sections summarized below.

Introductory Section

The Introductory Section includes the Letter of Transmittal, which is designed to complement *Management's Discussion and Analysis* (the MD&A). Both should be read together to understand the City's financial position.

Financial Section

The Financial Section begins with the *Independent Auditor's Report*, followed by the MD&A which serves as an executive summary to the financial statements. Following the MD&A are the *Government-Wide Financial Statements*, which are designed to provide a broad overview of the City's finances similar to a private sector business. These statements show the June 30, 2018 fiscal year balances and overall results of operations for all City funds. The *Statement of Activities* identifies functions of the City that are principally supported by taxes and those that receive program revenues. All of the City's activities are considered to be governmental in nature and as a result no business-type activities are reported in these statements. Governmental activities are those that are principally supported by taxes and program revenues. The governmental activities of the City include general government, police services, fire services, human services, capital assets maintenance and operations, recreation and leisure services, community development and environmental services, and interest on long-term debt.

Following the *Government-Wide Financial Statements* are *Fund Financial Statements* for all major and non-major funds of the City. A major fund is one of material significance and is determined through prescribed calculations. The General Fund is always considered a major fund by definition. Non-major funds are combined in the *Fund Financial Statements* for presentation purposes.

The fund-level statements are followed by the *Notes to the Basic Financial Statements*, which contain information on such topics as: Significant Accounting Policies, Cash and Investments, Capital Assets, Long-Term Obligations, Retirements Benefits, and Other Post Employment Benefits (OPEB).

The *Required Supplementary Information* provides budgetary comparison schedules for the General Fund and the major special revenue funds, a discussion of the City's approach to accounting for its street network infrastructure, and schedules reporting changes in the net pension liability, pension contributions, and OPEB funding progress.

The *Supplementary Section* presents fund financial statements for the non-major governmental funds, the internal service funds, and the agency funds. It also includes financial statements for each of the programs constituting the Human Services Fund

Statistical Section

The last section of the CAFR, which is unaudited, contains schedules of statistical data about the City of Fremont in five major categories: Financial Trends, Revenue Capacity, Debt Capacity, Demographic and Economic Information, and Operating Information. These schedules, generally covering a ten-year period, provide operating context for the financial data presented in the financial section of the CAFR.

The CAFR is available on the City's Financial Information web page, and the CAFR, the Report to the City Council, and the Single Audit Report are attached to this staff report. Copies are also available for review in the City Clerk's Office and in the Finance Department.

FISCAL IMPACT: Unmodified audit reports and no material internal control weaknesses are an indication that City funds are being spent appropriately and as intended by the City Council, grantor agencies, and federal and State laws. They also help maintain the City's favorable bond ratings.

ENVIRONMENTAL REVIEW: None required.

LINK to Attachment:

- [Comprehensive Annual Financial Report for the Year Ended June 30, 2018](#)

ATTACHMENTS:

- fremont sas 114 letter - final2 (Temp) (Converted)
- fremont single audit report - fy 2018 - final2 (Temp) (Converted)

RECOMMENDATION: Receive audit reports and file.