



# City of Sunnyvale

## Agenda Item-No Attachments (PDF)

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### REPORT TO COUNCIL

#### **SUBJECT**

Receive and File the FY 2016/17 Comprehensive Annual Financial Report (CAFR), Sunnyvale Retiree Healthcare Plan Report, and Sunnyvale Financing Authority Financial Report

#### **REPORT IN BRIEF**

This report is intended to present the City's audited Comprehensive Annual Financial Report (CAFR), Sunnyvale Retiree Healthcare Plan Report, and Sunnyvale Financing Authority Financial Report for FY 2016/17 for Council's information.

All three reports were independently audited by the firm of Macias Gini & O'Connell (MGO) who rendered unmodified opinions and found no material weaknesses during the financial audit of the City and with issuance of those reports. Receiving an unmodified opinion is the optimal result from the independent audit.

#### **BACKGROUND**

Each year, staff coordinates and facilitates completion of the annual audit with the independent auditor. For the annual audit process, staff prepares a number of audit schedules and responds to audit queries while the auditor examines the City's financial transactions and reviews records. The independent auditor conducts the audit, according to the auditing standards generally accepted in the United States of America and the Governmental Auditing Standards, issued by the Comptroller General of the United States. Along with completion of the audit, each year, staff prepares the City's Comprehensive Annual Financial Report (CAFR) and Sunnyvale Financing Authority Financial Report, which includes the auditor's opinion and audited financial statements.

#### **EXISTING POLICY**

**City Charter, Section 1318, *Independent Audit***, requires that an independent audit be conducted of the City's financial transactions at the end of each fiscal year. A final audit and report shall be submitted by a Certified Public Accountant to the City Council.

#### **ENVIRONMENTAL REVIEW**

The action being considered does not constitute a "project" with the meaning of the California Environmental Quality Act ("CEQA") pursuant to CEQA Guidelines section 15378 (b) (4) in that it is a fiscal activity that does not involve any commitment to any specific project which may result in a potential significant impact on the environment.

#### **DISCUSSION**

The City's Comprehensive Annual Financial Report (CAFR) is prepared annually to meet City Charter Section 1318 requirement and was previously submitted to Council as an attachment to the Year-End Budgetary Report.

The CAFR, which is prepared in the format prescribed by the Governmental Accounting Standards Board (GASB), contains the Independent Auditor's Report, Management's Discussion and Analysis, Basic Financial Statements with Notes and Required Supplementary Information, Supplementary Information, and the Statistical Section. This report is provided as Attachment 1.

The City's independent audit was performed by the firm of Macias Gini & O'Connell (MGO) who rendered an unmodified opinion on the City's CAFR. Receiving an unmodified opinion is the optimal result from the independent audit. In addition to the opinion on the CAFR, the independent auditors also issue a Report to the City Council. It contains audit findings including any material weaknesses or significant issues discovered during the audit. The audit found no material weaknesses or significant issues. The report is provided as Attachment 2.

Effective with the FY 2014/15, with the implementation of the GASB Statement No.68, the City's net pension liability, representing unfunded pension obligations, is now presented as a liability on the statement of net position, previously the information was provided as part of the *Notes to the Basic Financial Statements* section of the CAFR. The Net Pension Liability line totaled \$329.4 million as of June 30, 2017. It is important to note that the City, like most other local agencies, has had a significant unfunded pension liability for several years and the reporting of this liability does not require changes to the City's plans to fund its pension liability. Although, through the City's long-term financial planning process, Sunnyvale began to address the liability several years ago, with higher than required contributions to CalPERS and funding of a pension uncertainty reserve that will continue to address the liability into the future. Staff has also initiated the process to establish a Pension Trust Fund, which is planned to be put into place with the FY 2018/19 Budget.

A new reporting standard, the GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* is effective for FY 2017/18. This Statement requires that governmental agencies that provide other post-employment benefits (OPEB) to their employees present the net OPEB liability on the Statement of Net Position. Currently, the OPEB liability, representing unfunded retirement obligations other than pensions, is reported in the *Notes to the Basic Financial Statements* section of the CAFR. Preparing for implementation of the new OPEB reporting standard, staff completed an audited stand-alone report of the Sunnyvale Retiree Healthcare Plan at the end of June 30, 2017. The Report establishes beginning OPEB fund balance to be used in the calculation of the net OPEB liability at June 30, 2018. The OPEB liability reporting standard is parallel to the pension liability reporting standard (GASB Statement No. 68) and does not require changes to the City's plan to fund its OPEB liability. With the requirement to disclose the OPEB liability, the City began funding the OPEB Trust Fund since 2011 and has budgeted to pay the full annual required contribution over the long-term plan until the OPEB liability is fully funded, which is anticipated to occur at the end of the 20-year planning period. As of June 30, 2017, the OPEB Trust Fund net position balance was \$83 million with an unfunded liability of \$84 million. The report is provided as Attachment 3.

### **Sunnyvale Financing Authority Report**

The Joint Exercise of Powers Agreement creating the Sunnyvale Financing Authority by and between the City of Sunnyvale and the former Redevelopment Agency of the City of Sunnyvale requires that "the Controller of the Authority shall either make, or contract with a certified public accountant or public accountant to make, an annual audit of the accounts and records of the Authority...a report

thereof shall be filed as a public record with each of the Member Agencies.” The Sunnyvale Financing Authority Report is prepared annually to meet this requirement and is submitted to Council as Attachment 4 to this report.

The Sunnyvale Financing Authority Report, which is prepared in the format prescribed by the Governmental Accounting Standards Board (GASB), contains the Independent Auditor’s Report, Management’s Discussion and Analysis, Basic Financial Statements, and the Notes to Basic Financial Statements.

### **FISCAL IMPACT**

There is no fiscal impact associated with this action.

### **PUBLIC CONTACT**

Public contact was made by posting the Council agenda on the City’s official-notice bulletin board outside City Hall, at the Sunnyvale Senior Center, Community Center and Department of Public Safety; and by making the agenda and report available at the Sunnyvale Public Library, the Office of the City Clerk and on the City’s website.

### **ALTERNATIVES**

1. Receive and file the audited Comprehensive Annual Financial Report, the Sunnyvale Retiree Healthcare Plan Report, Sunnyvale Financing Authority Financial Report, and the Report to the City Council issued by the independent auditors.
2. Other action as determined by Council.

### **STAFF RECOMMENDATION**

Alternative 1: Receive and file the audited Comprehensive Annual Financial Report, the Sunnyvale Retiree Healthcare Plan Report, Sunnyvale Financing Authority Financial Report, and the Report to the City Council issued by the independent auditors.

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Reviewed by: Teri Silva, Interim Assistant City Manager  
Approved by: Kent Steffens, Interim City Manager

### **ATTACHMENTS**

1. Comprehensive Annual Financial Report
2. Report to the City Council
3. Sunnyvale Retiree Healthcare Plan Report
4. Sunnyvale Financing Authority Financial Report

Attachments 1 and 4 are also posted on the City website at  
<https://sunnyvale.ca.gov/government/budget.htm>