



March 9, 2017

Agenda Item # **10**

COMPREHENSIVE ANNUAL FINANCIAL REPORT - JUNE 30, 2016

Action Requested: Receive and file

Key Staff: Timothy Jones, Accounting Manager

Recommendation

Receive and file the June 30, 2016 Comprehensive Annual Financial Report (CAFR) and the Governance, Management, and Appropriations Limit letters from the independent auditor.

Background

Under the New Measure A Ordinance, the Independent Taxpayer's Oversight Committee (ITOC) is charged with supervising annual fiscal audits performed in accordance with generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States. Using a competitive procurement process, Richardson and Company was engaged under a multi-year contract to conduct fiscal audits of all expenditures related to sales tax funds, the Sacramento Abandoned Vehicle Service Authority (SAVSA), and the Freeway Service Patrol Program (FSP). The ITOC reports its findings to the Authority, and recommends any additional audits that the it believes may improve the financial operation and integrity of each program's implementation

Discussion

There are four attachments with this staff report – The Comprehensive Annual Financial Report, Governance Letter, Management Letter, and the Appropriations Limit Letter.

Comprehensive Annual Financial Report – In its audit opinion, Richardson and Company reported no findings. In addition, the opinion states that the CAFR presents fairly, in all material respects, the financial position of the Authority. The opinion also makes note of a restatement that is explained in Note 12 of the financial statements. This material restatement was caused by a change in internal policy that results in financial information that is more closely aligned with Generally Accepted Accounting Principles (GAAP).

As found in note 12 of the CAFR, the Authority identified certain revenue and expenditures that were not reported in its financial statements for the period ending June 30, 2015. Therefore, an adjustment of the financial statements for the period ending June 30, 2016 was warranted.

Revenue – In July and August each year, the Authority receives an advance on the sales tax revenue collected in May and June. Then in September each year, it receives a final payment for the difference between the total amount of the advances for the last quarter of the previous fiscal year (April through June) and the total sales tax revenue it is due. In the past, the Authority’s availability period had been 60 days, which the September payment fell outside of. However, this payment is typically 2-4 million dollars, which is material to the Authority. Therefore, Authority management changed its policy and related availability period to 90 days to allow for the accrual of the September final payment into the year it was earned. This change resulted in a \$2.447 million increase to the June 30, 2015 fund balance.

Expenditures – the Authority receives monthly advances of Measure A sales tax revenue, Under the Measure A Ordinance, the revenue is allocated and expensed formulaically to specific jurisdictions. The revenue and related expenditures are incurred at the same time – effectively passed through to each jurisdiction. However, the Authority’s past practice was to accrue the revenue collected in July and August in the year it was earned, but not the related expenditures. After a careful review of its past practice, Authority management determined that since expenditures are incurred at the same time revenue is earned, a better practice is to accrue the expenditures related to the revenue collected subsequent to year-end at the same time. Therefore, a restatement was necessary to shift the expenditures related to the July, August, and September 2015 revenue allocations into the fiscal year ending June 30, 2015. This change resulted in a \$15.472 million decrease to the June 30, 2015 fund balance.

Governance Letter – This letter summarizes the auditor’s responsibilities under generally accepted auditing standards and communicates certain information related to the scope and timing of the audit.

Management Letter – This letter attests to the accuracy of the financial statements that were submitted to the auditor for their analysis. This letter is signed following completion of the audit, and before the financial statements are issued along with the auditor’s opinion.

Appropriations Limit Letter – This letter summarizes the procedures performed by the auditor in accordance with the American Institute of Certified Public Accountants to ensure the Authority’s compliance with Section 1.5 of Article XIII B of the California Constitution.

Attachments