

City of Yuba City

Presentation to The City Council

December 19, 2017

Presented by: **Ahmed Badawi, CPA**
Partner



Badawi & Associates
Audit of the
City of Yuba City

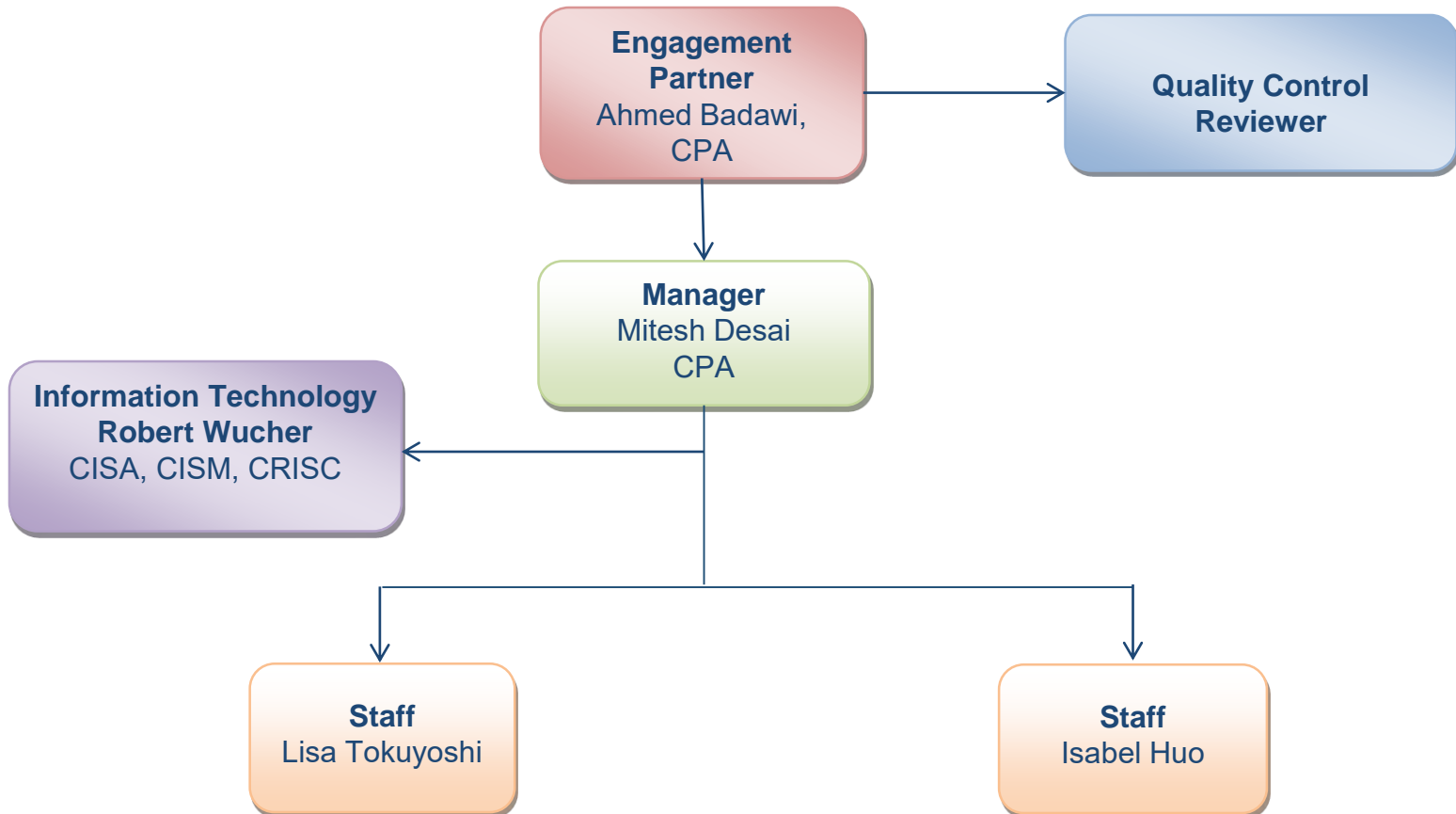
Agenda

- Engagement Team
- Deliverables and Scope of the Audit
- Areas of Primary Emphasis
- Auditors Report and Financial Statements
- Required Communications
- New Accounting Standards
- Conclusion & Discussion/Questions

Engagement Team



Engagement Team



Deliverables and Scope of the Audit

- Report of Independent Auditors on City of Yuba City Basic Financial Statements
- Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters
- Report on Compliance and on Internal Control Over Compliance with Major Federal Award Programs
- Agreed-Upon Procedures Report on Appropriation Limit Schedule
- Communications With Those Charged With Governance
 - Letter used to summarize communication of various significant matters to those charged with governance.

Areas of Primary Audit Emphasis

- Revenues & Receivables (Tax, Grants, Notes and Others): Improper revenue recognitions
 - Governmental Funds:
 - Confirmed/validated property taxes, sales taxes, franchise taxes & other significant revenues/receivables.
 - Proprietary Funds:
 - Confirmed amounts recorded with the County of Sutter.
- Pension: Complex accounting standard
 - Reviewed journal entries for pension.
 - Agreed amounts recorded to reports provided by CalPERS and CalPERS' Auditors and performed testing of census information used by CalPERS.
- Management override of controls
 - Review of accounting estimates for bias
 - Examination of manual journal entries
 - Evaluation of business rationale for unusual transactions



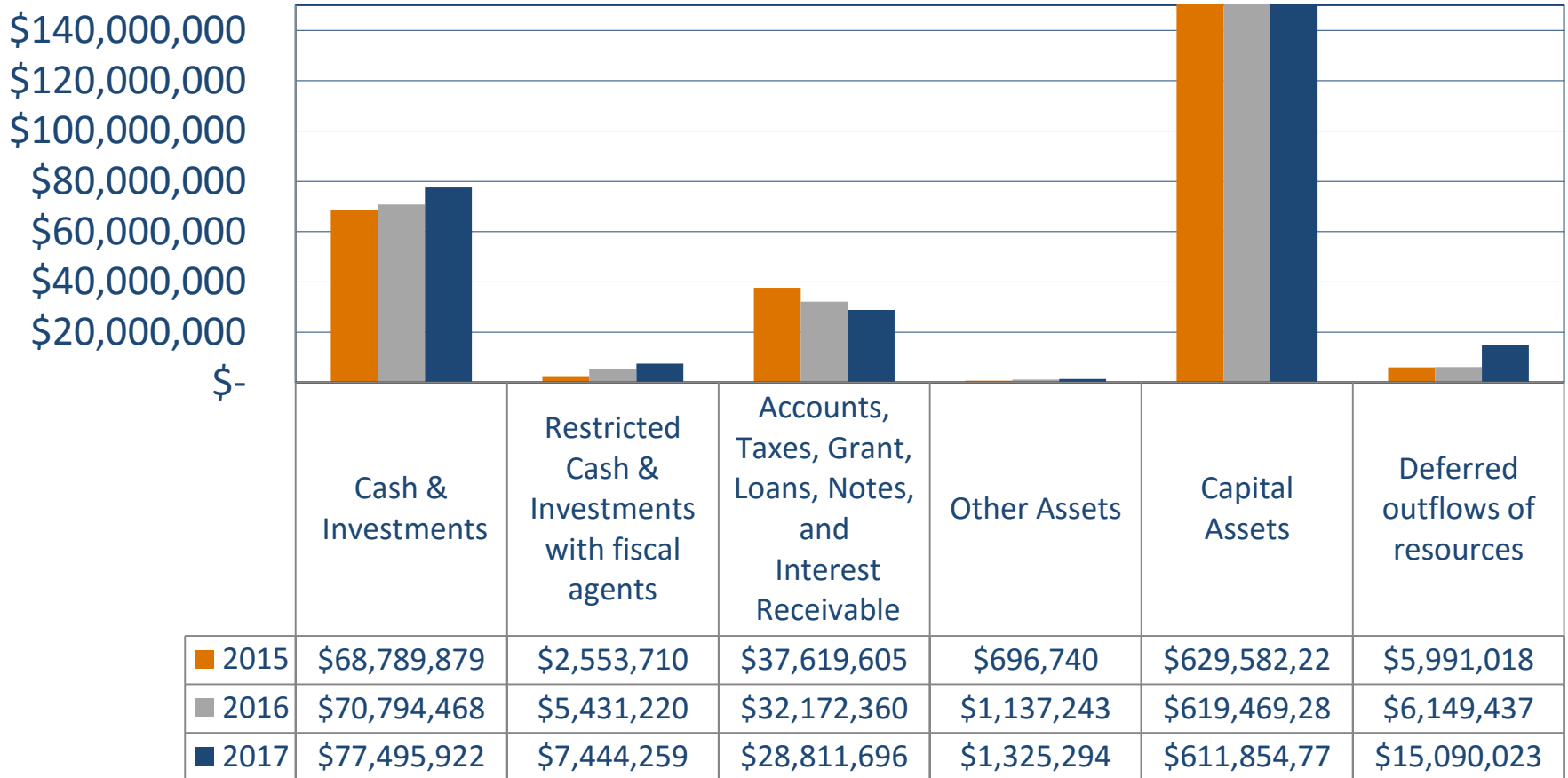
Auditors Report

- Unmodified opinion
- Audit performed in accordance with Generally Accepted Auditing Standards, Government Auditing Standards and Uniform Guidance
- Financial statements are fairly presented in all material respects
- Significant accounting policies have been consistently applied
- Estimates are reasonable
- Disclosures are properly reflected in the financial statements



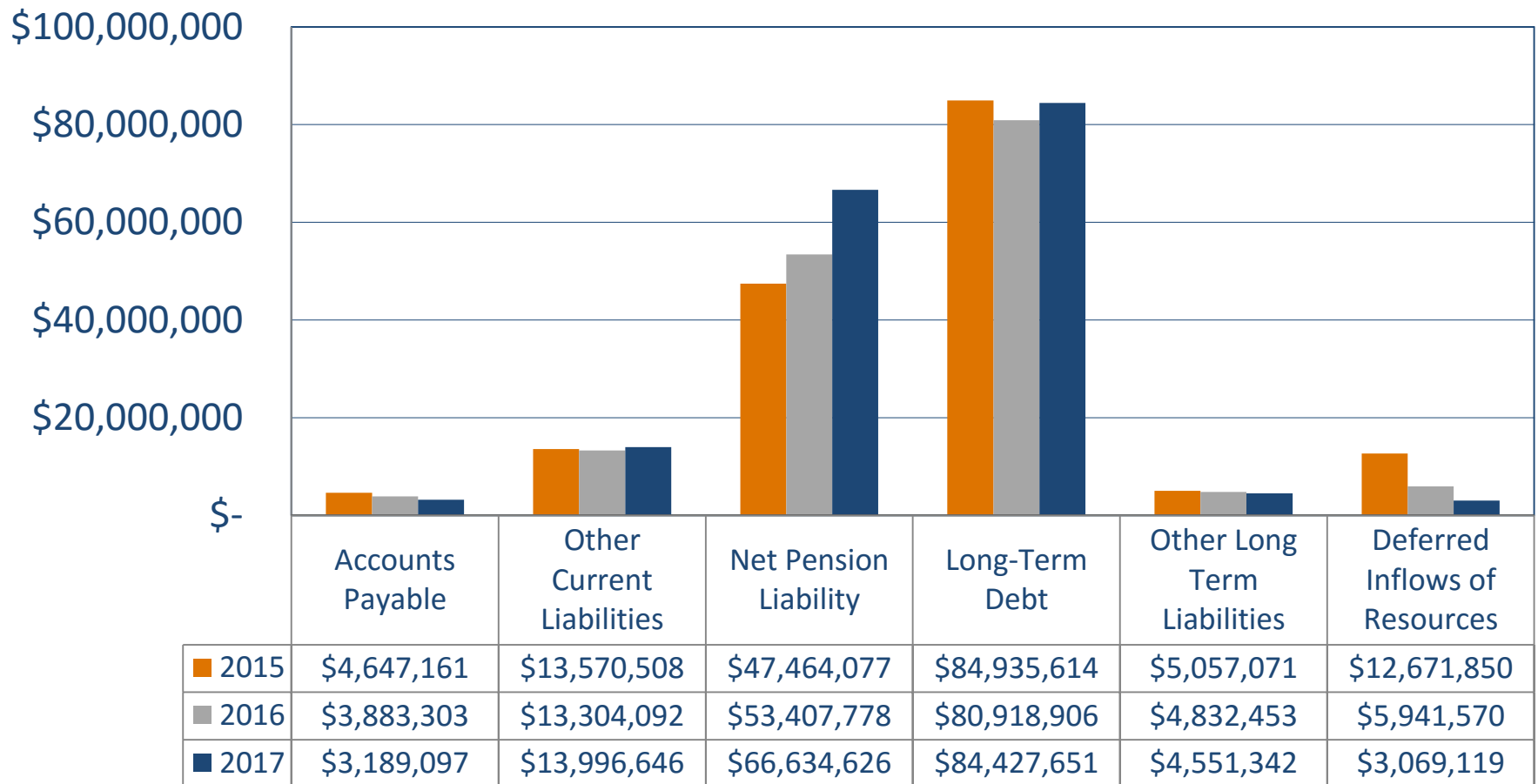
Government-Wide Financial Statements

Assets and Deferred Outflows of Resources



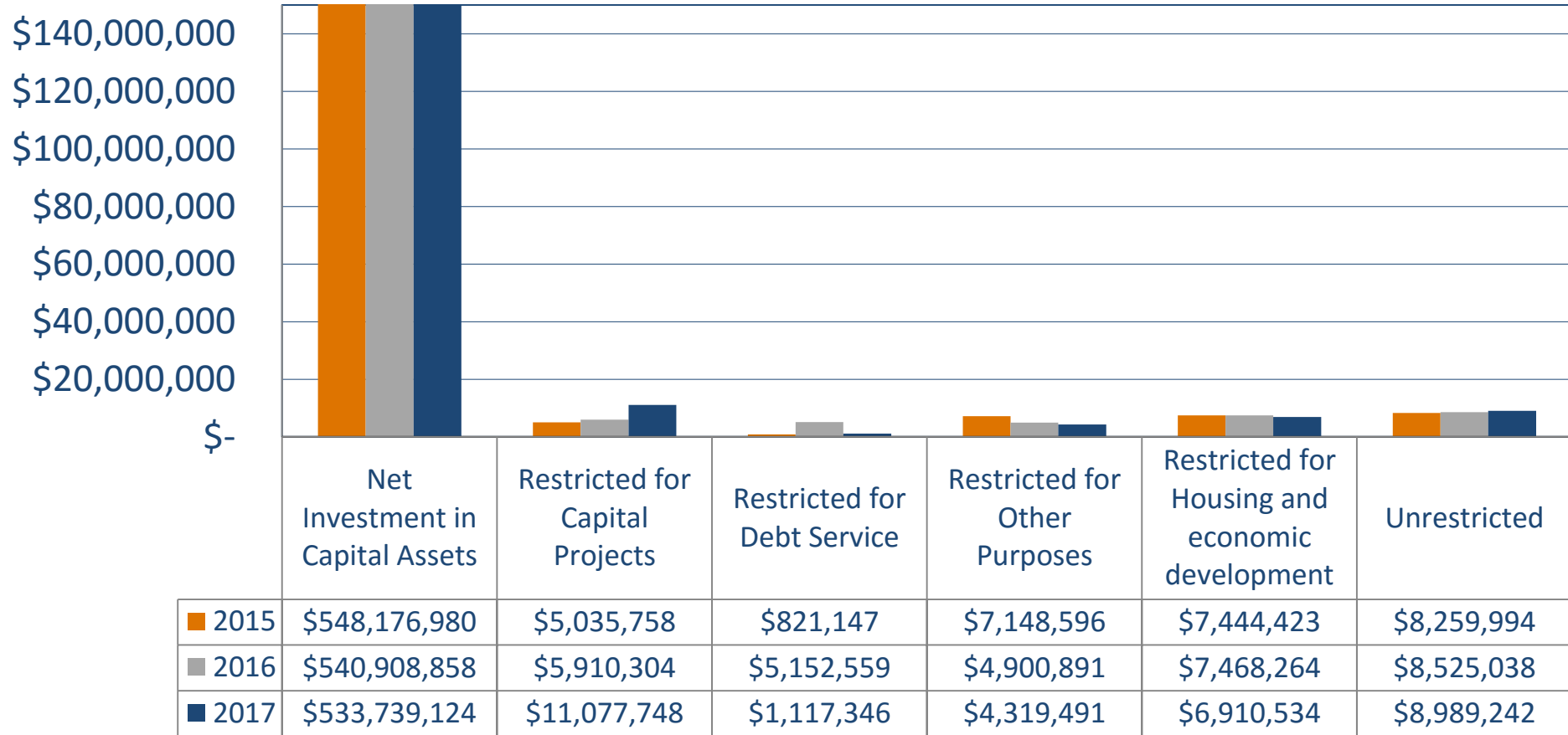
Government-Wide Financial Statements

Liabilities and Deferred Inflows of Resources



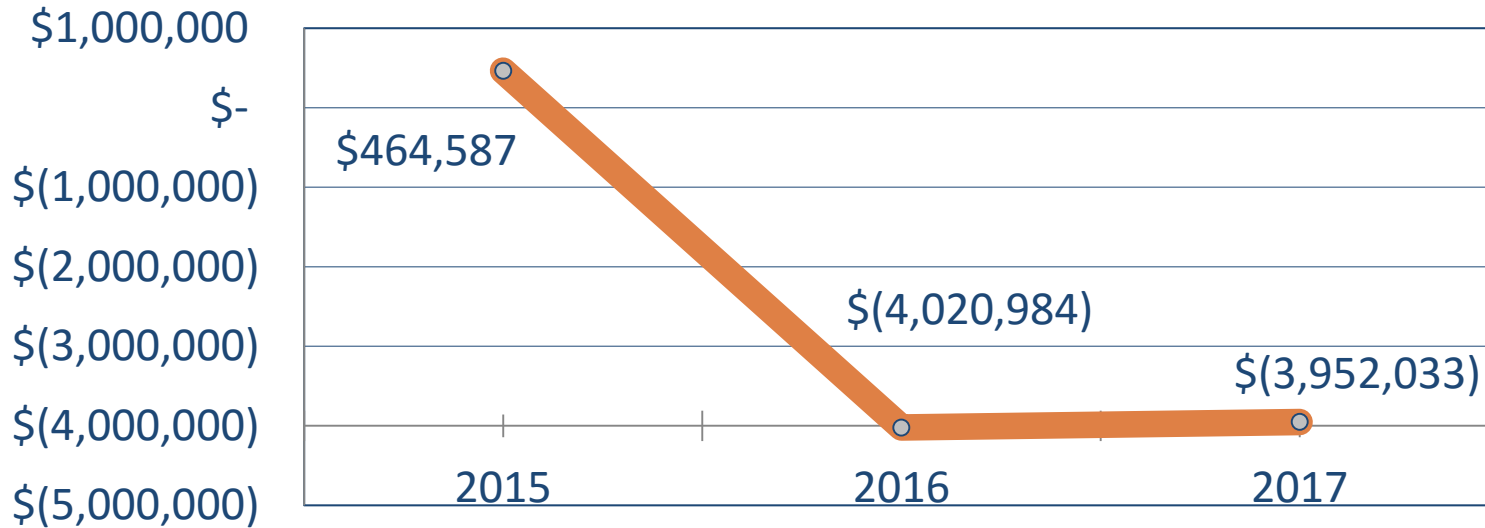
Government-Wide Financial Statements

Net Position



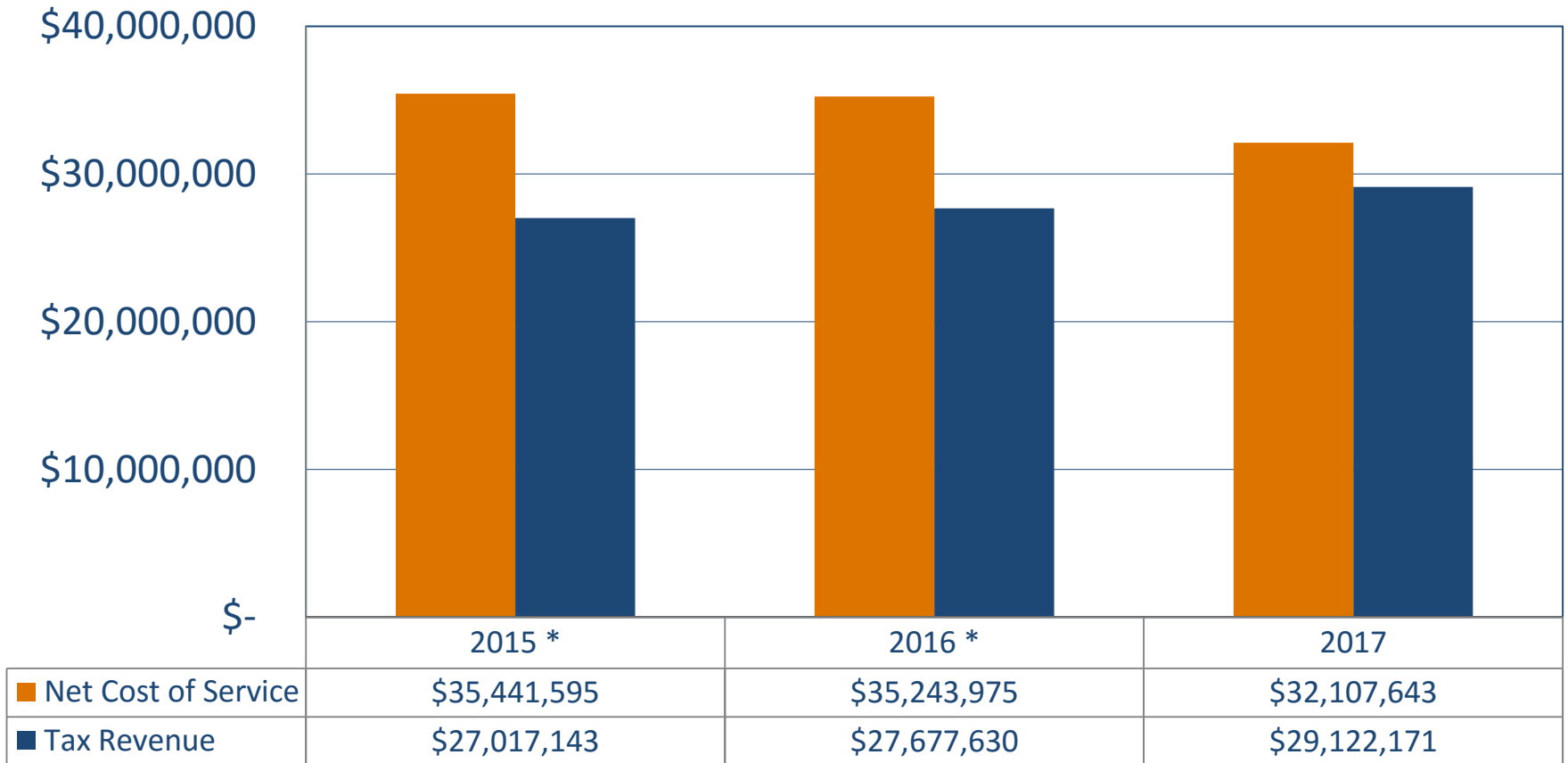
Government-Wide Financial Statements

Changes in Net Position



Government-Wide Financial Statements

Net Cost of Service to Tax Revenue



* Transfers into Government activities from Business type activities in fiscal year 2015 and 2016 were reclassified to inter-fund charges for comparative purposes

General Fund

Expenditure Coverage

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Unrestricted Fund Balance	<u>\$ 10,846,075</u>	<u>\$ 6,598,182</u>	<u>\$ 7,190,552</u>
Total Expenditures	<u>\$ 35,549,264</u>	<u>\$ 37,299,172</u>	<u>\$ 39,414,518</u>
Unrestricted Fund Balance as a % of Total Expenditures	<u>30.51%</u>	<u>17.69%</u>	<u>18.24%</u>
Number of months	3.7	2.1	2.2

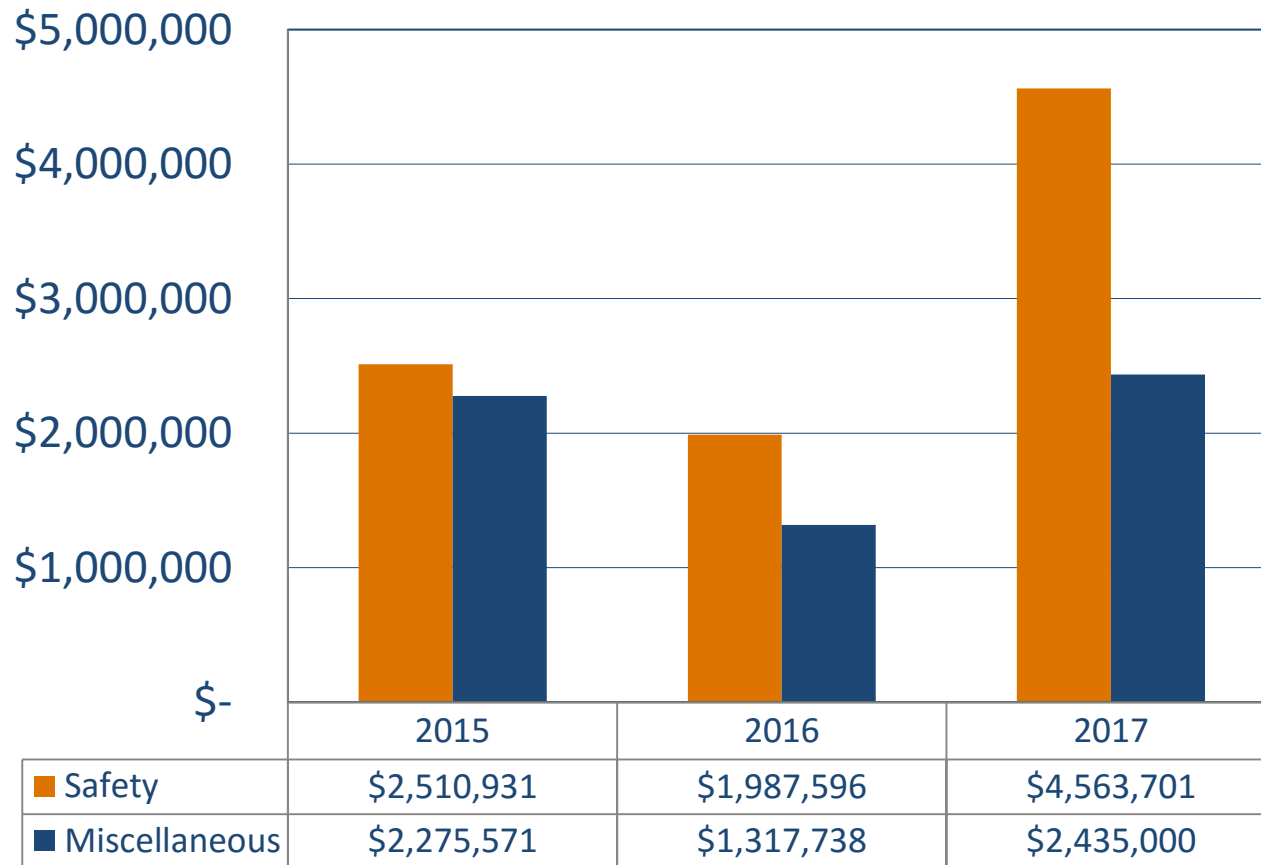
GFOA recommendation

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Measure of City's ability to operate with no revenues using available net position.

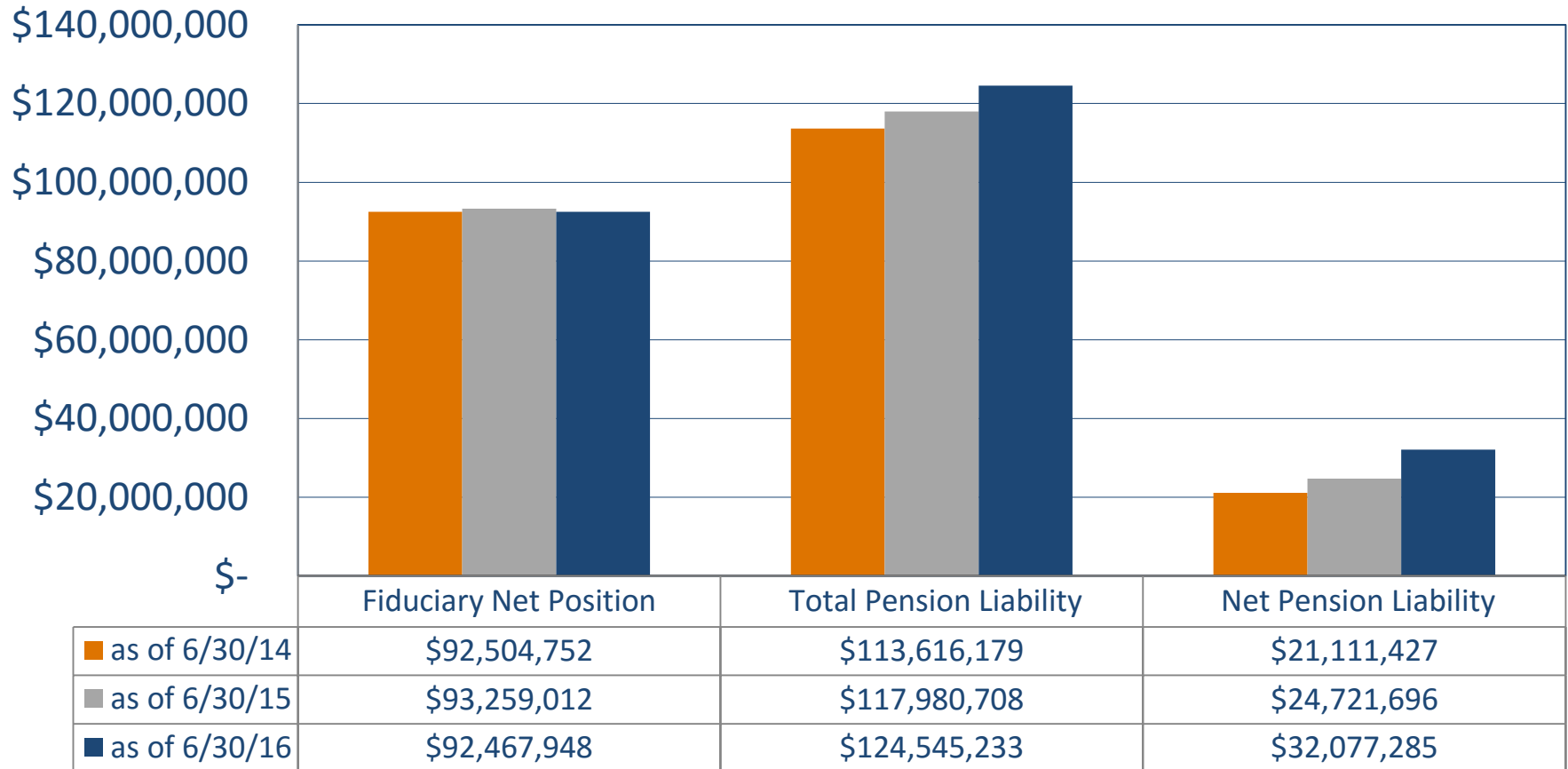
Other Financial Information

City's Annual Pension Expense



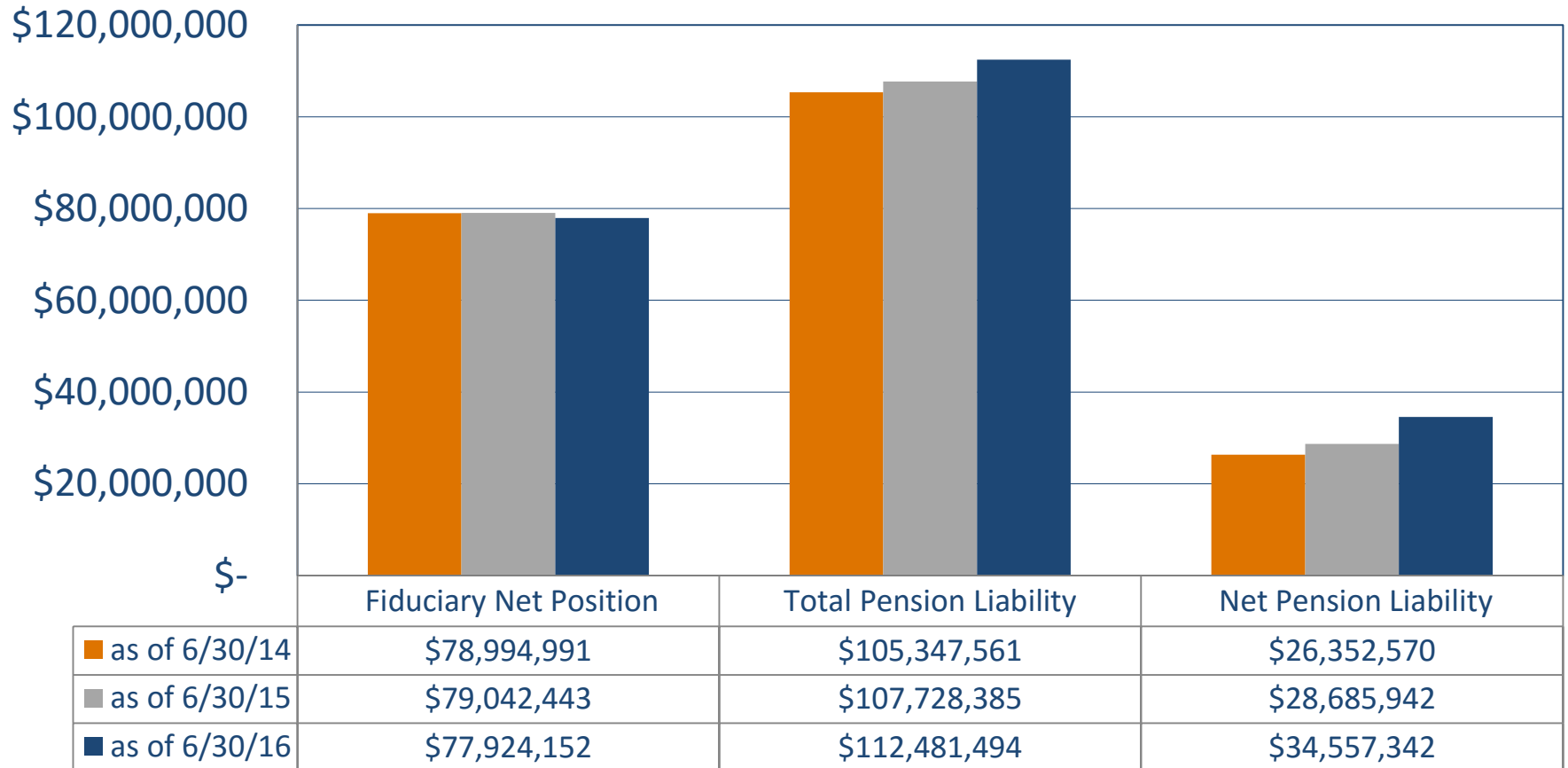
Other Financial Information

City's Pension Funded Status - Safety



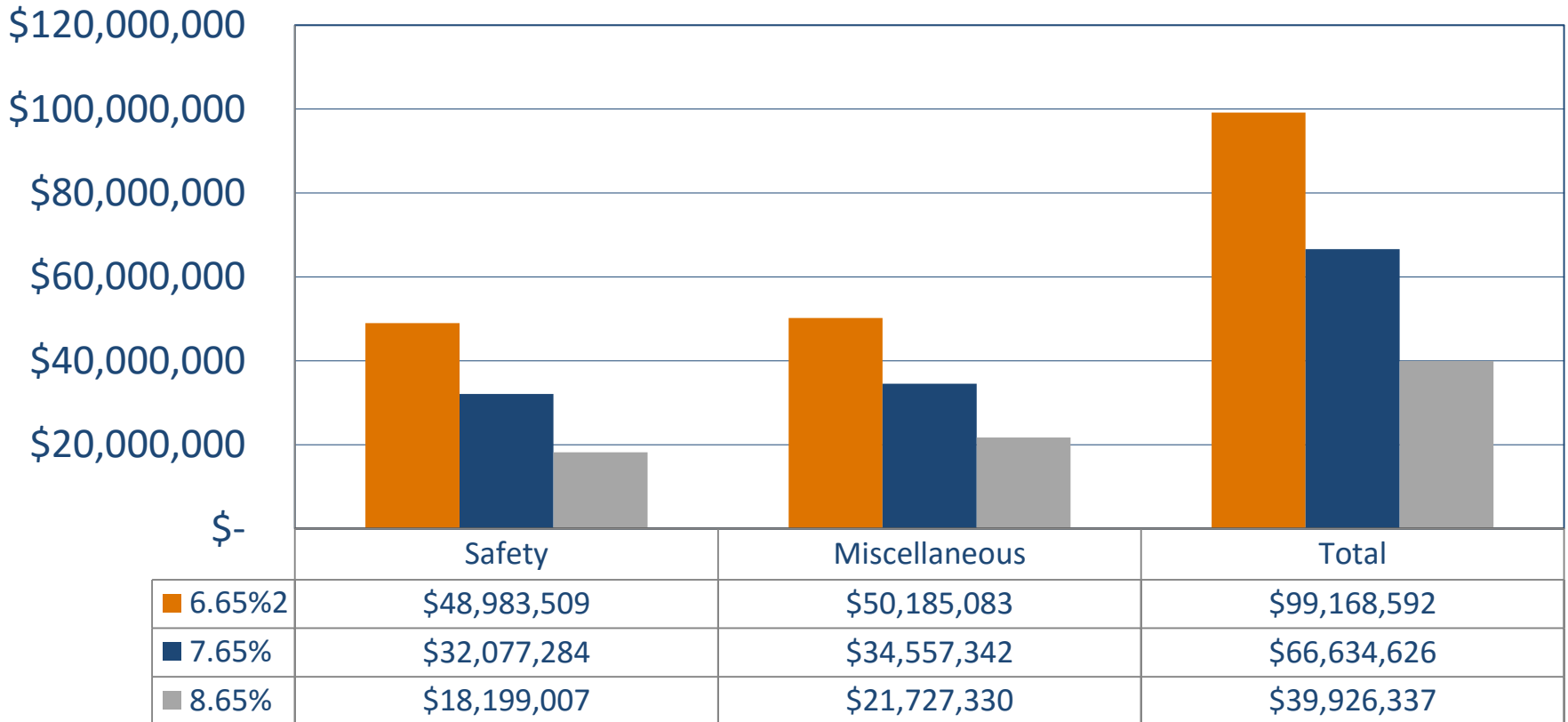
Other Financial Information

City's Pension Funded Status - Miscellaneous



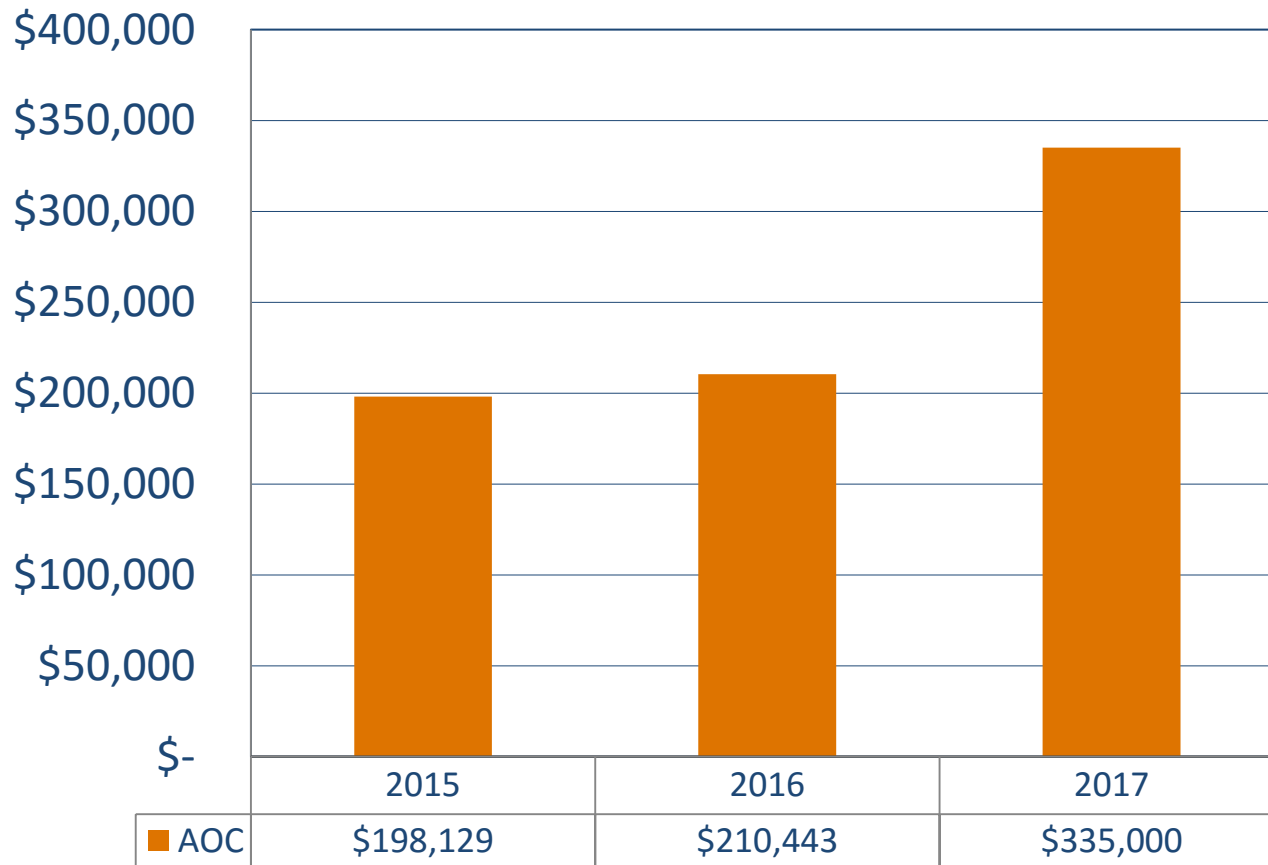
Pension Plan

City's CalPERS Total Pension Plan Sensitivity to Discount Rate (2016 Measurement Date)



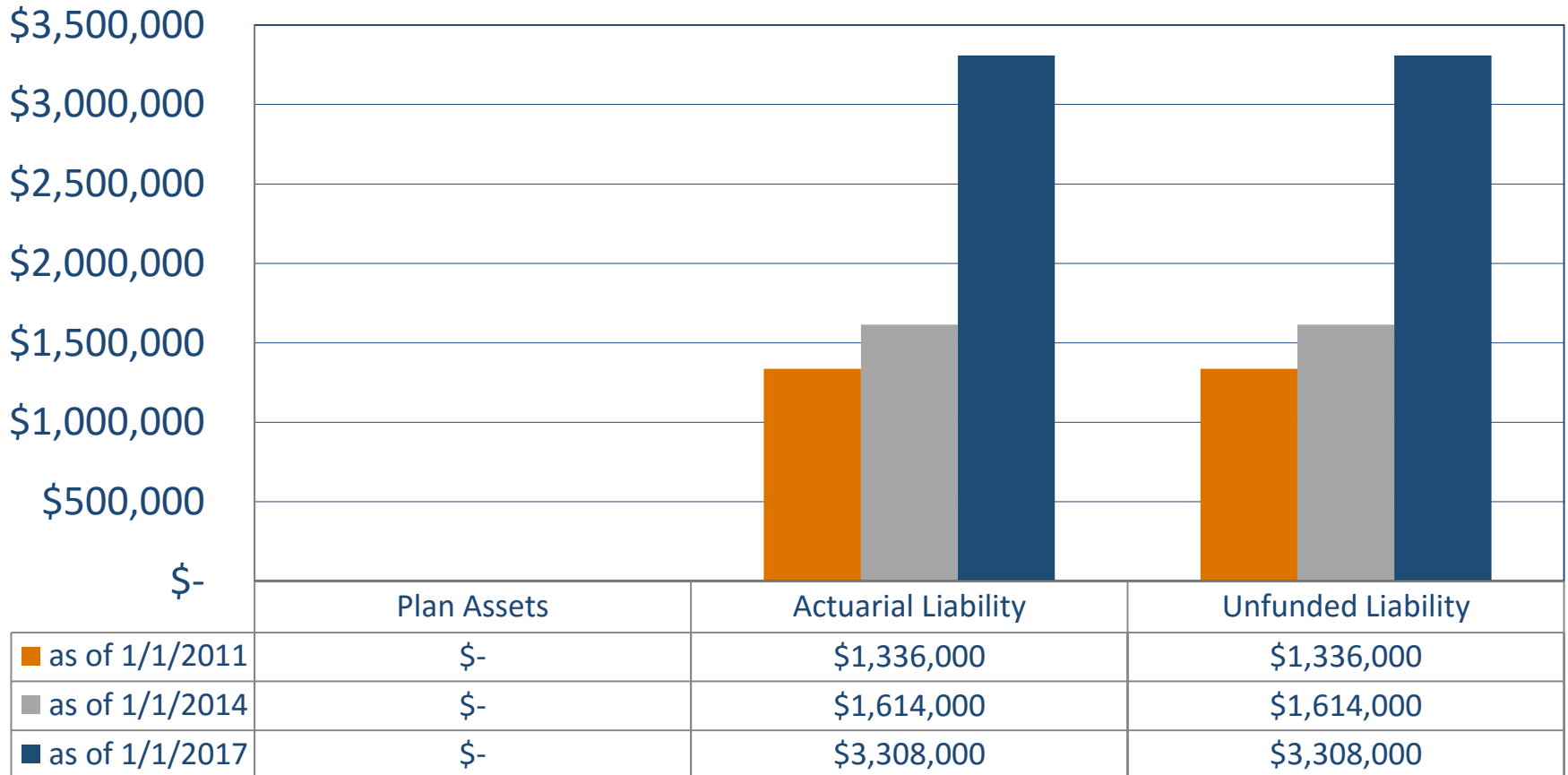
Other Financial Information

City's Annual OPEB Cost



Other Financial Information

City's OPEB Funded Status





Required Communications

- Our Responsibility Under U.S GAAS



- Expression of an opinion on whether financial statements are fairly stated in accordance with U.S GAAP
- Evaluate internal control over financial reporting
- Evaluate compliance with laws, contract and grants
- Evaluate the tone at the top
- Ensure financial statements are clear and transparent
- Communicate with the governing body

Required Communications

- Management Responsibility



- Management is responsible for the financial statements
- Establish and maintain internal control over financial reporting
- Making all financial records available to us
- Adjust the financial statements to correct material misstatements
- Establish internal control to prevent and detect fraud
- Inform us of all known and suspected fraud
- Comply with laws and regulations
- Take corrective action on audit findings

Required Communications

- Independence



- It is our responsibility to maintain independence
- We will maintain our independence by strict adherence to the AICPA and the Board of Accountancy rules and regulations
- No other services performed that could affect our independence

- Timing of the Audit



- Audit was performed in the time frame communicated to the City in our engagement letter

Required Communications

- Significant Accounting Policies and Unusual Transactions



The City adopted the following new pronouncements during the year:

- GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans
- GASB Statement No. 77, Tax Abatement Disclosure
- GASB Statement No. 78, Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans
- GASB Statement No. 80, Blending Requirements for Certain Component Units

- Management Judgment and Accounting Estimates



Significant management estimates impacting the financial statements include the following:

- Useful lives of Capital Assets
- Pension Plans
- OPEB Obligation
- Self-Insurance Liabilities
- Investment Valuations

Required Communications

- Sensitive Disclosures



The most sensitive disclosures affecting the City's financial statements are as follow:

- Summary of Significant Accounting Policies
- Cash and Investments
- Capital Assets
- Long Term Debt
- Net Position/Fund Balances
- Employee Retirement Plans
- Other Post Employment Benefits
- Commitments and Contingencies
- Successor Agency Private Purpose Trust for Assets of Former Redevelopment Agency
- Subsequent Events
- Prior Period Adjustments

- Difficulties Encountered in Performing the Audit



No difficulties were encountered during our audits

Required Communications

- Significant Audit Adjustments and Unadjusted Differences Considered by Management to be Immaterial



There were adjustments and reclassifying entries during the course of the audit. Management has posted all proposed audit adjustments.

- Potential Effect on the Financial Statements of Any Significant Risks and Exposures



No significant risks or exposures were identified. Legal matters and potential liabilities are disclosed in the financial statements

Required Communications

- Disagreement with Management



We are pleased to report that there were no disagreements with management

- Deficiencies in Internal Control



No material weaknesses were identified during our audits. We identified the following matters that we consider to be significant deficiencies:

- Grant Billing
- Payroll Costs – Single Audit
- Pass-through Entity Responsibilities – Single Audit

Required Communications

- Representations Requested of Management






We obtained certain representations from management in a letter dated December 6, 2017.

- Management Consultation with Other Accountants



We are not aware of any significant accounting or auditing matters for which management consulted with other accountants

Required Communications

- Other Material Written Communications  Other than the engagement letter and management representation letter, there have been no other significant communications
- Material Uncertainties Related to Events and Conditions  There were no material uncertainties relating to events and conditions
- Fraud and Illegal Acts  We have not become aware of any instances of fraud or illegal acts

New Accounting Standards

2018

- Statement 75 – Account and Reporting for Postemployment Benefits Plans Other Than Pensions
- Statement 81 – Irrevocable Split-Interest Agreements
- Statement 85 – Omnibus 2017
- Statement 86 – Certain Debt Extinguishment Issues

2019

- Statement 83 – Certain Asset Retirement Obligations

2020

- Statement 84 – Fiduciary Activities

2021

Statement 87 – Leases

Questions



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**Thank You
For Allowing Us to Provide Audit Services
to the City of Yuba City**

