Badawi & Associates
Audit of the
City of El Cerrito
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
Deliverables and Scope of the Audit

- Report of Independent Auditors on City of El Cerrito 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.
- Report on Compliance with TDA
- Report of Independent Auditors on City of El Cerrito Employees’ Pension Plan Basic Financial Statements
- Agreed-Upon Procedures Report on City of El Cerrito Master Installment Sale Agreement Compliance with Bond Covenants for the 2008 Sales Tax Revenue Bonds
- 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:
    - Performed analytical procedures and trends analysis.
- Pension & OPEB: Complex accounting standards
  - Reviewed management’s journal entries for pension and OPEB.
  - Agreed amounts recorded to reports provided by CalPERS and CalPERS’ Auditors and performed testing of census information used by CalPERS.
Areas of Primary Audit Emphasis

The risk of management override of controls is addressed by the following procedures:

- Assignment of audit staff based on consideration of audit risk.
- Procedures to incorporate an element of unpredictability in the audit from period to period.
- Consideration of the selection and application of significant accounting principles.
- Examination of journal entries.
- Review of accounting estimates for bias.
- Evaluation of business rationale for unusual transactions.
- Evaluation of the appropriateness of fraud-related inquiries performed
Auditors Report

- Unmodified opinion
- Audit performed in accordance with Generally Accepted Auditing Standards, and Government Auditing Standards
- Financial statements are fairly presented in all material respects
- Emphasis of matter regarding going concern
- 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 (in thousands)

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash &amp; Investments</strong></td>
<td>$6,840</td>
<td>$7,716</td>
<td>$8,806</td>
</tr>
<tr>
<td><strong>Accounts, Accrued Interest, and Loan Receivable</strong></td>
<td>$198</td>
<td>$187</td>
<td>$187</td>
</tr>
<tr>
<td><strong>Due from Other Governments</strong></td>
<td>$9,091</td>
<td>$9,025</td>
<td>$9,339</td>
</tr>
<tr>
<td><strong>Advance to RDA Successor Agency</strong></td>
<td>$2,820</td>
<td>$3,262</td>
<td>$2,682</td>
</tr>
<tr>
<td><strong>Land held for resale or redevelopment</strong></td>
<td>$874</td>
<td>$1,321</td>
<td>$1,321</td>
</tr>
<tr>
<td><strong>Other Assets</strong></td>
<td>$4,245</td>
<td>$4,245</td>
<td>$1,005</td>
</tr>
<tr>
<td><strong>Capital Assets</strong></td>
<td>$24</td>
<td>$12</td>
<td>$12</td>
</tr>
<tr>
<td><strong>Deferred outflows of resources</strong></td>
<td>$83,533</td>
<td>$81,701</td>
<td>$77,380</td>
</tr>
</tbody>
</table>

### Graph

The graph shows the assets and deferred outflows of resources for different categories over the years 2017, 2018, and 2019. The categories include cash & investments, accounts, accrued interest, and loan receivables, due from other governments, advance to RDA successor agency, land held for resale or redevelopment, other assets, capital assets, and deferred outflows of resources. The data is presented in thousands of dollars.
Government-Wide Financial Statements

Liabilities and Deferred Inflows of Resources (in thousands)

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Payable</td>
<td>$688</td>
<td>$1,366</td>
<td>$1,232</td>
</tr>
<tr>
<td>Tax and Revenue</td>
<td>$5,000</td>
<td>$6,000</td>
<td>$6,000</td>
</tr>
<tr>
<td>Anticipation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Note</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Current</td>
<td>$2,290</td>
<td>$2,230</td>
<td>$2,567</td>
</tr>
<tr>
<td>Liabilities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Pension</td>
<td>$54,844</td>
<td>$61,775</td>
<td>$61,856</td>
</tr>
<tr>
<td>Liability</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>OPEB Liabilities</td>
<td>$2,454</td>
<td>$2,846</td>
<td>$2,995</td>
</tr>
<tr>
<td>Long-Term</td>
<td>$24,480</td>
<td>$24,015</td>
<td>$22,640</td>
</tr>
<tr>
<td>Debt</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferred Inflows</td>
<td>$2,161</td>
<td>$1,076</td>
<td>$2,923</td>
</tr>
<tr>
<td>of Resources</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## Government-Wide Financial Statements

### Net Position (in thousands)

<table>
<thead>
<tr>
<th></th>
<th>Net Investment in Capital Assets</th>
<th>Restricted</th>
<th>Unrestricted</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2017</td>
<td>16,468</td>
<td>(45,782)</td>
</tr>
<tr>
<td></td>
<td>2018</td>
<td>17,042</td>
<td>(51,000)</td>
</tr>
<tr>
<td></td>
<td>2019</td>
<td>14,226</td>
<td>(54,936)</td>
</tr>
</tbody>
</table>

### Graphical Representation of Net Position

The graph visually represents the net position in thousands for the years 2017, 2018, and 2019. The net position is broken down into three categories: Net Investment in Capital Assets, Restricted, and Unrestricted. The graph shows the comparison of these categories over the years with a visual representation of their values.
Government-Wide Financial Statements

Changes in Net Position

- $(1,469,398)
- $(5,558,583)
- $(9,563,816)

$(-)

$(2,000,000)
$(4,000,000)
$(6,000,000)
$(8,000,000)
$(10,000,000)
$(12,000,000)
<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Cost of Service</td>
<td>$28,012,945</td>
<td>$32,978,598</td>
<td>$32,344,959</td>
</tr>
<tr>
<td>Tax Revenue</td>
<td>$26,047,202</td>
<td>$26,960,672</td>
<td>$29,175,972</td>
</tr>
</tbody>
</table>

Government-Wide Financial Statements

Net Cost of Service to Tax Revenue

![Chart showing net cost of service to tax revenue for 2017, 2018, and 2019.]
## General Fund

### Expenditure Coverage

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Unassigned Fund Balance</strong></td>
<td>$(186,227)</td>
<td>$(2,233,507)</td>
<td>$(1,707,620)</td>
</tr>
<tr>
<td><strong>Total Expenditures</strong></td>
<td>$33,871,151</td>
<td>$36,252,189</td>
<td>$40,202,753</td>
</tr>
<tr>
<td><strong>Unassigned Fund Balance as a % of Total Expenditures</strong></td>
<td>-0.55%</td>
<td>-6.16%</td>
<td>-4.25%</td>
</tr>
<tr>
<td><strong>Number of months</strong></td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

GFOA recommendation: 2 - 4

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Safety</th>
<th>Miscellaneous</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>$3,497,289</td>
<td>$1,615,318</td>
</tr>
<tr>
<td>2018</td>
<td>$3,927,298</td>
<td>$1,780,664</td>
</tr>
<tr>
<td>2019</td>
<td>$4,379,650</td>
<td>$1,973,692</td>
</tr>
</tbody>
</table>
### Other Financial Information

**City’s Pension Funded Status - Safety**

<table>
<thead>
<tr>
<th></th>
<th>Fiduciary Net Position</th>
<th>Total Pension Liability</th>
<th>Net Pension Liability</th>
</tr>
</thead>
<tbody>
<tr>
<td>as of 6/30/16</td>
<td>$80,589,194</td>
<td>$118,361,961</td>
<td>$37,772,767</td>
</tr>
<tr>
<td>as of 6/30/17</td>
<td>$88,041,299</td>
<td>$130,698,129</td>
<td>$42,656,830</td>
</tr>
<tr>
<td>as of 6/30/18</td>
<td>$93,225,746</td>
<td>$136,313,933</td>
<td>$43,088,187</td>
</tr>
</tbody>
</table>

The chart and table above provide a visual representation of the City’s pension fund status for safety, comparing the fiduciary net position, total pension liability, and net pension liability for the years 6/30/16, 6/30/17, and 6/30/18.
## Other Financial Information

### City’s Pension Funded Status - Miscellaneous

<table>
<thead>
<tr>
<th></th>
<th>Fiduciary Net Position</th>
<th>Total Pension Liability</th>
<th>Net Pension Liability</th>
</tr>
</thead>
<tbody>
<tr>
<td>as of 6/30/16</td>
<td>$32,251,564</td>
<td>$49,322,454</td>
<td>$17,070,890</td>
</tr>
<tr>
<td>as of 6/30/17</td>
<td>$35,089,704</td>
<td>$54,208,005</td>
<td>$19,118,301</td>
</tr>
<tr>
<td>as of 6/30/18</td>
<td>$37,607,601</td>
<td>$56,375,913</td>
<td>$18,768,312</td>
</tr>
</tbody>
</table>
Other Financial Information

City’s Net Pension Liability Sensitivity to Discount Rate (2018 Measurement Date)

<table>
<thead>
<tr>
<th>Discount Rate</th>
<th>Miscellaneous</th>
<th>Safety</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>6.15%</td>
<td>$26,394,348</td>
<td>$61,879,936</td>
<td>$88,274,284</td>
</tr>
<tr>
<td>7.15%</td>
<td>$18,768,312</td>
<td>$43,088,187</td>
<td>$61,856,499</td>
</tr>
<tr>
<td>8.15%</td>
<td>$12,473,144</td>
<td>$27,691,713</td>
<td>$40,164,857</td>
</tr>
</tbody>
</table>
Other Financial Information

City’s Annual OPEB Contributions

<table>
<thead>
<tr>
<th>Year</th>
<th>Contributions</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>$85,828</td>
</tr>
<tr>
<td>2018</td>
<td>$108,491</td>
</tr>
<tr>
<td>2019</td>
<td>$123,492</td>
</tr>
</tbody>
</table>

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## City’s OPEB Funded Status

<table>
<thead>
<tr>
<th>Plan Fiduciary Net Position</th>
<th>Total OPEB Liability</th>
<th>Net OPEB Liability</th>
</tr>
</thead>
<tbody>
<tr>
<td>as of 6/30/16</td>
<td>$-</td>
<td>$2,790,814</td>
</tr>
<tr>
<td>as of 6/30/17</td>
<td>$-</td>
<td>$2,845,887</td>
</tr>
<tr>
<td>as of 6/30/18</td>
<td>$-</td>
<td>$2,994,539</td>
</tr>
</tbody>
</table>
Required Communications

Our Responsibility Under U.S GAAS

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

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.
The City adopted the following new pronouncements during the year:

- GASB Statement No. 83, Certain Asset Retirement Obligations
- GASB Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements

Significant management estimates impacting the financial statements include the following:

- Useful lives of Capital Assets
- Pension Plans
- OPEB Plans
**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
  - Long Term Debt
  - Capital Assets
  - Net Position and Fund Balances
  - Pension Plans and Other Post Employment Benefit (OPEB) Plans
  - Commitments and Contingencies
  - Redevelopment Agency Dissolution and Successor Agency Activities
  - Going Concern

- **Difficulties Encountered in Performing the Audit**

  No difficulties 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**
  - **Material weaknesses:**
    - Ability of the City to continue as a going concern
  - **Significant Deficiencies:**
    - Grant management and accounting
Required Communications

- **Representations Requested of Management**
  - We have requested certain representations from management that are included in the management representation letters.

- **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

- **2020**
  - Statement 84 – Fiduciary Activities
  - Statement 90 – Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61

- **2021**
  - Statement 87 – Leases
  - Statement 89 – Accounting for Interest Cost Incurred before the End of a Construction Period
  - Statement 92 – Omnibus 2020
  - Statement 93 – Replacement of Interbank Offered Rates

- **2022**
  - Statement 91 – Conduit Debt Obligations

- **2023**
  - Statement 94 – Public-Private and Public-Public Partnerships and Availability Payment Arrangements
Questions

Ahmed M. Badawi
abadawi@b-acpa.com
Thank You
For Allowing Us to Provide Audit Services
to the City of El Cerrito