

City of Richmond

Presentation to City Council

January 26, 2021

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



Badawi & Associates
Audit of the
City of Richmond

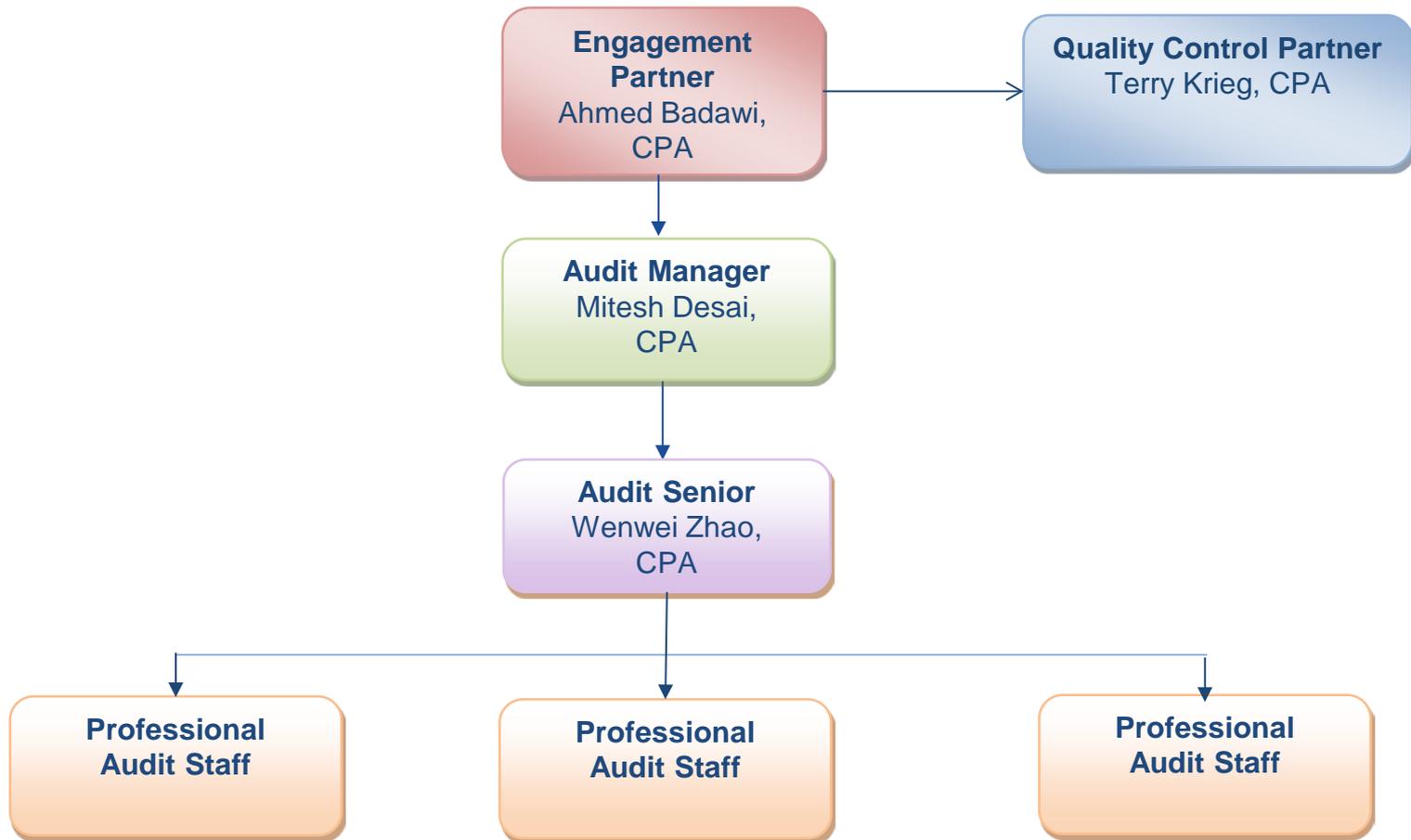
Agenda

- 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 Richmond Comprehensive Annual Financial Report (CAFR)
- Report on Internal Control Over Financial Reporting and on Compliance and Other Matters
- Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with the Uniform Guidance (City and Housing Authority)
- Report on Compliance with TDA
- Report of Independent Auditors on the Joint Powers Financing Authority Basic Financial Statements

Deliverables and Scope of the Audit

- Report of Independent Auditors on the Housing Authority Basic Financial Statements
- Annual Report of Financial Transactions to the State Controller (City, Sewer District, JPFA and 3 non-CalPERS pension plans)
- Agreed Upon Procedures – Appropriations Limit
- 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

- 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.
 - 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

Areas of Primary Audit Emphasis

- Impact of the Shelter in place and remote work on the control environment
- Revenues & Receivables (Tax, Grants, Notes, etc):
Improper revenue recognitions
 - Governmental Funds: Confirm/validate property taxes, sales taxes, franchise taxes & other significant revenues/receivables.
 - Proprietary Funds: Substantive analytical procedures
- Pension and OPEB: Complex accounting treatment
 - Reviewed management's journal entries for implementing GASB 68 and GASB 75
 - Reconciled amounts recorded to reports provided by CalPERS and their auditors



Auditors Report

- Unmodified opinion except for RHA; Business-Type Activities; RHA RAD, LLC; RHA Properties; and RHA Housing Corporation for which we disclaimed the opinion
- Audit performed in accordance with Generally Accepted Auditing Standards, and *Government Auditing Standards*

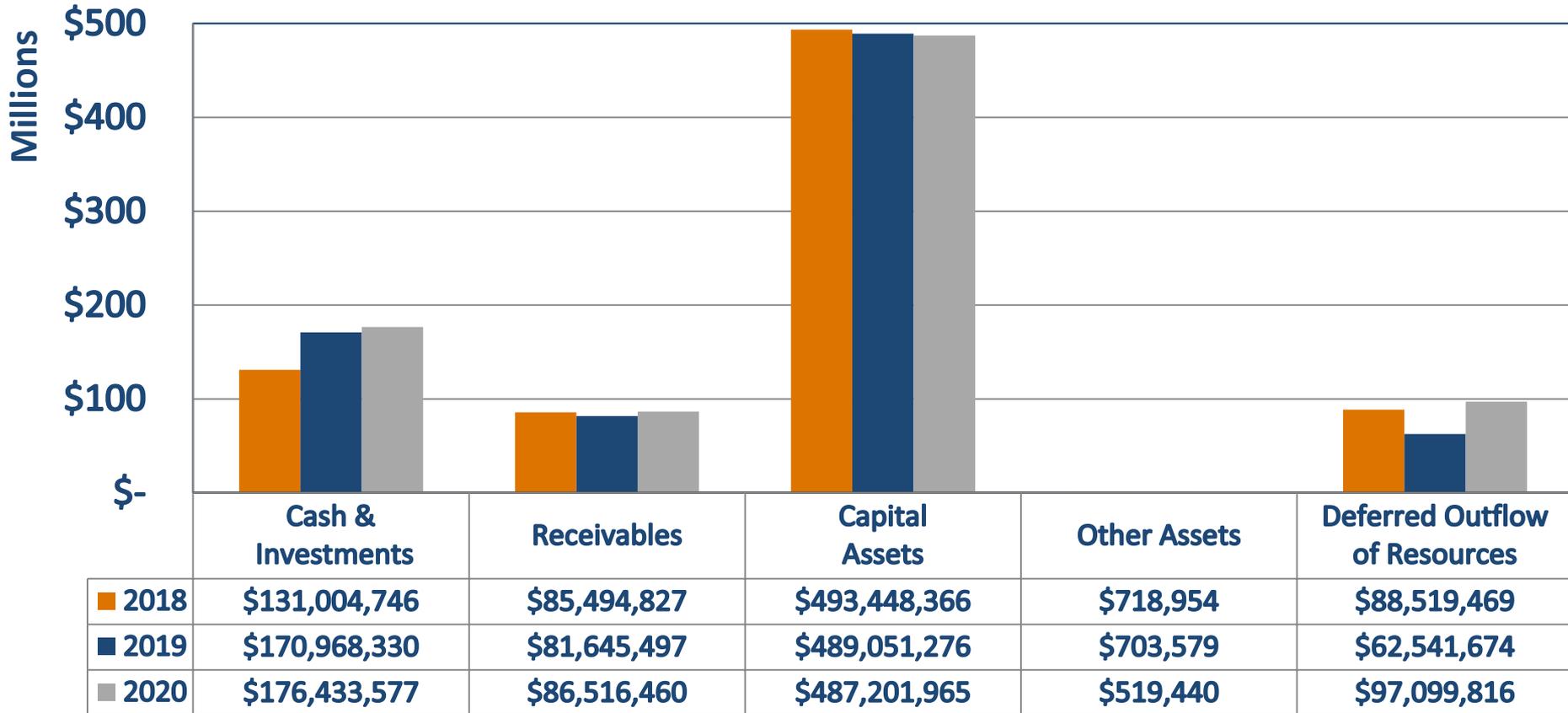
Auditors Report

- 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



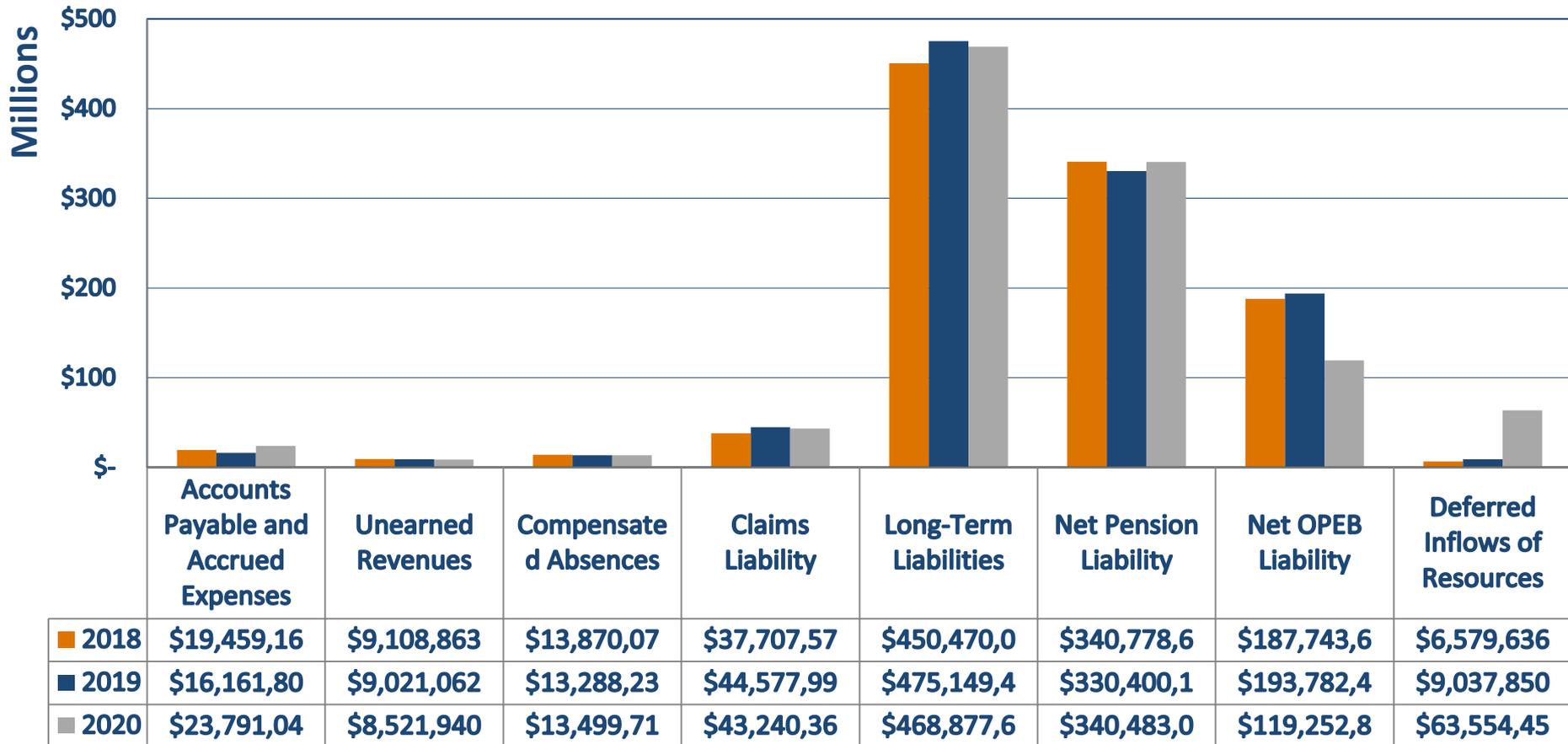
Government-Wide Financial Statements

Assets and Deferred Outflow of Resources



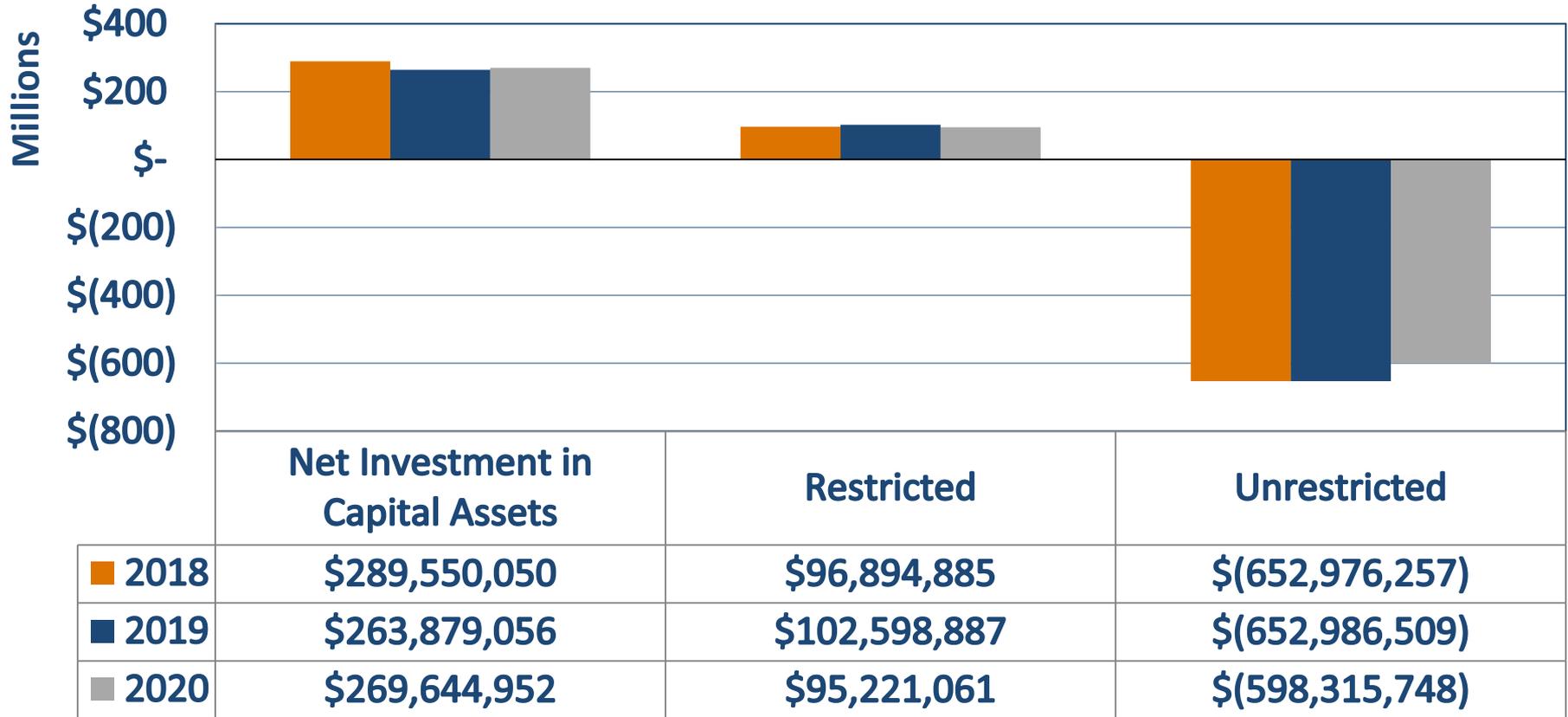
Government-Wide Financial Statements

Liabilities and Deferred Inflows of Resources



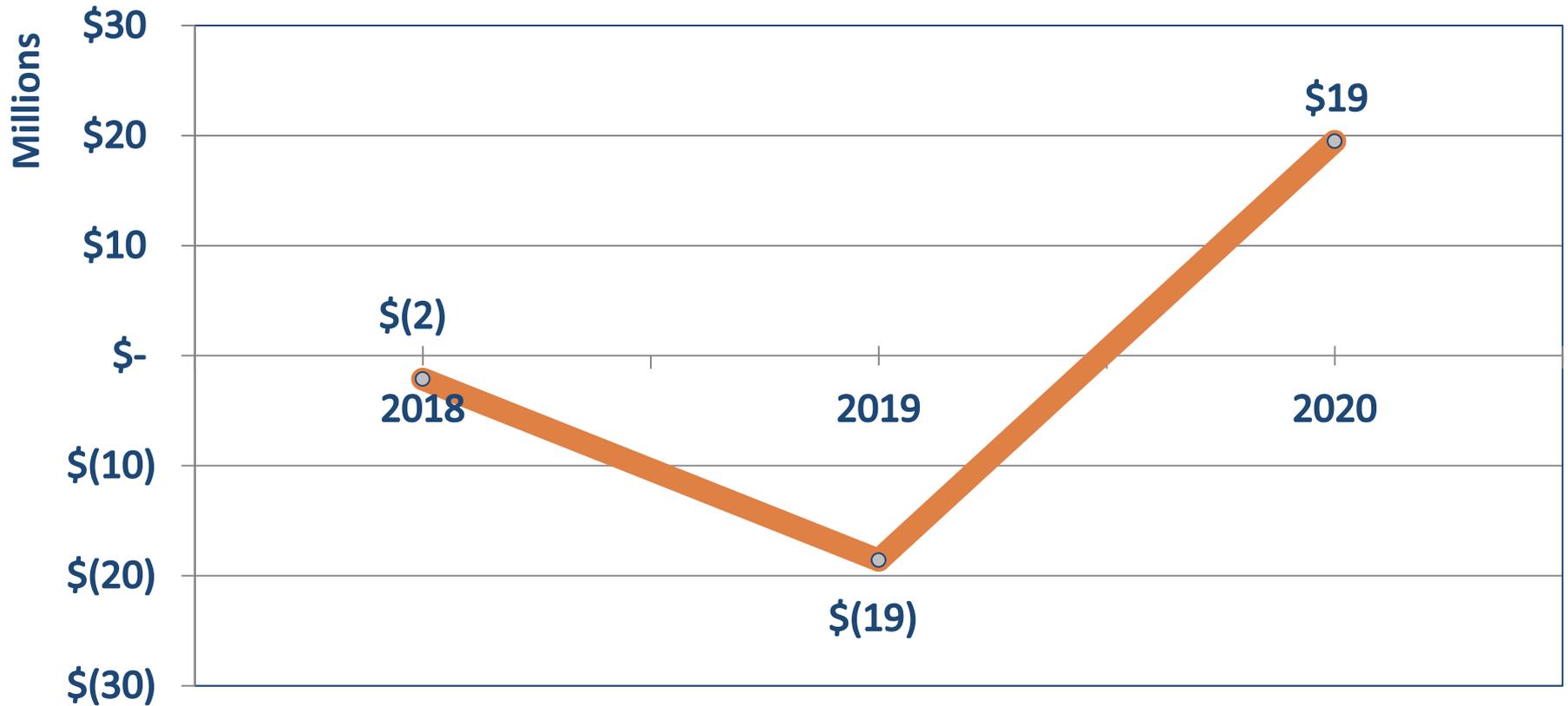
Government-Wide Financial Statements

Net Position



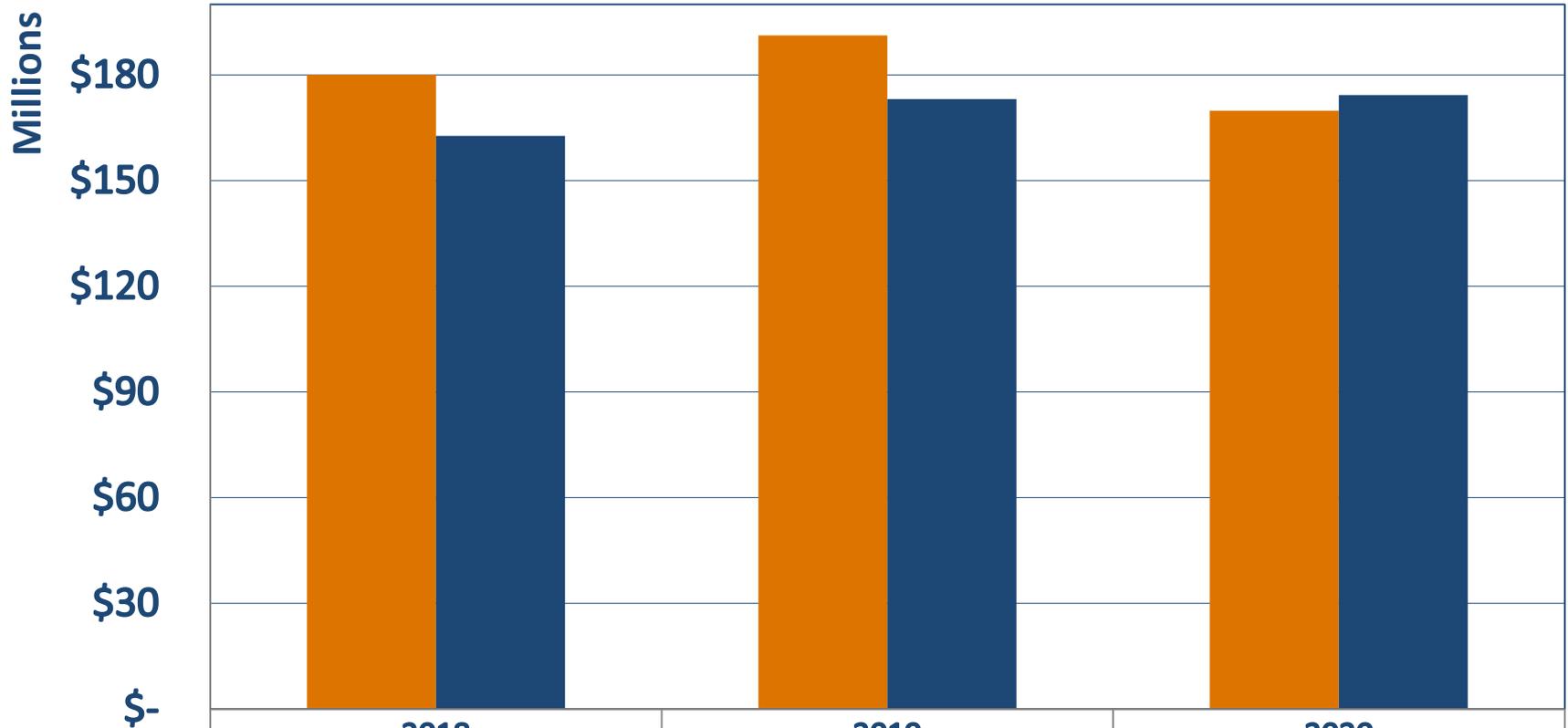
Government-Wide Financial Statements

Changes in Net Position



Government-Wide Financial Statements

Net Cost of Service to Tax Revenue



■ Net Cost of Service

\$179,988,513

\$191,223,098

\$169,809,025

■ Tax Revenue

\$162,686,681

\$173,101,372

\$174,297,344

General Fund

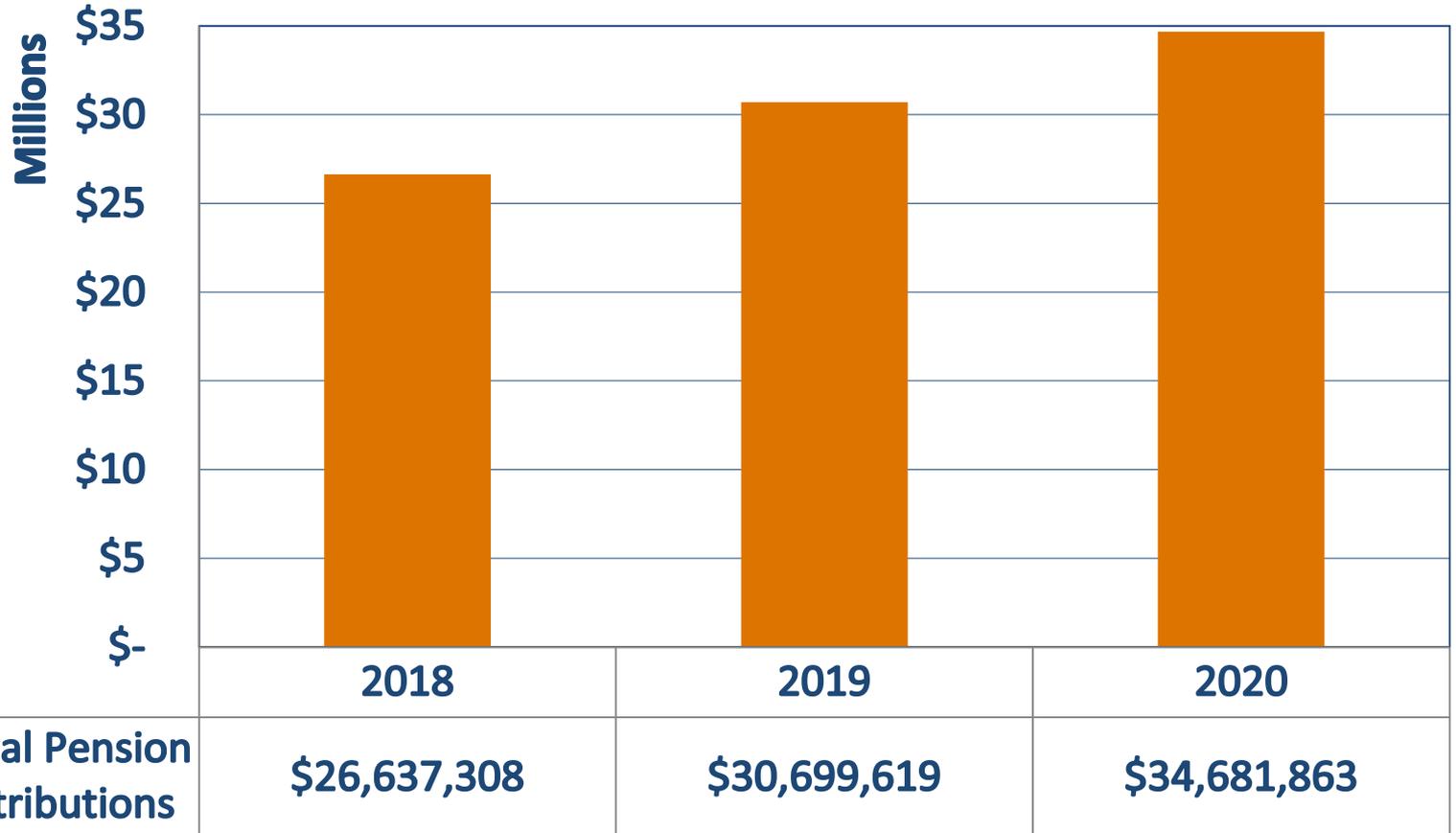
Expenditure Coverage

	<u>2018</u>	<u>2019</u>	<u>2020</u>
Unrestricted Fund Balance	<u>\$ 17,663,270</u>	<u>\$ 19,597,840</u>	<u>\$ 21,940,238</u>
Total Expenditures	<u>\$ 156,786,873</u>	<u>\$ 162,941,088</u>	<u>\$ 162,447,955</u>
Unrestricted Fund Balance as a % of Total Expenditures	<u>11.27%</u>	<u>12.03%</u>	<u>13.51%</u>
Number of months	1.35	1.44	1.62
GFOA recommendation	No less than 2 months		

Measure of City's ability to operate with no revenues using available fund balance.

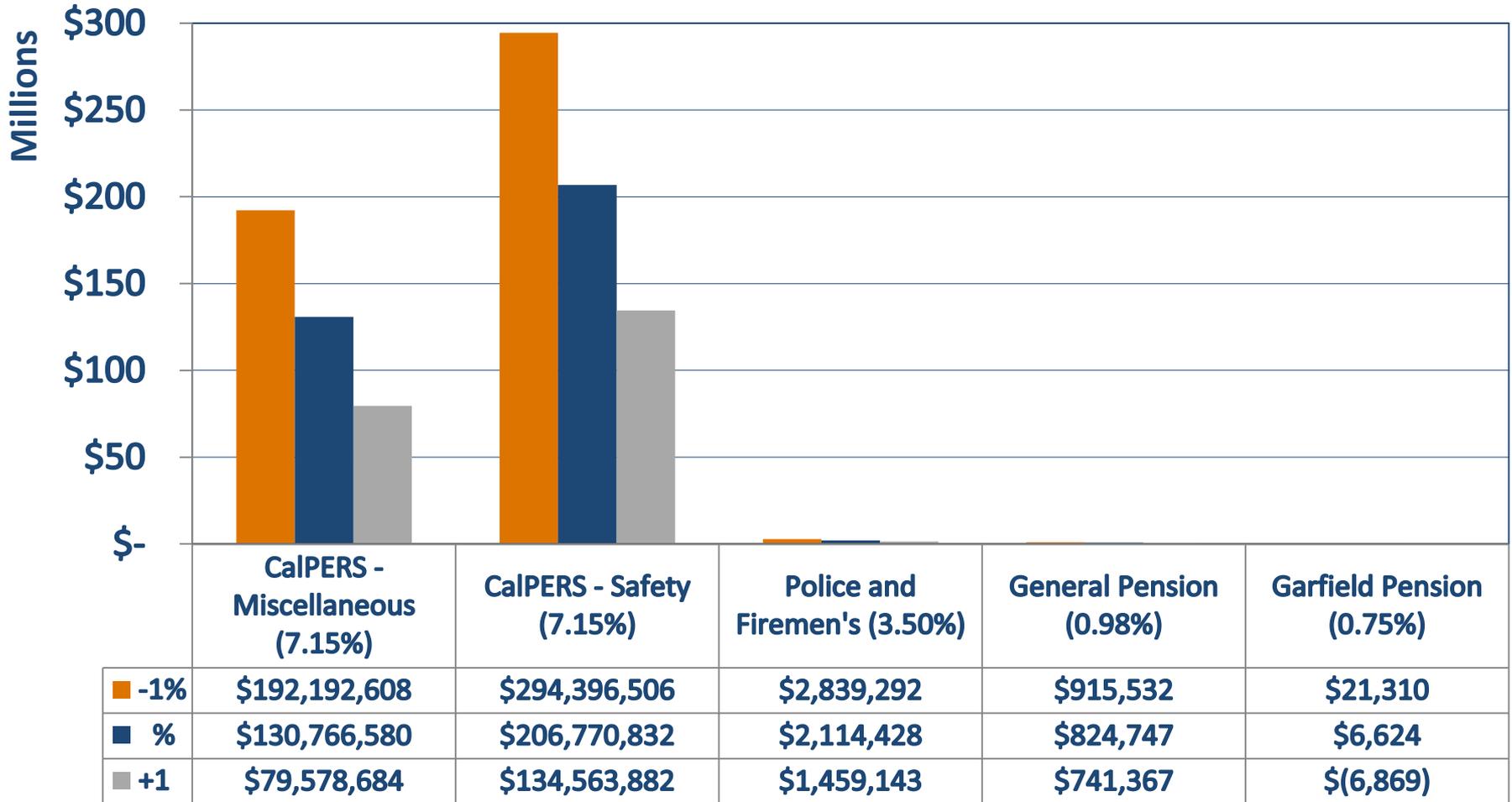
Pension Plan

City's Annual Pension Contributions



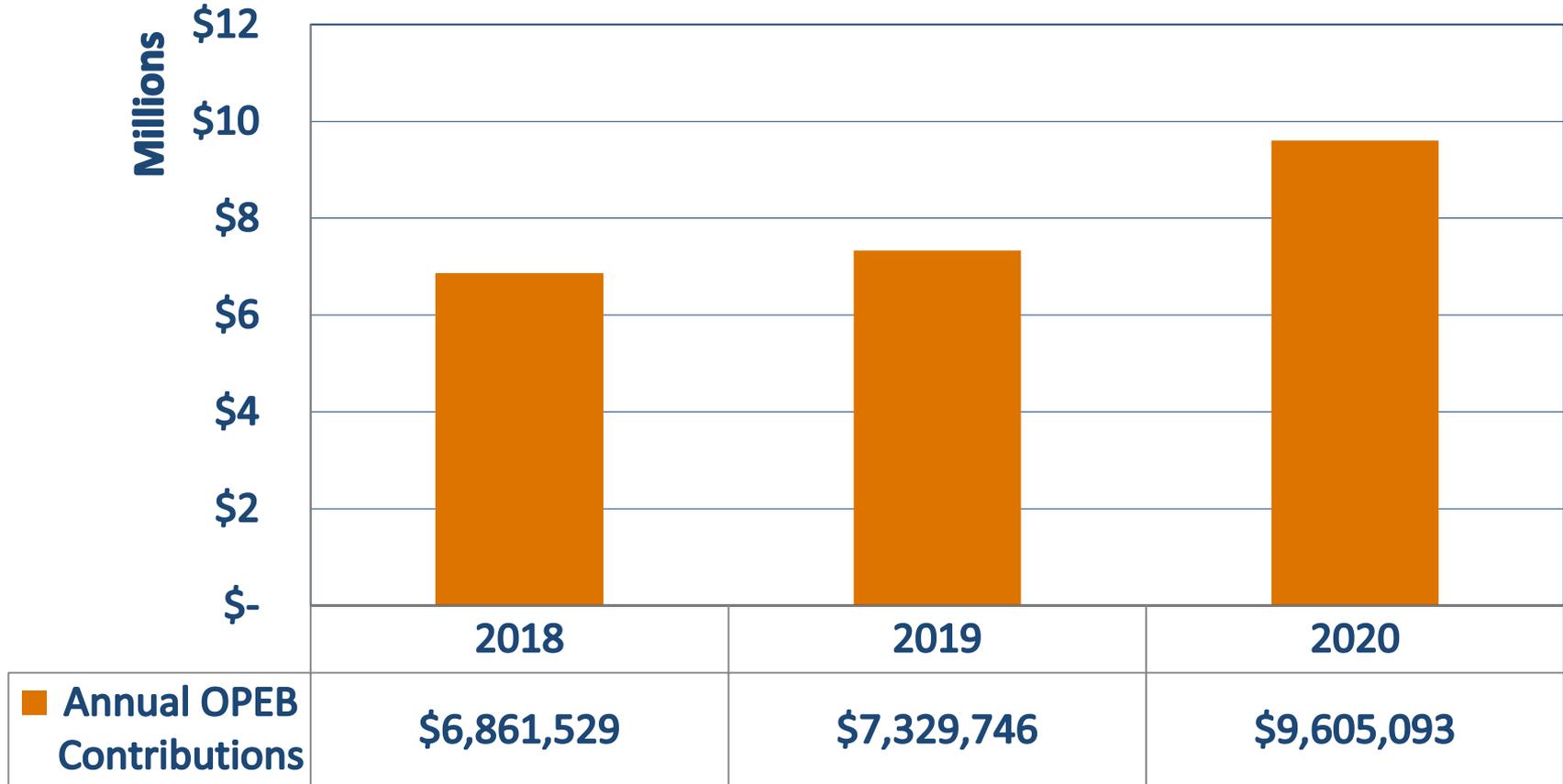
Pension Plan

City's Pension Plans Sensitivity to Discount Rate



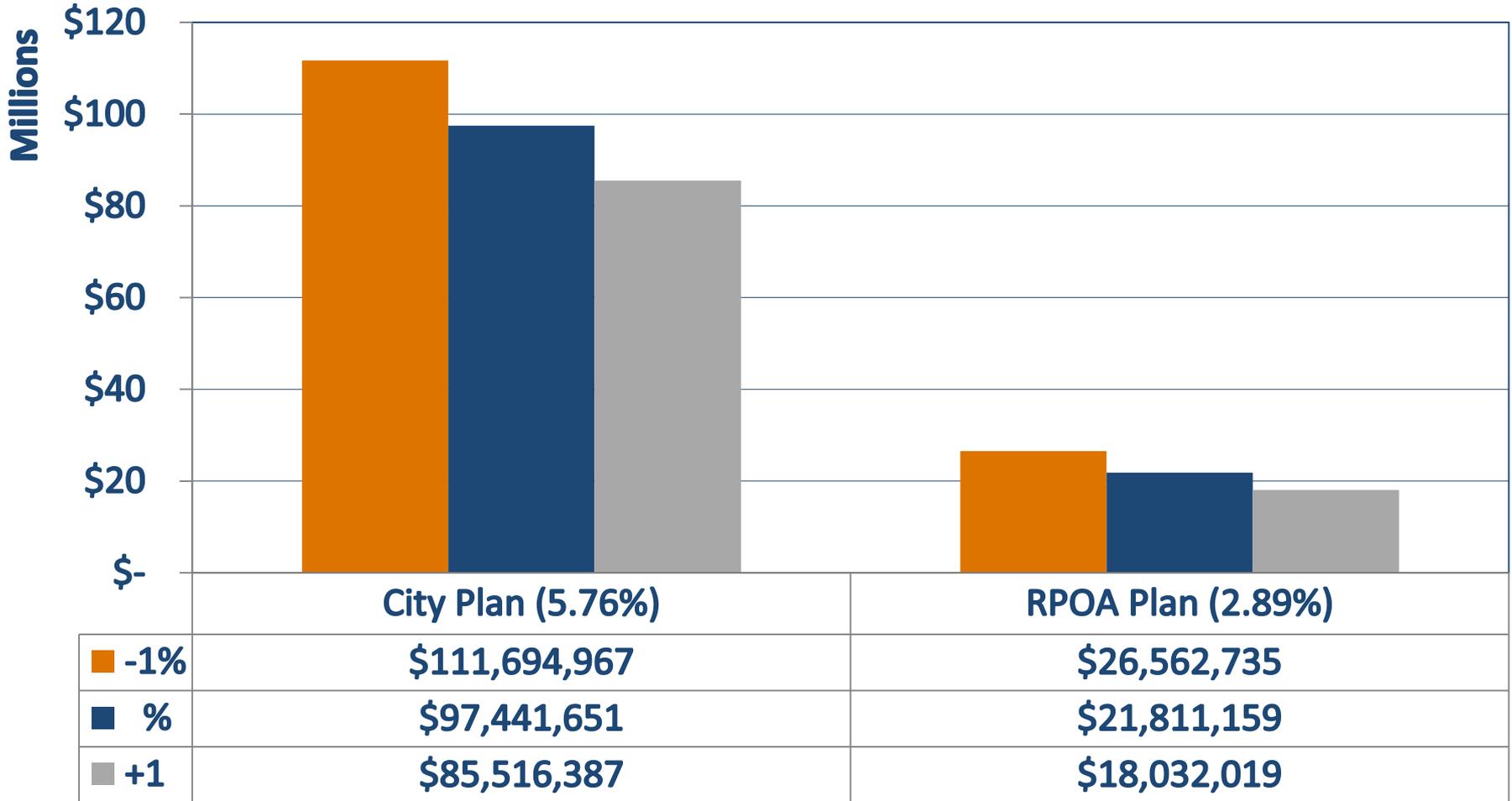
Other Postemployment Benefits

City's Annual OPEB Contributions



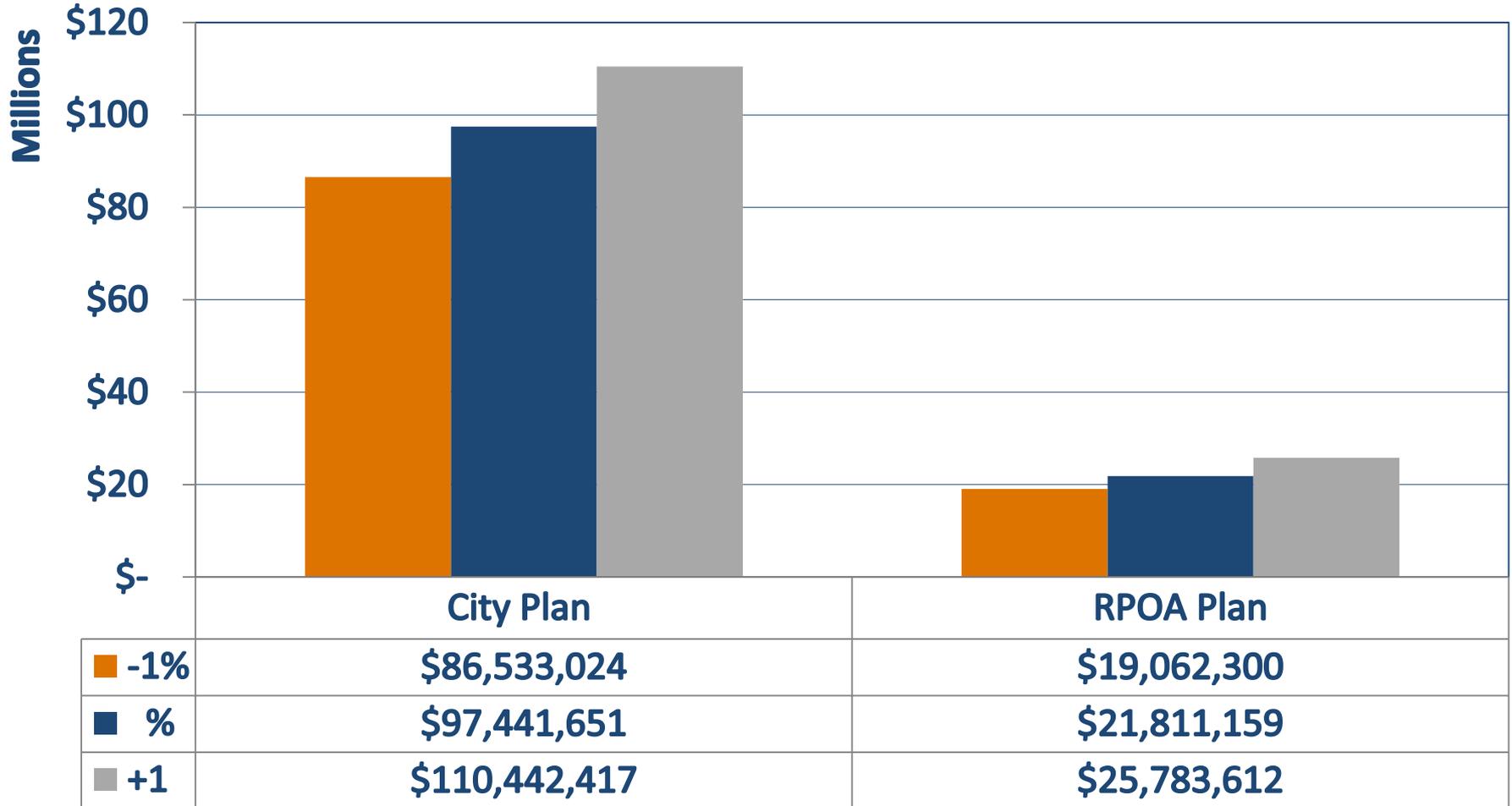
OPEB Plans

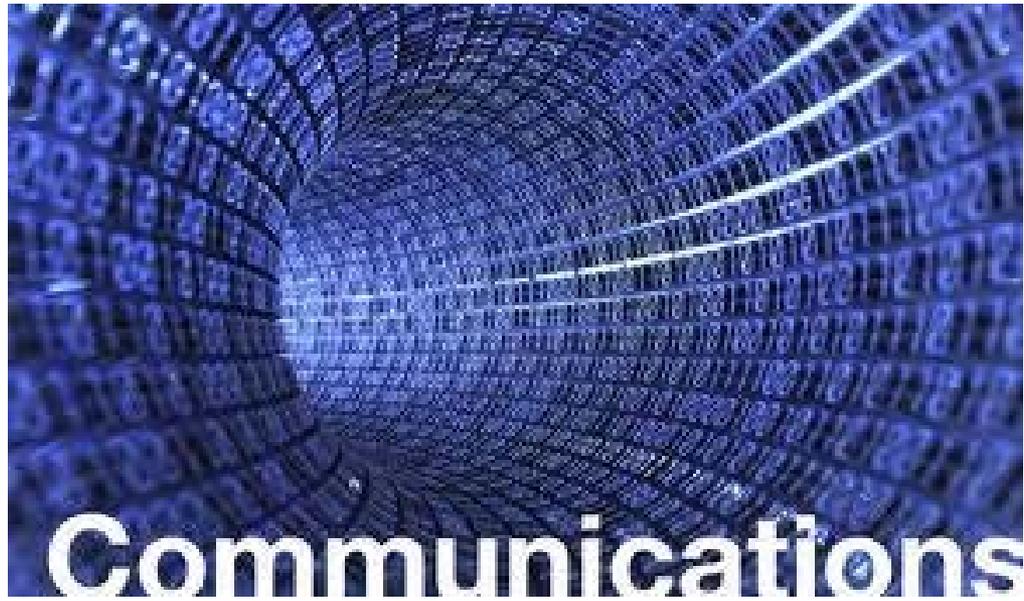
City's OPEB Plans Sensitivity to Discount Rate



OPEB Plans

City's OPEB Plans Sensitivity to Healthcare Trend Rate





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

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
 - 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 rule
- Other than compiling the financial statements, no other services performed that could affect our independence

- Timing of the Audit



- Within the time frame communicated to the City in our engagement letters

- Significant Accounting Policies and Unusual Transactions



- The City did not adopted new pronouncements during the year

Required Communications

- Management Judgment and Accounting Estimates



- Depreciation expense and related accumulated depreciation
- Defined benefit plans (actuarial assumptions)
- Claims liability

- Sensitive Disclosures



- Summary of Significant Accounting Policies
- Cash and Investments
- Capital Assets
- Pension Plan
- OPEB Plan
- COVID 19 Pandemic

Required Communications

- Difficulties Encountered in Performing the Audit  None.
- Significant Audit Adjustments and Unadjusted Differences Considered by Management to be Immaterial  Management did not post all proposed audit adjustment. Unposted adjustments are not material
- 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  None.
- Deficiencies in Internal Control over Financial Reporting 
 - City's financial condition
 - Review of capital assets CIP schedules
 - Cut off and accrual of expenditures
 - Segregation of duties in Accounts Payable and Payroll

Required Communications

- Representations Requested of Management  We obtained representations from management prior to issuance of our reports.
- Management Consultation with Other Accountants  We are not aware of any significant accounting or auditing matters for which management consulted with other accountants
- Other Material Written Communications  Other than the engagement letters and management representation letters, there have been no other significant communications

Required Communications

- Material Uncertainties Related to Events and Conditions  There were no material uncertainties related to events and conditions.
- Fraud and Illegal Acts  We have not become aware of any instances of fraud or illegal acts, which was not disclosed by the City

New Accounting Standards

2021

- Statement 84 – Fiduciary Activities
- Statement 90 – Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61
- Statement 93 – Interbank offered rates (except LIBOR removal and lease modifications)

2022

- Statement 87 – Leases
- Statement 89 – Accounting for Interest Cost Incurred before the End of a Construction Period
- Statement 92 – Omnibus
- Statement 93 – LIBOR removal and lease modifications
- Statement 97 – Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans

2023

- Statement 91 – Conduit Debt Obligations
- Statement 94 – Public-private partnerships
- Statement 96 – Subscription-Based Information Technology Arrangements

Questions



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

