

FINANCIAL TRANSACTIONS REPORT FOR FISCAL YEAR 2012-13

General points.

- The SCO is including activity from the City's municipal sewer fund, which has its own separate SCO reporting requirement and that fund's activity is therefore not included in the City's report.
- The SCO is drawing comparisons using the CAFR Statement of Activities, an entity wide statement, and comparing it to the SCO report submitted.

This Statement of Activities includes the following extraordinary items and other items which the SCO report does not:

Transfer of assets to the Successor Agency for \$5,328,244 which does not appear at the fund level.

The Assumption of Housing Authority debt by Richmond Housing Authority Properties for \$9,023,704 which was not in the SCO report due to timing as noted below.

Internal service fund activity.

Various reconciling items to "convert" the governmental funds to full-accrual accounting.

- The Statement of Activities also includes Enterprise fund expenses in total.
The SCO report removes depreciation expense from the calculation of total expenses. This accounts for \$6 million expenditures which the SCO indicates are misstated.
- Lastly, the SCO report was issued on November 25, 2013. The audited financial statements had an opinion date of March 18, 2014.
Additional adjusting journal entries (AJE) and reclassifying journal entries (RJE) were posted to the financial statements during that interim period.

Issue #1 - Total Expenditures were understated by \$52,150,470 (reported \$220,904,229; Actual \$273,054,699)

273,054,699
<u>220,904,229</u>
52,150,470

NOTE 1: the State Controller's Report submitted to the SCO has reported expenditures of \$241,191,587, not \$220,904,229.

241,191,587	SCO issued report expenditures
<u>220,904,229</u>	SCO reported figure in notice of deficiency
20,287,358	The SCO figure excludes the debt service column expense. However, for comparison the interest expense is included in the CAFR's total entity wide expenses.

Therefore, reconciling the original reported figure in the State Controller's Report to the CAFR Statement of Activities:

	273,054,699	Statement of Activities - total expenses
	<u>241,191,587</u>	State Controller's Report - total expenses
	31,863,112	Difference
	(16,964,175)	Less Municipal Sewer Fund expenses not included in City's State Controller's Report
	(11,202,493)	Less Internal Service Funds net expense activity (pg 39 of the FY2013 CAFR) included in CAFR, but reported differently in State Controller's Report
	(8,560,047)	Less other entity-wide reconciling items (Pg 39 of the FY2013 CAFR) included in CAFR, but reported differently in State Controller's Report
	9,024,831	Plus Enterprise Fund Capital Outlay (included as expense on SCO report, not in CAFR)
	593,404	Plus Enterprise Fund principal payments on long-term debt (included as expense on SCO report, not in CAFR)
	(6,351,487)	Less Enterprise Fund Depreciation (not included as expense on SCO report)
	1,485,225	Plus Pt Molate Private Purpose Trust Fund included in SCO Report, but not included in CAFR Statement of activities
	(2,694,995)	Working Capital adjustment included in State Controller's Report
cr	1,991,418	AJE #20
dr	(584,783)	AJE #33
cr	211,686	AJE #43
dr	(746,514)	AJE #54
dr	(125,940)	AJE #62
dr	(77,000)	RJE #1 (only a portion, because the rest was included in the State Controller's Report)
dr	(741,371)	RJE #4
cr	311,000	RJE #41
	3,841,420	Civic Center Debt Expense/Charges for services elimination in CAFR (see GASB 34 worksheet)
	(99,514)	Other reconciling differences between GL used for State Controller's Report and final CAFR (recoding, rounding, etc.)
	<u>(1,173,777)</u>	RHA Audit/Accounting Adjustments Posted After Preparation of State Controller's Report
	<u>-</u>	Net Difference

NOTE 2: The audited total expenditure figure of \$273,054,699 from the CAFR Statement of Activities is not an appropriate figure in which to draw comparison to the SCO, for the following reasons:

The audited financial statement figure includes depreciation, which the SCO report eliminates from the calculation of total expenditures.

The audited financial statement figure includes internal service fund activity which the SCO report eliminates from the calculation.

The SCO is including \$9,024,832 of enterprise fund capital outlay which is a working capital adjustment and does not appear on the Statement of Revenues, Expenses, and changes in fund net position.

Figure also includes expenditures related to the Sewer Enterprise Fund which has its own separate report. These expenditures are excluded from the City's SCO report.

The true difference between the SCO financial transactions report and the audited financial statements can only be derived in the process of tying out fund balance/working capital between the previous year's SCO submitted report and audited financial statements.

The following analysis is the first exercise performed when completing the subsequent an SCO report. Differences are not investigated as this is not a requirement of the SCO.

Beginning Fund Balance Reconciliation - **2012** Ending SCO Fund Balance/Working Capital to audited Financial Statements for the 2013 SCO report.

	SCO	Audited FS	Difference
Government Funds	59,126,574	73,638,243	(14,511,669)
Enterprise Funds	12,406,703	9,716,610	2,690,093
Internal Service Funds	14,856,427	14,895,017	(38,590)
Expendable Trust	<u>21,059,833</u>	<u>21,059,833</u>	<u>-</u>
	107,449,537	119,309,703	(11,860,166)

Initial Prior period audit adjustment noted on the consolidated statement of revenues, expenditures, and changes in fund balance/working capital.

Beginning Fund Balance Reconciliation - **2013** Ending SCO Fund Balance/Working Capital to audited Financial Statements for the 2014 SCO report.

	SCO	Audited FS	Difference
Government Funds	62,662,710	62,192,811	469,899
Enterprise Funds	12,691,707	11,800,474	891,233
Internal Service Funds	3,309,572	5,295,576	(1,986,004)
Expendable Trust	<u>19,605,353</u>	<u>19,605,353</u>	<u>-</u>
	98,269,342	98,894,214	(624,872)

Initial Prior period audit adjustment noted on the consolidated statement of revenues, expenditures, and changes in fund balance/working capital.

- All differences noted are assumed to be prior period audit adjustments due to the SCO's filing deadline of mid to late October. This time frame is the acknowledgement that the data reflected within the SCO report has NOT been audited.

Issue #2 - Total Revenues were understated by \$37,148,833 (Reported \$227,046,158; actual \$264,194,991)

The SCO is not including \$2,621,558 of debt proceeds, which the audited financial statements take into account.

The SCO is including \$18,595,695 of Sewer Enterprise Fund revenues which are excluded from the SCO report.

The SCO is also included \$9,023,704 extraordinary item of the assumption of housing authority debt by Richmond Housing Authority properties. This transaction was not included in the SCO report.

	264,194,991	Statement of Activities - total revenues
	<u>227,046,158</u>	State Controller's Report - total revenues
	37,148,833	Difference
	(22,530,512)	Less Municipal Sewer Fund revenues
	411,663	Less ISF net revenue (pg 39 of the FY2013 CAFR) included in CAFR, but reported differently in State Controller's report
	(3,022,193)	Less other entity-wide reconciling items (Pg 39 of the FY2013 CAFR) included in CAFR, but reported differently in State Controller's Report
	(9,023,704)	Less RHA extraordinary item not included in SCO report
	(2,621,558)	Difference between revenues reported on State Controller's report and revenues noted above (Debt issuance proceeds)
	30,744	Plus Pt Molate Private Purpose Trust Fund included in SCO Report, but not included in CAFR Statement of activities
	(2,068,955)	Internal Service Fund Net Transfers not included in State Controller's Report
	(90,063)	Working Capital adjustment included in the State Controller's Report
cr	(249,044)	AJE #32
dr, cr	(535,824)	AJE #35
dr, cr	-	AJE #36
dr, cr	-	AJE #39
dr	211,686	AJE #43
dr, cr	-	AJE #48
cr	(871,059)	AJE #62
dr	311,000	RJE #41
	3,841,420	Civic Center Debt Expense/Charges for services elimination (see GASB 34 worksheet)
	(1)	Rounding
	<u>(942,433)</u>	RHA Audit/Accounting Adjustments Posted After Preparation of State Controller's Report
	<u>-</u>	Net Difference

Issue #3 - General Fund total liabilities were overstated by \$1,703,332 (reported \$8,903,053 actual \$7,204,731).

	8,908,053	State Controller's Report
	<u>(7,204,731)</u>	CAFR Balance - Liabilities
	1,703,322	Difference
	(631,730)	Deferred inflows of resources reported on a separate line of the CAFR
dr	(745,119)	AJE #62
cr	89,685	RJE #10 - advance from Successor Agency
	<u>(416,158)</u>	Unreconciled difference when SCO report was issued, but corrected prior to CAFR issuance.
	<u>-</u>	Net Difference

Issue #4 - Governmental Activities unrestricted net position had a deficit of \$117,821,846

Appears to be a statement, rather than a reconciling item. The major components of this balance are the non-capital debt (i.e. pension obligation bonds) and fund balance deficits in governmental funds)

Issue #5 - Business-Type Activities unrestricted net position had a deficit of \$6,282,570

Appears to be a statement, rather than a reconciling item, and includes the Municipal Sewer Fund.

The major components of this balance are the deficit in the Port of Richmond and NonMajor Enterprise Funds that exceed the positive balances in the other funds.

Issue #6 - Enterprise Funds -

Issue A - Total Assets were understated by \$113,755,938 (reported \$143,446,817; Actual \$257,202,755).

257,202,755	CAFR
<u>143,446,817</u>	State Controller's Report
113,755,938	
(111,834,566)	Less Municipal Sewer Fund Total Assets
(44,191)	AJE #39
7,992	AJE #54
(5,695)	RJE #57
<u>(1,879,478)</u>	RHA Audit/Accounting Adjustments Posted After Preparation of State Controller's Report
<u>-</u>	Net Difference

Issue B - Total Non-current Assets were understated by \$76,343,190 (Reported \$120,650,212; actual \$196,993,402)

196,993,402	CAFR
<u>120,650,212</u>	State Controller's Report
76,343,190	
(75,401,486)	Less Municipal Sewer Noncurrent Assets
<u>(941,704)</u>	RHA Audit/Accounting Adjustments Posted After Preparation of State Controller's Report
<u>-</u>	Net Difference

Issue C - Total Cash and Investments were understated by \$35,953,202 (reported \$12,542,544; actual \$48,495,746)

48,495,746	CAFR
<u>12,542,544</u>	State Controller's Report
35,953,202	
(35,531,246)	Less Municipal Sewer Cash and Investments
(44,191)	AJE #39
7,992	AJE #54
(5,695)	RJE #57
<u>(380,062)</u>	RHA Audit/Accounting Adjustments Posted After Preparation of State Controller's Report
<u>-</u>	Net Difference

Issue D - Total liabilities were understated by \$101,820,110 (Reported \$82,062,072; actual \$183,882,182).

183,882,182	CAFR
<u>82,062,072</u>	State Controller's Report
101,820,110	
(102,535,347)	Less Municipal sewer total liabilities
(33,344)	Deferred outflow included as liability in State Controller's Report, but properly excluded from the CAFR liabilities balance
968,817	AJE #62
(7,333)	RJE #57
<u>(212,903)</u>	RHA Audit/Accounting Adjustments Posted After Preparation of State Controller's Report
<u>-</u>	Net Difference

Issue E - Total Net Position was understated by \$18,495,388 (reported \$61,384,745; actual \$79,880,133)

79,880,133	CAFR
<u>61,384,745</u>	State Controller's Report
18,495,388	
(15,825,435)	Less Municipal sewer total net position
(44,191)	AJE #39
7,992	AJE #54
(5,695)	RJE #57
7,333	RJE #57
(968,817)	AJE #62
<u>(1,666,575)</u>	RHA Audit/Accounting Adjustments Posted After Preparation of State Controller's Report
<u>-</u>	Net Difference

Issue F - Total fixed assets were understated by \$76,343,190 (reported \$108,678,781; actual \$185,021,971).

185,021,971	CAFR
<u>108,678,781</u>	State Controller's Report
76,343,190	
(75,401,486)	Less Municipal Sewer capital assets
<u>(941,704)</u>	RHA Audit/Accounting Adjustments Posted After Preparation of State Controller's Report
<u>-</u>	Net Difference

Issue #7 - Municipal Sewer Enterprise Fund was not included in the report.

Municipal sewer has its own reporting requirement and is not to be included in the City report.

See SCO Special District Reporting data base report - Richmond Municipal Sewer District No. 1

Issue #8 - The City did not report the discontinuation of the Richmond Housing Authority Properties Operations

As discussed earlier. At the time of report submission, the full impact of the transaction had not been monetized.