

ASSOCIATION OF BAY AREA GOVERNMENTS

Representing City and County Governments of the San Francisco Bay Area



Date: November 8, 2018

To: ABAG Finance Committee
ABAG Executive Board

From: Executive Director

Subject: **ABAG Financial Statements for the Fiscal Year Ended June 30, 2018**

Recommended Action

The ABAG Finance Committee is requested to accept and recommend ABAG Executive Board approval of, and the ABAG Executive Board is requested to approve, the ABAG audit financial statements and accompanying reports for the fiscal year ending June 30, 2018

Summary

There are several documents that make up the year-end financial reports. These reports are:

- Report to the Finance Committee
- Reports on Federal Awards in Accordance with OMB Uniform Guidance for the Year Ended June 30, 2018
- Report on Internal Controls
- ABAG Financial Statements

The external auditors, PricewaterhouseCoopers (PWC), LLP will make a presentation directly to the Finance Committee relating to their required communications, internal controls and the report on federal awards. Staff will make a presentation on the ABAG Financial Statements.

The audit opinion expressed is "unmodified", meaning there were no significant or material weakness in internal controls and that the report is prepared in accordance with Generally Accepted Accounting Principles (GAAP). The Report on Internal Controls addresses the Metropolitan Transportation Commission's (MTC) internal financial controls since there are no separate ABAG financial controls.

Report to the ABAG Finance Committee

PWC prepares a report to communicate certain required information related to the FY 2017-18 Audit. The basic components are the Status of the Audit, Audit Risks and Results, and other Required Communications.

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Reports on Federal Awards in Accordance with OMB Uniform Guidance for the Year Ended June 30, 2018

PWC prepares this report on expenses and financial controls as they relate to federal grants. The audit opinion is unmodified (p.9) with no reported deficiencies in internal controls on either a significant deficiency or material weakness basis. There were no questioned costs.

Report on Internal Controls—Metropolitan Transportation Commission (MTC)

The Report on Internal Controls prepared by PWC concerns financial accounting and reporting controls in MTC. The ABAG financial system was discontinued following the financial systems consolidation on July 1, 2017.

There are no new business process findings in the FY 2017-18 report (p.1). There are two new technology findings (p. 2-3) for which remedial actions are already underway. Other prior year findings have been closed.

ABAG Financial Statements

The ABAG financial statements for FY 2017-18 are comprised of five sections. The sections are:

Independent Auditors Report (p. 1) This is the opinion expressed on internal controls and the financial statements. The opinion is “unmodified” in that the financial statements present fairly the financial position of ABAG in accordance with Generally Accepted Accounting Principles (GAAP).

Management’s Discussion and Analysis (MD&A) (p. 3) The MD&A provides a management overview of the information contained in the financial statements as of June 30, 2018.

The MD&A provides a multi-year financial picture that is not so obvious in the detail of the financial statements.

The two important financial aspects to discuss are the Negative Net Position (p. 5) and the Operating Loss (p. 6).

The “net position” of assets over liabilities is negative for both FY 2016-17 and FY 2017-18. Given the change in accounting rules where full pension and Other Post-Employment Benefits (OPEB) liabilities are recorded on the balance sheet, it is not unusual for organizations to have negative net positions. If we remove \$4.7 million for pension and OPEB liability for FY 2017-18 the ending net position would be positive (Note 2, p. 22).

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A similar discussion is in order in relation to the revenue and expenses schedule (p. 6). ABAG has an operating loss of \$2.3 million. However, this number includes (p. 45):

Pension Payments	\$1,293,682
OPEB (Pay-as-you-go)	\$ 435,142
Payroll Closeout	\$ 114,289
GASB 68/75 expenses	<u>\$1,543,617</u>
	\$3,386,730

Basic Financial Statements (p. 10)

The net loss, the combination of the operating loss and nonoperating gain, is \$1,923,584. The combination of payroll closeout and Governmental Accounting Standards Board (GASB) adjustments are a combined \$1,657,906, leaving an “adjusted” net loss of just \$265,678. Once the OPEB liability is retired ABAG will be reimbursed for OPEB expenses which should leave ABAG with a more solid financial future.

The nonoperating component in the ABAG financials shows a gain of \$371,496 for FY 2017-18 compared to a substantial negative in the prior year (p. 6). Nonoperating revenue and expenses in this case is the various grant funded work conducted through Bay Area Regional Energy Network (BayREN) and the San Francisco Estuary Partnership (SFEP). It is of critical importance to the future integrity of ABAG’ financial status that these grant funded programs remain in balance from a revenue and expense basis and self-contained on a cash-flow and administrative cost basis.

Required Supplementary Information (p. 39-42)

This section contains information important to understanding ABAG finances, especially the pension and OPEB schedules.

Other Supplementary Information (p. 44-45)

These contain the detail of the net position and revenue and expense detail by ABAG programs.

- Other Supplemental Schedules (p. 48-49)

These schedules contain additional information and detail on ABAG and the major funds detail on existing ABAG Conduit Financing Pool (p. 48).

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Overall ABAG finances are not without challenges; however, with careful management, the financial future should be sound.

If you have any questions about this report, please contact Brian Mayhew at (415) 778-6730.



Steve Heminger

Attachments

Audit Report
Reports on Federal Awards
Internal Controls Report
Financial Statements