

AGENDA: March 3, 2005

TO: Regional Transportation Commission

FROM: Daniel Nikuna, Fiscal Officer

SUBJECT: FY 03-04 Fiscal Audit

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## **RECOMMENDATION**

Staff recommends that the Regional Transportation Commission:

1. Accept the SCCRTC FY 03-04 fiscal audit (enclosed separately for Commissioners).
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## **BACKGROUND**

The Commission is required by state law to have an independent audit prepared annually. Moss, Levy & Hartzheim, prepared the FY 03-04 fiscal audit for the Commission; this audit is enclosed separately for Commissioners. Moss, Levy & Hartzheim also performed the audit of Transportation Development Act funds for the County of Santa Cruz Public Works Department; the City of Capitola; and the City of Santa Cruz for its own TDA fund and the pass-through claims on behalf of Community Bridges and the Volunteer Center. The Audit of the Transit District was performed by Brown Armstrong, CPAs. New in FY03-04 reporting is the implementation by the Commission of Government Accounting Standard Board Statement 34 (GASB 34), *Basic Financial Statements – and Management’s Discussion and Analysis –for State and Local Governments*, which calls for the capitalization of costs associated with capital assets.

## **DISCUSSION**

GASB 34 established a new reporting model for State and Local governments. Under GASB 34, all capital assets (fixed assets) are now capitalized rather than expensed in the year cash is paid. That is, costs associated with their acquisition become assets and they are depreciated during their useful lives not unlike what is done in the private sector. Normally, the basic financial statement should be preceded by Management’s Discussion and Analysis (MDA) of the financial activities, but it was not done in this first audit – MDA will be included starting with the FY04-05 audit report. The Commission’s GASB 34 Basic Financial Statements consist of Commission wide Financial Statements, Funds Financial Statements (Governmental and Fiduciary funds), and Notes.

Commission Wide Financial Statements (FY03-04 audit report pages 3-5)

This is the heart of GASB 34 which looks at the Commission as an economic entity rather than a combination of funds – total figures for governmental funds are presented and fiduciary funds (TDA, STA and STP Exchange) are excluded. There are two company wide statements: **Statement of Net Assets** (page 3) and **Statement of Activities** (pages 4-5). The Statement of Net Assets reflects the fixed assets stated at net value (net of depreciation); and instead of equity or fund balance, it has Net Assets. The Statement of Activities, as the name implies, shows revenues and expenses by activity rather than by budgetary line items. The Commission has only one activity: Transportation. Note that the statement is on full accrual basis in conformity with Generally Accepted Accounting Principles (GAAP).

Funds Financial Statements (FY03-04 audit report pages 6-21)

Funds Financials Statements have not changed much under GASB 34 except that there is no Account Groups similar to the one shown in Attachment 1, *FY02-03 Combined Balance Sheet*. Fixed assets and long term debts, if any, are integrated in the Statement of Net Assets. The other major change is the reconciliation of the Funds Balance Statement to the Statement of Net Assets (FY03-04 Audit Report page 8). In addition, Governmental funds and Fiduciary funds are not commingled because they are presented differently. For example, Governmental Funds have Fund Balances (page 6) while Fiduciary funds have Net Assets (page 8).

The Regional Transportation Commission and all TDA Claimants who received funds in FY03-04 received clean opinions from the auditors. The fiscal audit of the Regional Transportation Commission contained no significant recommendations for changes in accounting or fiscal procedures. The cities of Scotts Valley and Watsonville were not audited, for no TDA funds were paid to them in FY03-04.

Moss, Levy & Hartzheim has already submitted the audit reports of the Transportation Commission in order to meet the December 31, 2004 mandated deadline. The Transit District audit was accepted by its Board of Directors and transmitted to the State Controller Office in November 2004. All Claimants are in compliance with the TDA rules and regulations. The TDA claimant audits are not included here but are available at the Commission offices for review.

**SUMMARY**

The Commission's annual fiscal audit had been completed and should be reviewed and accepted by the Commission.

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Prepared by: Daniel Nikuna

Attachment 1: FY02-03 Combined Balance Sheet – Non GASB 34

Enclosure: FY 03-04 SCCRTC Fiscal Audit (enclosed separately)