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Board Agenda Item

TO: Air Pollution Control District Board

FROM: Terry Dressler, Air Pollution Control Officer

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SUBJECT: APCD Fiscal Year 2003-04 Comprehensive Annual Financial Report (CAFR)

RECOMMENDATIONS:

Receive and file the attached Fiscal Year 2003-04 APCD Comprehensive Annual Financial Report (CAFR), also containing the Financial Audit Report.

DISCUSSION:

Each year, financial statements and an independent audit must be prepared on the APCD's financial status.

The attached Fiscal Year 2003-04 CAFR was prepared by the APCD Fiscal Division, under the direction of APCD management. The included Fiscal Year 2003-04 Financial Audit Report was prepared for the APCD by the independent accounting firm Nasif, Hicks, Harris & Co.

As described below, the 2003-04 Fiscal Year marks the first year for a number of changes in the way the APCD reports on its financial status. The first change is the implementation of the new governmental financial reporting model, as prescribed by the Government Accounting Standards Board (GASB) *Statement No. 34: Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. The second change is the preparation of a CAFR. The third change is a prior period adjustment due to a change to the composition of the APCD trust funds. The fourth change is the separate presentation of the Single Audit Report.

Change 1: New Financial Reporting Model (GASB Statement 34)

The new financial reporting model is the biggest change in the history of public-sector accounting and financial reporting. The traditional financial reporting model for state and local governments has roots in the early decades of the twentieth century. The traditional model first prescribed in 1979 contributed greatly to the standardization and improvement of governmental financial reporting. With the passage of time, a consensus gradually emerged that additional improvements were needed if public-sector (governmental) reporting was to fully achieve its objective of promoting fiscal and operational accountability.

GASB Statement 34 accomplishes this goal and prescribes a new financial reporting model that incorporates the strengths of the traditional model and adds government-wide financial reporting, adds additional focus on long-term governmental activities, adds a narrative overview and analysis (the Management's Discussion and Analysis), and adds expanded budgetary reporting.

Change 2: CAFR

Since the APCD's inception in 1970, the APCD has been required to prepare basic financial statements and obtain an audit of those statements. This can be seen as the minimum standard required by law. The attached CAFR, a higher standard of reporting, includes the basic GASB Statement 34 financial statements and adds pertinent supplemental information to provide readers an even greater level of fiscal and operational accountability. Of note is the addition of a statistical section that provides historical and trend information. This enhances the APCD's comparability with other air pollution control districts in the State of California, who also prepare CAFRs.

Change 3: Prior Period Adjustment

The APCD reevaluated the composition of its trust funds, and related holdings, and found that certain amounts should be classified as designations. The *Trust Fund Reorganization* agenda item was first brought to the Board at its October 21, 2004 agenda. As a result of this trust fund reorganization, the 2003-04 CAFR has a one-time adjustment of \$3,440,771 for the prior fiscal year (2002-03) and this change will not occur or be reported in future fiscal years.

Change 4: Single Audit Report

In addition, APCD must undertake a federally mandated "Single Audit" that requires the independent auditors to issue a report on the APCD's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal compliance involving the administration of federal awards. The Single Audit Report has been separated from the CAFR to allow for more focused distribution of the District's federal award information to interested parties, and to allow for separate receipt and filing. This report will be presented at the March Board Meeting.

Lastly, acceptance of the attached CAFR and Financial Audit Report is contingent upon the adoption of the *Trust Fund Reorganization* agenda item.

ATTACHMENTS

1. Fiscal Year 2003-04 APCD Comprehensive Annual Financial Report (CAFR), also containing the Financial Audit Report.