

San Francisquito Creek Joint Powers Authority

June 25, 2009 Board Meeting

Agenda Item 4

Consent Calendar

Fiscal Year 2007-08 Audit

The Financial Statements and Management Letter for the Fiscal Year ending June 30, 2008 are being presented to the JPA Board for acceptance. The audit was performed by JPA CPA Kevin Harper of Kevin W. Harper CPA & Associates.

The Board Finance Committee (comprised of Chairperson Robinson and Vice Chair Kwok) has reviewed the Financial Statements and Management Letter with JPA staff and Mr. Harper. Additionally, the Financial Statements and Management Letter were sent to each Board member. Once accepted, the Reports will be forwarded to each JPA member agency for their records.

Proposed Board Action: Accept the Financial Statements and Management Letter for the Fiscal Year ending June 30, 2008.

San Francisquito Creek Joint Powers Authority
Statement of Cash Flows
Year Ended June 30, 2008

Cash Flows from Operating Activities:

Cash received from Member Entities	\$492,656
Cash paid to employees for services	(326,774)
Cash paid to suppliers for goods and services	(81,810)
Cash provided by Operating Activities	<u>84,072</u>

Cash Flows from Investing Activity -

Interest received	4,222
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Cash Flows from Non-Capital Financing Activity -

Grants received	<u>47,393</u>
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Increase in cash	135,687
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<i>Cash</i> - July 1, 2007	<u>98,296</u>
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<i>Cash</i> - June 30, 2008	<u><u>\$233,983</u></u>
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Non-Cash Non-Capital Financing Activity - Project

costs paid by U.S. Army Corps of Engineers	<u><u>\$319,282</u></u>
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***Reconciliation of Cash Flows from Operating Activities
to Operating Income:***

Cash provided by operating activities	\$84,072
Project costs paid by U.S. Army Corps of Engineers	(319,282)
Decrease in prepaid expenses	(1,667)
Decrease in accounts payable	311
Decrease in accrued salaries and benefits	24,969
Operating loss	<u><u>(\$211,597)</u></u>

See Notes to Financial Statements.

1	Member entity contributions per Operating Statement	<u>492,656</u>
2	Personnel expense and payroll taxes per Operating Statement:	
	Salaries	223,393
	Benefits	63,262
	Payroll taxes	<u>15,150</u>
		301,805
	2008 accrued salaries and benefits	(15,622)
	2007 accrued salaries and benefits	<u>40,591</u>
		<u>326,774</u>
3	All expenses per Operating statement	704,253
	Less personnel expenses per above	(301,805)
	Less non-cash consultant expenses paid by US Army Corps	(319,282)
	2008 accounts payable	(15,588)
	2007 accounts payable	15,899
	2008 prepaid expenses	3,593
	2007 prepaid expenses	<u>(5,260)</u>
		<u>81,810</u>
4	Interest revenue per Operating Statement	4,222
	2008 interest receivable	0
	2007 interest receivable	<u>0</u>
		<u>4,222</u>
5	Grant revenue per Operating Statement	29,112
	2008 grant receivable	0
	2007 grant receivable	18,281
	2008 deferred revenue	0
	2007 deferred revenue	<u>0</u>
		<u>47,393</u>
6	Per 2007 audited financial statements	<u>98,296</u>

San Francisquito Creek Joint Powers Authority
Statement of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2008

	<i>Actual</i>	<i>Budget</i>	<i>Variance</i>
Operating Revenues - Member			
Entity Contributions:			
City of Palo Alto	\$ 98,000	\$ 98,000	\$ -
City of East Palo Alto	98,000	98,000	-
City of Menlo Park	98,000	98,000	-
Santa Clara Valley Water District	98,000	98,000	-
San Mateo County Flood Control District	98,000	98,000	-
Differential Contributions	2,656	2,656	-
Total Operating Revenues	492,656	492,656	-
Operating Expenses:			
Personnel:			
Salaries	223,393	244,508	(21,115)
Benefits	63,262	75,739	(12,477)
Payroll taxes	15,150	16,553	(1,403)
Personnel services	9,447	17,102	(7,655)
Auto allowance	4,167	5,000	(833)
Legal	6,488	30,000	(23,512)
Financial/CPA	11,000	14,000	(3,000)
Office expense	30,205	36,721	(6,516)
Consultant Services/Studies	340,007	50,000	290,007
Contingency	1,134	5,000	(3,866)
Total Operating Expenses	704,253	494,623	209,630
Operating Income (Loss)	(211,597)	(1,967)	(209,630)
Non-operating Revenues:			
Interest	4,222	1,967	2,255
Revenues from other governments	29,112	-	29,112
Federal Contribution for Corp Project	319,282	-	319,282
Total Non-operating Revenues	352,616	1,967	350,649
Change in Net Assets	141,019	-	141,019
Net Assets - July 1, 2007	65,347	65,347	-
Net Assets - June 30, 2008	\$ 206,366	\$ 65,347	\$ 141,019

See Notes to Financial Statements.

San Francisquito Creek Joint Powers Authority
Statement of Net Assets
June 30, 2008

Assets

Cash	\$233,983
Prepaid expenses	3,593
Total Assets	<u>237,576</u>

Liabilities

Accounts payable	15,588
Accrued salaries and benefits	15,622
Total Liabilities	<u>31,210</u>

Net Assets - Unrestricted	<u><u>\$206,366</u></u>
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See Notes to Financial Statements.

SAN FRANCISQUITO CREEK JOINT POWERS AUTHORITY
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2008

This Management's Discussion and Analysis is intended to serve as a narrative overview and analysis of the financial activities of the San Francisquito Creek Joint Powers Authority (the "Authority") for the year ended June 30, 2008. The information presented here should be read in conjunction with the information furnished in the financial statements and notes to the financial statements.

Overview of the Financial Statements

The Authority's financial statements include the statement of net assets, statement of revenues, expenses and changes in net assets, and statement of cash flows. Also included are the notes to the financial statements.

The statement of net assets shows the difference between assets and liabilities. Net assets are classified into three categories: invested in capital assets (net of related debt), restricted, and unrestricted. The Authority had no capital assets and related debt at June 30, 2008. All the Authority's assets and liabilities are current (generally within 12 months).

The statement of revenues, expenses and changes in net assets shows the revenues and expenses that contributed to the change in net assets during the year.

The statement of cash flows summarizes the cash inflows and outflows based on type of activity, including cash flows from operations, non-capital financing activities, capital and related financing activities, and investing activities. The Authority had no capital and related financing activity during the year ended June 30, 2008.

Notes to the financial statements provide additional information that is essential to a full understanding of the information provided in the financial statements.

Financial Analysis

The most significant events affecting the comparability of the Authority's financial statements for the year ended June 30, 2008, to the prior year are highlighted below.

Statement of Net Assets

The net assets of the Authority increased by \$141,019 from the prior year. The composition of net assets as of June 30, 2008 and 2007 is shown in the following table:

	<i>FY 07-08</i>	<i>FY 06-07</i>	<i>Change</i>
Cash	\$233,983	\$ 98,296	\$135,687
Receivables	-	18,281	(18,281)
Prepaid expenses	3,593	5,260	(1,667)
Total assets	<u>237,576</u>	<u>121,837</u>	<u>115,739</u>
Accounts payable	15,588	15,899	(311)
Accrued salaries and benefits	15,622	40,591	(24,969)
Total liabilities	<u>31,210</u>	<u>56,490</u>	<u>(25,280)</u>
Net assets	<u>\$206,366</u>	<u>\$ 65,347</u>	<u>\$141,019</u>

The \$135,687 increase in cash resulted from member entity contributions exceeding expenses (personnel and office costs, excluding project costs) by approximately \$128,000.

Receivables at June 30, 2007 of \$18,281 were composed entirely of uncollected reimbursements from the California Department of Conservation grant. The amount was collected in fiscal year 2007-08.

Accrued salaries and benefits declined by \$24,969. Approximately \$17,000 of this decline resulted from reduction of accrued vacation, personal leave and professional development leave due to the former Executive Director who left employment in April 2008. Approximately \$10,000 of this decline is due to the timing of payroll at year end.

Statement of Revenues, Expenses and Changes in Net Assets

During the year ended June 30, 2008, the Authority's net assets increased by \$141,019 from the prior year. This change in net assets is shown in the following table:

	<i>FY 07-08</i>	<i>FY 06-07</i>	<i>Change</i>
Total operating revenues	\$492,656	\$ 314,250	\$ 178,406
Total operating expenses	704,253	940,116	(235,863)
Operating profit (loss)	(211,597)	(625,866)	414,269
Net non-operating revenues	352,616	575,210	(222,594)
Change in net assets	141,019	(50,656)	191,675
Net assets, beginning of year	65,347	116,003	(50,656)
Net assets, end of year	<u>\$206,366</u>	<u>\$ 65,347</u>	<u>\$ 141,019</u>

Operating revenues are comprised of Member Entity contributions. Each member contributed approximately \$98,000 in fiscal year 2007-08 and \$62,850 in fiscal year 2006-07.

Operating expenses are comprised of the personnel cost of the Authority's three employees, project consultants, legal and accounting, insurance and office expenses. The

Authority's operating expenses for the year ended June 30, 2008, decreased by \$235,863 which is primarily due to the following:

- Approximate \$186,000 decrease in project consultant expenses related to the Corps Project. Expenditures were lower than the prior year due to delays in federal funding.
- Approximate \$20,000 decrease in personnel costs due to departure of the Executive Director in April 2008. The new Executive Director was not hired until August 2008, after year end.

Net non-operating revenues decreased by \$222,594 due to:

- Approximate \$186,000 decrease in federal contribution for the Corps Project.
- Approximate \$36,000 decrease in revenue from Department of Conservation grant.

Summary of Known Facts, Decisions or Conditions

The following are currently known facts decisions or conditions that are expected to have a significant impact on the financial position or changes in financial position of the Authority:

- The Authority's operational budget is funded by annual member agency contributions. The member agencies derive funding from different sources within their general budgets. Those budgets are dependent upon the State's economy and a future stable economic climate. The Authority members are only bound in a voluntary agreement, and make year-to-year decisions whether they will continue to participate in the Authority, and how much they can contribute.
- The Authority is under contract with the U.S. Army Corps of Engineers for Phase II (Feasibility Phase) related to a 20-year flood control and ecosystem restoration project. The contract estimates total project cost to be \$7.5 million, of which the Authority, acting as the umbrella organization for its member agencies, is responsible for 50% local matching funds, including \$500,000 in-kind management contributions.

Two members of the Authority, the San Mateo County Flood Control District and the Santa Clara Valley Water District, have agreed through a resolution of the Authority Board, to provide \$1.5 million each for project completion through Phase II. The federal matching dollars are approved on a year-to-year basis through the Congressional/Presidential budget planning process and are subject to fluctuation in amounts.

The agreements discussed above call for the Authority to manage the project with the Corps, coordinate all member agency participation, run a media and public

participation campaign, and maintain accounting records.

Funding beyond Phase II has not yet been determined and is the subject of management discussions. The entire cost of project will not be known until sometime after Phase II is completed in about 2011.

Requests for Information

The annual financial report is designed to provide a general overview of the Authority's finances and operations. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Mr. Len Materman
Executive Director
San Francisquito Creek Joint Powers Authority
1231 Hoover Street
Menlo Park, CA 94025



SAN FRANCISQUITO CREEK
JOINT POWERS AUTHORITY

**SAN FRANCISQUITO CREEK
JOINT POWERS AUTHORITY**

MANAGEMENT LETTER

YEAR ENDED JUNE 30, 2008

May 18, 2009

To the Board of Directors
San Francisquito Creek Joint Powers Authority:

Under generally accepted auditing standards, auditors are encouraged to report various matters concerning an entity's internal control structure noted during an audit, and are required to report certain of those matters. Matters that are required to be reported are significant deficiencies in the design or the operation of the internal control structure that, in the auditor's judgment, could adversely affect the entity's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

As part of our audit of the financial statements of the San Francisquito Creek Joint Powers Authority (the Authority) for the year ended June 30, 2008, we considered the Authority's internal control structure in determining the scope of our audit procedures for the purpose of rendering an opinion on the financial statements. While our purpose was not to provide assurances on the internal control structure, certain matters came to our attention that we want to report to you. These matters, along with our recommendations, are described in the accompanying attachment.

A material weakness is a significant deficiency in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses as defined above. However, none of the deficiencies described in the accompanying attachment are believed to be material weaknesses.

The observations and recommendations included in this management letter are intended solely for the use of management and Board of Directors. This restriction is not intended to limit the distribution of this letter which, upon acceptance by the Board of Directors, is a matter of public record. To the extent that the Board of Directors intends

to rely upon this letter, such reliance should take into account the limited basis on which my recommendations were developed, as described above, and the limitations inherent in the internal control structure. In addition, the Board of Directors should understand that the criteria used in considering the internal control structure could differ significantly from the criteria the Board of Directors may be using for its purpose.

I reviewed the status of findings and recommendations from the prior year audit. Those that have not been adequately addressed have been repeated herein and are denoted with an asterisk.

I wish to express my appreciation for the courtesies and cooperation extended to me by Authority staff during the course of the audits. I would be pleased to discuss these recommendations in greater detail or to assist in their implementation.

Yours very truly,

**San Francisquito Creek Joint Powers Authority
Findings and Recommendations
Year Ended June 30, 2008**

POSTING JOURNAL ENTRIES

The Authority's accounting records were not complete at the time of the audit because the prior year's audit adjustments and post-closing adjustments were not recorded in its accounting records. Lack of posting such adjustments causes monthly financial information throughout the year to be inaccurate. The Authority is responsible for the fair presentation of the annual financial statement in conformity with generally accepted accounting principles. The Authority's management states annually in its representation letter to the auditors that "The accounting records presented to you are complete and accurate."

Recommendation:

The Authority should post all audit adjustments and post-closing adjustments into its general ledger as soon as each annual audit is complete.

Management Response:

The Authority has evaluated previous posting procedures and has since established a definitive process ensuring the complete and correct posting of audit adjustments.

ACCOUNTING POLICIES*

The Authority has documented accounting policies related to contracting, interim financial reporting, cash collections, disbursements and budget adoption/amendment. The Board has not yet adopted these policies. Accounting policies for other significant areas have not yet been documented.

Recommendation:

The Board of Directors should adopt the accounting policies that have been developed. Accounting policies for the following significant financial areas should be developed and adopted:

- Purchasing
- Investing
- Accounting for revenue recognition, fixed assets, grants
- Financial reserves and goals

Use of existing policies of the Member Entities may be an appropriate starting point for documentation of the Authority's policies.

Management Response:

The Authority recognizes that a thorough review and update of its policies are needed. In late May 2009, we will request that the Authority's auditors send to us generic accounting policies appropriate for a Joint Powers Authority to customize and adopt. The Authority's Executive Director intends to bring policies to the Board for adoption beginning with the June 2009 meeting.

ACCOUNTING PROCEDURES*

The Authority's Joint Powers Agreement states that "The Authority shall receive and disburse funds only in accordance with procedures established by the Board..." The Authority has no documented accounting procedures. We understand that a draft of an accounting procedures manual has been prepared. Documentation of procedures allows systematic development and communication of tasks, simplifies training for new employees and encourages sound internal controls.

Recommendation:

The Authority should complete the accounting procedures manual. It should include:

- Steps to be performed for each accounting task (e.g. purchasing, disbursements, petty cash, collections, payroll, preparing budget, preparing financial statements, journal entries, etc.)
- Monthly and annual accounting close procedures
- Approval/authorization procedures
- Description of recurring journal entries

Management Response:

The Authority agrees that proper accounting procedures should be documented, and staff will work to accomplish this over the summer of 2009.

STATUS REPORTS FROM THE ARMY CORPS OF ENGINEERS*

Phase 2 of the Corps Project is expected to take several years to complete and cost approximately \$7.5 million. Most of the project activities will be managed by the U.S. Army Corps of Engineers. The Authority and its member entities have significant matching requirements and are the direct beneficiaries of the project results. It is critical for the Authority and member entities to oversee the status of the project as work is performed and assure that value is received for matching funds. To date, the financial status reports from the Corps have been late, incomplete, hard to understand and provided only when asked.

Recommendation:

The Board and management should work with the Corps to design, agree upon, and document in formal agreements the information to be provided by the Corps. The

information should include the content, format and frequency of status reports. At a minimum, the status reports should include budget and actual project costs for the current period and for the project life-to-date, a narrative of tasks accomplished, and explanations of significant variances in project costs from original budget.

Management Response:

The recommendation on this item is the same as the recommendation made in the Management Letter for the fiscal year ending June 30, 2007. The Feasibility Study did not receive federal funding in FY2007/08, so the Corps was not able to dedicate staff to assist in the development of the agreements recommended. Management expects that federal funding in the amount of \$335,000 recently appropriated for the Study will be available in FY2009/10, and will work with the Corps to develop a Project Reporting Memo that will be countersigned by the Corps' Project Manager. The Memo will describe the format, content and timing of progress reports to be submitted by the Corps as recommended in this Management Letter.

CASH MANAGEMENT*

The Authority has approximately \$234,000 of cash at June 30, 2008. It is all in bank accounts earning zero to 0.35% interest.

Recommendation:

After the Authority develops an investment policy as recommended above, it should invest a portion of its cash. The State of California Local Agency Investment Fund (LAIF) is available for use by local governments. LAIF offers the benefits of professional investment management, low fees and quick access to funds. LAIF was yielded 2.9% at June 30, 2008.

Management Response:

The Authority has been exploring other options for the management of its cash. During this uncertain time for the financial sector and State funds, it has hesitated to move its cash. It will explore the option suggested by the Authority's auditors among other options, with a goal of establishing a cash management regime that maximizes returns without risk.