



Board Agenda Item 23

DATE: May 25, 2021

TO: Board of Supervisors

SUBMITTED BY: Oscar J. Garcia, CPA
Auditor-Controller/Treasurer-Tax Collector

SUBJECT: Restated Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2020

RECOMMENDED ACTION(S):

Receive and file the County of Fresno Restated Comprehensive Annual Financial Report (Financial Report) for the fiscal year ended June 30, 2020.

This item is countywide.

ALTERNATIVE ACTION(S):

There is no viable alternative as the restated Financial Report is submitted in compliance with Government Code Sections 25250 and 25253.

FISCAL IMPACT:

There is no fiscal impact associated with this action.

DISCUSSION:

On December 30, 2020, the independent certified public accounting firm of Brown Armstrong issued an unmodified ("clean") opinion on the County's basic financial statements as of and for the fiscal year ended June 30, 2020. The independent auditor's report is located at the beginning of the financial section of the report.

On January 15, 2021, the Audit Committee completed its review and accepted the Financial Report for the fiscal year ended June 30, 2020.

On January 26, 2021, the Financial Report for the fiscal year ended June 30, 2020 was provided for your Board's review in compliance with Government Code Sections 25250 and 25253.

As a result of a subsequent double check by Brown Armstrong's Audit Quality Committee (AQC) and Brown Armstrong's single audit work, which is an audit of federal awards to ensure compliance with the federal program's requirements, started subsequent to December 30, 2020, Brown Armstrong became aware that \$64,953,000 of the Coronavirus Aid, Relief, and Economic Security (CARES) Act funding received by the County during fiscal year 2019-20 was not claimed from the County's Disaster Claiming Fund prior to June 30, 2020, according to the procedure described below. Therefore, \$64,953,000 of the CARES Act funding did not meet the eligibility requirement for revenue recognition as of June 30, 2020. The CARES Act grant

was a new grant and the professional guidance over this grant for compliance and reporting was behind as a result of federal delays.

Brown Armstrong therefore strongly recommended that the County restate the Financial Report for the fiscal year ended June 30, 2020. Based on that recommendation, the Auditor-Controller/Treasurer-Tax Collector (ACTTC) prepared restated financial statements as described below and, on April 26, 2021, Brown Armstrong issued a revised unmodified (“clean”) opinion on the County’s restated basic financial statements as of and for the fiscal year ended June 30, 2020.

The restated Financial Report for the fiscal year ended June 30, 2020 corrects an understatement of \$64,953,000 in unearned revenue and an overstatement of \$64,953,000 in federal grant revenue for the Disaster Claiming Fund. Per GASB 33 paragraph 21, recipients of money from the Coronavirus Aid, Relief, and Economic Security (CARES) Act should recognize the money received as revenue only when all applicable eligibility requirements are met for each expenditure. Money transmitted before the eligibility requirements are met should be reported as advances by the federal government and as unearned revenue. After the eligibility requirements are met, the money should be reported as federal grant revenue.

The eligibility requirements for Coronavirus Relief Fund money under the CARES Act were that the money could be used only to cover those costs that:

1. Are necessary expenditures incurred due to the public health emergency with respect to COVID-19;
2. Were not accounted for within the most recently approved County budget as of March 27, 2020; and
3. Are incurred between March 1, 2020, and December 31, 2021.

When the County received \$81,579,507.20 of CARES Act money from the Coronavirus Relief Fund during FY 2020-21, it deposited that money into the County’s Disaster Claiming Fund. As expenditures were made by County departments, claims based on those expenditures were submitted to the Auditor-Controller/Treasurer-Tax Collector (ACTTC) for review to determine eligibility under the statutory criteria described above, and according to federal Treasury Department regulations. When the ACTTC determined that an expenditure was eligible, CARES Act money was transferred out of the County’s Disaster Claiming Fund and applied to reimburse the department’s eligible expenditure.

Since CARES Act funding was new and the federal Treasury Department regulations continued to develop throughout 2020, some of the CARES Act requirements were initially not clear, there was some misunderstanding in terms of revenue recognition. In the Financial Report provided for your Board’s review on January 26, 2021, CARES Act money in the County’s Disaster Claiming Fund that had not yet been determined by the ACTTC to be eligible and applied to departments’ expenditures was reported as federal grant revenue.

Under GASB 33 paragraph 21, however, the CARES Act money in the County’s Disaster Claiming Fund that had not yet been determined by the ACTTC to be eligible and applied to departments’ expenditures should have been reported as unearned revenue.

The unspent balance of CARES Act money, in the amount of \$64,953,000 as of June 30, 2020, should be recognized as unearned revenue due to the uncertainty on the revenue recognition since the money is subject to be returned to the U.S. Department of Treasury if unspent as of December 31, 2021. If the Financial Report were not restated, a prior period adjustment would be needed in the Financial Report for the fiscal year ending June 30, 2021 due to the material amount of the adjustment. A restatement is the best practice, however, and therefore preferable to a prior period adjustment.

Note 20 - Restatements in the Financial Report details the changes of the restatement.

Revisions were also made to address the change in terminology related to the Financial Report. The previous acronym has been removed at the request of the Governmental Accounting Standards Board

(GASB). The GASB has a proposed statement to vote on a new acronym but since it has not been formally adopted, we have used the term Financial Report.

The Audit Committee has completed its review and accepted the restated Financial Report at its May 14, 2021 meeting.

As required by federal securities disclosure rules, the County has entered into contractual reporting covenants (known as “continuing disclosure obligations”) in connection with its County’s bond issues that are presently outstanding in the public bond market. In accordance with those contractual covenants for County bonds payable from the County’s General Fund, the County is required, among other things, to prepare and publicly post annual reports, containing certain County basic financial information, in the secondary bond market by the last day of February following the relevant County fiscal year. Those posted annual reports must include the County’s audited Financial Report for the relevant preceding County fiscal year.

On February 26, 2021, the County disclosed the audited Financial Report for the fiscal year ended June 30, 2020, to the secondary bond market.

Following your Board’s completion of its review of the restated Financial Report, the County will disclose the restated Financial Report to the secondary bond market.

The restated Financial Report presented to your Board with this item is also attached to the preliminary Official Statement that is before your Board in a separate item today for the proposed issuance of the County’s fiscal year 2021-22 tax and revenue anticipation notes (TRAN).

OTHER REVIEWING AGENCIES:

The restated Financial Report and corresponding audit report were received by the Audit Committee at its May 14, 2021 meeting. The Financial Report was distributed to all Board members as of that date.

REFERENCE MATERIAL:

- BAI #18, January 26, 2021
- BAI #22, January 21, 2020
- BAI #29, January 29, 2019
- BAI #27, January 23, 2018
- BAI #17, February 7, 2017
- BAI #26, March 1, 2016

ATTACHMENTS INCLUDED AND/OR ON FILE:

- On file with the Clerk - FY 2019-20 Restated Financial Report
- On file with the Clerk - FY 2019-20 Restated Financial Report (Redline)

CAO ANALYST:

Yussel Zalapa