STAFF REPORT

MEETING DATE:	**December 18, 2025**
SUBJECT:	**Receive Fiscal Year 2023/24 Financial Statements and Fiscal and Compliance Audit Reports**
AGENDA ITEM:	**7-9**
STAFF CONTACT:	**Jessica Carlson, Chief Fiscal Officer**

SUMMARY:

Eide Bailly, LLP (Eide Bailly) has completed drafts of the audits required for Fiscal Year (FY) 2023/24. This completion is significantly delayed, leading to the State Controller's Office (SCO) temporarily withholding regional State Transit Assistance (STA) allocations. In draft reports issued December 5, 2025, SRTA received an unmodified audit opinion with two non-reportable findings. Significant risks, that are identified for special scrutiny prior to the audit process beginning, were thoroughly evaluated and SRTA was not found to be subject to those risks. Both findings, identified in previous fiscal year audits, were addressed this past year with the on-boarding of an accounting clerk in January 2025. The audit reports have unmodified auditor opinions. Staff recommends the SRTA Board of Directors review the draft reports and approve the audit findings, which is required before submission and release of the STA allocations to the region.

STAFF RECOMMENDATION:

It is recommended that the board of directors approve the draft independent fiscal and compliance audits of the financial statements for the fiscal year ending June 30, 2024.

DISCUSSION:

Background – Each year an independent auditor performs a fiscal and compliance audit and reports on the agency's financial statements. A single audit is required when expenditures of federal awards are greater than $750,000 during the fiscal year. The single audit is currently in progress, and the report will be presented at the board of directors meeting in February 2026. Eide Bailly has completed drafts of the fiscal and compliance audit reports for the fiscal year ending June 30, 2024. SRTA received an unmodified audit opinion, meaning that SRTA's financial condition, position, and operations are:

1. In accordance with generally accepted accounting principles;
2. In compliance with statutory requirements and regulations; and
3. Supported by adequate documentation.

Delayed Submission and Allocation Withholding - The fiscal and compliance audit for FY 2022/23 was not completed until September 2024 — 18 months after the fiscal year closed — due to factors outside staff's control. Procurement for the FY 2023/24 financial statements required three separate solicitations before securing a responsive proposer, which delayed the start of that work, and the Chief Fiscal Officer was on maternity leave from June through November 2025, reducing fiscal capacity during critical periods. These combined factors caused the audits to be completed after the contracted deadlines (Table 1). Staff is now working with the consultant to adjust processes to meet future audit submittal deadlines and securing multi-year Certified Public Accountant (CPA) (see agenda item #7-12) and audit contracts for FY 2024/25 and beyond to improve timeliness so that future audits may be submitted on time (See Table 2 for projected timeline).

The delay resulted in the State Controller's Office withholding FY 2024/25 fourth quarter and FY 2025/26 first-quarter STA payments in accordance with TDA regulations. SRTA anticipated this and included liquidation of the STA Reserve ($886,724.73) in the FY 2025/26 TDA Budget to support RABA's cash flow while payments were withheld; this payment was issued in December 2025. Board approval and submission of the FY 2023/24 audits is required before the SCO can release the STA allocations.

Table 1: Audit Completion Timeline

Item / Activity	Expected Timing	Actual Timing	Notes
FY 2022/23 Audit Completion	FY 2023/24	**Sept 2024 (FY 2024/25)**	18-month delay; consultant timeline
Procurement for FY 2023/24 Financial Statements	Early FY 2024/25	**Delayed, work started March 2025**	Required three solicitations to secure a responsive proposer
CFO Availability	Continuous	**On leave June–Nov 2025**	Reduced fiscal capacity during key audit preparation periods
SCO Release of STA Payments	FY 2024/25 Q4 and FY 2025/26 Q1	**Withheld; payment expected February 2026**	Pending board approval of FY 2023/24 audits

Table 2: Projected FY 2024/25 Audit Timeline

Item / Activity	Expected Timing	Notes
Procurement for FY 2024/25 Financial Statements	January 2026	See December 2025, BOD Item #7-12
Procurement for FY 2024/25 Fiscal and Compliance Audits	February 2026	Board approval of consultant contract at February meeting
FY 2024/25 Audit Completion and Board Approval	April 2026	Submit audited financials by SCO deadline June 30, 2026
FY 2025/26 Q4 STA Payment	August 2026	Pending board approval of FY 2024/25 audits

Compliance Audit Findings – The compliance audit identified material weaknesses that are not reportable, are thus considered minor, and can be resolved. The two findings are repeats from previous fiscal years and were related to: 1) financial reporting and 2) segregation of duties. Standard procedure for government audits is to let the board know what accounting risks the consultants are reviewing and which of those risks are significant enough to warrant a more in-depth look (Attachment A, page 2). The auditors reviewed these elements which carry significant risk and SRTA had no findings in these areas. A summary of each finding is discussed below.

> **Financial Reporting (2024-001) –** The finding states, "management identified and corrected misstatements related to the recognition of unearned revenues that resulted in a prior period adjustment... Management did not review the accounting treatment for specific funding sources to ensure that the appropriate accounting principles are applied." This finding pertains to prior period adjustments made during FY 2023/24 for the Low Carbon Transit Operations Program (LCTOP)

project closeouts. Similar to those identified in the FY 2022/23 audit for the State of Good Repair (SGR) program, adjustments to prior periods result in a misstatement of the prior year's audited financial statements. Although a necessary step for accurate accounting, these adjustments trigger an automatic finding to ensure decision makers are aware of the changes to previously published statements. Upon review, SRTA management determined that the prior period adjustments completed by staff were necessary to reconcile funding programs that had delayed close-outs due to staff turnover and to reconcile final grant amounts including interest earned.

Per Fiscal & Policy Committee recommendations, staff initiated efforts to hire an independent Certified Public Accountant (CPA) to assist in preparing future financial statements which SRTA management would review before being turned over for audit. This would minimize the potential for errors and provide objective expertise. The Request for Proposals was solicited three separate times, the first having no response, and the second having only one response that was considerably over the projected budget, and awarding a responsive bidder in the third. The CPA was responsible for reviewing and evaluating applicable account entries, as well as compiling the FY 2023/24 financial statements used in the audit. As intended, with the assistance of the CPA, SRTA has two findings in the FY 2023/24 audit in comparison to four findings in the previous fiscal year's audit.

Segregation of Duties (2024-002) – This item is a repeat from the FY 2022/23 audit. Due to SRTA's small staff size, similar to other small agencies, many financial duties are the exclusive responsibility of the chief fiscal officer (CFO). At that time, a few tasks were conducted by the executive assistant, with most by the CFO. Auditors found that agency procedures in place in prior fiscal years were insufficient to eliminate the risk of error and/or fraud when an accounting task was completed from start to finish by the same individual. SRTA updated some of the related procedures to address the deficiencies in internal controls to the extent possible. However, due to SRTA's small staff, the near-term segregation of all financial duties was not possible.

The executive director reviewed agency activities, policies, and budgets to identify steps that could be taken to remediate this finding in future audits. Accounting clerk classifications were added at the June 2024 board meeting, providing additional staff who could assist with the proper segregation of duties relating to the financial management of the agency. A new accounting clerk was hired in January 2025, which happened outside the audit review period. The accounting clerk provides necessary relief to the CFO and the financial workload. Training current staff in accounting practices, separating specific financial duties between the CFO and designated staff, and hiring accounting consultants, are all impactful ways that SRTA staff continues to remediate this finding.

Additionally, staff is exploring financial reporting options, including accounting software solutions, that could smooth out deficiencies with workflow timelines, increase collaboration between planning and finance staff, and automate grant program and financial statements reporting processes. This may reduce the staff time needed in this required and detailed process. The combination of the independent CPA's expertise and consultant audit services will ensure the highest standards of financial reporting, strengthen SRTA's financial reporting processes, and enhance transparency and accuracy.

ALTERNATIVES:
The board of directors may approve the audit reports and financial statements with clarifications.

FISCAL AND POLICY COMMITTEE REVIEW:

The Fiscal & Policy Committee met on December 11, 2025, to review and discuss draft financial statements and available audit reports. The Fiscal & Policy Committee supported staff's approach to addressing current findings with the goal of eliminating them in the future.

FISCAL IMPACT:

The findings in the FY 2023/24 draft audits have no direct impact on agency finances. However, errors in financial reporting, and those made due to internal controls, pose a risk to the agency that may result in under- or over- reporting significant accounts. This could potentially result in costly corrections, penalties, and/or further audits from governing bodies.

The significant delay in the consultant's delivery of the audit reports resulted in the SCO withholding FY 2024/25 fourth quarter and 2025/26 first quarter STA payments to the region, in accordance with TDA regulations. SRTA anticipates that the SCO will release the withheld regional payments with the next STA allocation in January 2026.

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Sean Tiedgen, AICP, Executive Director

Attachments:

A: The Eide Bailly LLP fiscal and compliance audit governance letter, draft dated December 5, 2025
B: The Eide Bailly LLP Internal Control and Compliance Report, draft dated December 5, 2025
C: The Eide Bailly LLP Independent Auditor's Report, draft dated December 5, 2025
D: The audited financial statements and supplementary information are available online at: https://www.srta.ca.gov/DocumentCenter/View/10031/Financial-Statements-and-Independent-Auditors-Report-June-30-2024-DRAFT

To the Board of Directors
Shasta Regional Transportation Agency
Redding, California

We have audited the financial statements of Shasta Regional Transportation Agency (Agency) as of and for the year ended June 30, 2024, and have issued our report thereon dated [Date] . Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our letter dated May 27, 2025, our responsibility, as described by professional standards, is to form and express an opinions about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of the system of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the system of internal control of the Agency solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our findings regarding internal controls over financial reporting and material noncompliance, and other matters noted during our audit in a separate letter to you dated [Date] .

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope we previously communicated to you. The timing was delayed to staffing adjustments at the Agency.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and other firms utilized in the engagement, if applicable, have complied with all relevant ethical requirements regarding independence.

Significant Risks Identified

As stated in our auditor's report, professional standards require us to design our audit to provide reasonable assurance that the financial statements are free of material misstatement whether caused by fraud or error. In designing our audit procedures, professional standards require us to evaluate the financial statements and assess the risk that a material misstatement could occur. Areas that are potentially more susceptible to misstatements, and thereby require special audit considerations, are designated as "significant risks." We have identified the following as significant risks:

- Management override of internal controls over financial reporting and compliance – Professional standards require auditors to address the possibility of management overriding controls. Accordingly, we identified as a significant risk that management of the Agency may have the ability to override controls that the organization has implemented. Management may override the organization's controls in order to modify the financial records with the intent of manipulating the financial statements to overstate the Agency's financial performance or with the intent of concealing fraudulent transactions.
- Significant Estimates - Professional standards require auditors to contemplate significant estimates as significant risks due to the judgmental nature of the assumptions and inputs to determine the potential impact those assumptions may have on the amounts reported for the estimates. We have currently identified the amounts reported related to the Agency's pension plan and other post-employment benefit plans to be significant estimates.
- Implementation of Governmental Accounting Standards Board (GASB) Statement No. 101, *Compensated Absences*, effective July 1, 2024. The implementation of new GASB statements requires additional judgment without prior year practices to rely on and could result in errors in financial reporting.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. The significant accounting policies used by the Agency are described in Note 1 to the financial statements. As discussed in Note XX to the financial statements, the Agency has changed accounting policies related to accounting for compensated absences to adopt the provisions of Governmental Accounting Standards Board (GASB) Statement No. 101, *Compensated Absences*. Accordingly, the accounting change has been retrospectively applied to the financial statements beginning July 1, 2024. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Accounting Estimates and Related Disclosures

Accounting estimates and related disclosures are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are amounts related to the net pension liability and related deferred inflows of resources and deferred outflows of resources, the other post-employment benefits (OPEB) liability and related deferred inflows of resources and deferred outflows of resources and the sick leave portion of the compensated absences liability.

Management's estimates of the net pension liability, net OPEB liability, related deferred inflows of resources and deferred outflows of resources, and disclosures are based on actuarial valuations and a proportionate share of the collective net pension and OPEB liability of the Agency's retirement association (CalPERS) cost-sharing plan. Management's estimate of sick leave included in compensated absences is based on an evaluation of historical use of sick leave to determine the likelihood of use of the earned leave. We evaluated the key factors and assumptions used to develop management's estimates and determined that it is reasonable in relation to the financial statements taken as a whole.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the Agency's financial statements relate to:

- Note 7 to the financial statements discloses key elements of the Agency's pension plan, administered by the California Public Employees' Retirement System (CalPERS). As disclosed in the footnote, a 1% increase or decrease in the discount rate can have a material effect on the Agency's net pension liability.
- Note 9 to the financial statements discloses key elements to the Agency's OPEB plan. As disclosed in the footnote, a 1% increase or decrease in either the discount rate or the healthcare cost trend rate can have a material effect on the Agency's net OPEB liability.
- Note 13 to the financial statements describes the effect of the change in accounting principle and correction of an error.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole.Uncorrected misstatements or matters underlying those uncorrected misstatements could potentially cause future-period financial statements to be materially misstated, even though the uncorrected misstatements are immaterial to the financial statements currently under audit.There were no uncorrected or corrected missstatements identified as a result of our audit procedures.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to Shasta Regional Transportation Agency's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Circumstances that Affect the Form and Content of the Auditor's Report

For purposes of this letter, professional standards require that we communicate any circumstances that affect the form and content of our auditor's report. As described in Note 14 to the financial statements, the Agency corrected for an error in unearned revenues as of July 1, 2024. The purpose of the paragraph is to draw attention to the disclosures for the adoption of the standards update. We have included an emphasis of matter in our report regarding this restatement. We did not modify our opinions related to this matter.

Representations Requested from Management

We have requested certain written representations from management which are included in the management representation letter dated "[date of management representation letter]" .

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the Agency, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, significant events or transactions that occurred during the year, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Agency's auditors.

Our responsibility also includes communicating to you any information which we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.

This report is intended solely for the information and use of the Board of Directors, and management of the Agency and is not intended to be, and should not be, used by anyone other than these specified parties.

Sacramento, California

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
Shasta Regional Transportation Agency
Redding, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of the governmental activities and each major fund information of the Shasta Regional Transportation Agency (Agency), as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated [REPORT DATE].

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Agency's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Agency's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 2024-001 and 2024-002 that we consider to be material weaknesses.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Agency's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Agency's response to the findings identified in our audit and described in the accompanying Schedule of Findings and Responses. The Agency's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Agency's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sacramento, California
Report Date

2024-001 FINANCIAL REPORTING

Criteria:

Management is responsible for taking responsibility for the preparation and fair presentation of the financial statements. Management is responsible for ensuring that all financial records and related information is reliable and properly recorded.

Condition Found:

Material Weakness – Management identified and corrected misstatements related to the recognition of unearned revenues that resulted in a prior period adjustment. We also noted several audit adjustments were required to be made.

Context:

The Agency's financial statements required a material audit adjustment to comply with generally accepted accounting principles.

Repeat Finding from Prior Year(s):

Yes. See finding 2023-001.

Effect:

The result of the condition above resulted in a misstatement of governmental activities and the fund financial statements.

Cause:

Management did not review the accounting treatment for specific funding sources to ensure that the appropriate accounting principles are applied.

Recommendation:

We recommend that the Agency ensure that the financial records of the Agency are complete and accurate prior to the audit process and contain all necessary adjustments.

Views of Responsible Officials and Planned Corrective Actions:

Agency management agrees with the finding. The Agency has updated policies and procedures to ensure appropriate accounting principles are applied. The prior period adjustments were required to reconcile closing program funding years and reconciling other program activities from FY 2022/23 that were not able to be addressed prior to fiscal year-end. Additional staff positions were added to Agency classifications in June 2024 to potentially recruit staff to further remediate the financial reporting weaknesses.

2024-002 SEGREGATION OF DUTIES

Criteria:

Internal controls should be established to ensure segregation of duties between the initiation and approval functions over journal entries.

Condition Found:

Material Weakness – We identified instances in which journal entries were initiated and approved by the same individual.

Context:

During our audit, we identified that the Chief Fiscal Officer both prepares and approves all journal entries that are entered into the Agency's finance system.

Repeat Finding from Prior Year(s):

Yes. See finding 2023-002.

Effect:

There is an increased risk of error or fraud if the journal entries are initiated and reviewed by the same individuals.

Cause:

The journal entry process did not have proper segregation of duties.

Recommendation:

We recommend that management implement policies and procedures within the Agency to disallow an individual from creating, approving, and posting the same entry or implement a period review of these journal entries by a separate individual.

Views of Responsible Officials and Planned Corrective Actions:

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Independent Auditor's Report

To the Board of Directors
Shasta Regional Transportation Agency
Redding, California

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities and each major fund of the Shasta Regional Transportation Agency (Agency), as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Agency, as of June 30, 2024, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States *(Government Auditing Standards)*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Agency and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Correction of an error

As discussed in Note 15 to the financial statements, the Agency has corrected for an error in unearned revenues *,* for the year ended June 30, 2024. Accordingly, a restatement has been made to the governmental activities net position and general fund balance as of July 1, 2023, to restate beginning net position and general fund fund balance. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Agency's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Agency's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of the Agency's proportionate share of the net pension liability/(asset), schedule of the Agency's pension contributions, schedule of the changes in the net other postemployment benefits (OPEB) liability and related ratios, schedule of OPEB contributions, and budgetary comparison schedules be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The schedules of allocations and disbursements, schedule of cost allocation plan reconciliation and indirect cost rate carryover, and the schedule of cost allocation plan reconciliation and indirect cost allocation carryover are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the supplementary information as noted in the table of contents are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated [REPORT DATE] on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Agency's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control over financial reporting and compliance.

Sacramento, California
Report Date