

CITY OF SACRAMENTO
CANNABIS BUSINESS OPERATIONS TAX REVENUE
(City of Sacramento, California)

Independent Auditor's Report and
Schedule of Cannabis Business
Operations Tax Revenue

Year Ended June 30, 2024

Report No. 2024/25-06

CITY OF SACRAMENTO
CANNABIS BUSINESS OPERATIONS TAX REVENUE
Independent Auditor’s Report and Schedule of Cannabis Business Operations Tax Revenue
Year Ended June 30, 2024

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Independent Auditor's Report

City Council
City of Sacramento, California

Opinion

We have audited the schedule of cannabis business operations tax revenue (Schedule) of the City of Sacramento, California (City) for the year ended June 30, 2024, and the related notes.

In our opinion, the accompanying Schedule referred to above presents fairly, in all material respects, the cannabis business operations tax revenue of the City for the year ended June 30, 2024, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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 Schedule section of our report. We are required to be independent of the City 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 opinion.

Emphasis of Matter

As discussed in Note 3 to the Schedule, the Schedule presents only the cannabis business operations tax revenue of the City and does not purport to, and does not, present fairly the changes in its financial position for the year ended June 30, 2024, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Schedule

Management is responsible for the preparation and fair presentation of the Schedule in accordance with the 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 the Schedule that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Schedule

Our objectives are to obtain reasonable assurance about whether the Schedule as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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 Schedule.

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 Schedule, 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 Schedule.
- 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 City'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 Schedule.

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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2025 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 City'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 City's internal control over financial reporting and compliance.



Sacramento, California
January 13, 2025

CITY OF SACRAMENTO
CANNABIS BUSINESS OPERATIONS TAX REVENUE
Schedule of Cannabis Business Operations Tax Revenue
Year Ended June 30, 2024

Cannabis Business Operations Tax Revenue	<u>\$23,351,809</u>
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The notes to the schedule are an integral part of this schedule.

CITY OF SACRAMENTO
CANNABIS BUSINESS OPERATIONS TAX REVENUE
Notes to the Schedule of Cannabis Business Operations Tax Revenue
Year Ended June 30, 2024

(1) GENERAL

In November 2022, voters in the City of Sacramento approved the Sacramento Children and Youth Health and Safety Act, also known as Measure L. This Act established the Sacramento Children's Fund ("SCF" or "the Fund"), a dedicated funding stream designed to support positive youth development and youth violence prevention programs for Sacramento residents under the age of 25. These programs include services for homeless youth and foster children, mental health counseling, substance abuse treatment, prevention and early intervention, and after-school activities. The Fund operates through an open, transparent, and competitive grant process, guided by a strategic plan developed by a commission and adopted by the City Council.

Measure L also created the nine-member Sacramento Children's Fund Planning and Oversight Commission (SCF Commission). The SCF Commission consists of one member appointed by the Mayor and one member appointed by each City Council member representing the eight council districts. The SCF Commission collaborates with the Sacramento Youth Commission to develop the five-year Strategic Investment Plan, review annual service performance and evaluation reports, and make recommendations to the City Council regarding investments in programs and services that support children and youth. These efforts are designed to ensure that children and youth have the opportunities and resources to fully participate, prosper, and reach their full potential.

The SCF is primarily funded through General Fund revenue. Specifically, the equivalent of 40% of the annual cannabis business operations tax (CBOT) revenue is allocated to the Fund to support children and youth services, in addition to existing City budget allocations for similar programs.

Measure L mandates that by each January 15, the City Auditor publishes an audited amount of CBOT for the prior fiscal year; this report demonstrates the City Auditor's compliance with this requirement.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule is intended to present the City's CBOT revenues, which is accounted for in the General Fund, and is not intended to be a complete presentation of the City's changes in financial position. Revenues are recorded under the modified accrual basis of accounting and recognized when they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

(3) RELATIONSHIP TO THE BASIC FINANCIAL STATEMENTS

The CBOT revenue is reported in the City's basic financial statements as part of the tax revenues within the General Fund. The Schedule is intended to present only the CBOT revenue. It does not purport to, and does not, present fairly the changes in the financial position of the City and the City's General Fund for the year ended June 30, 2024, in accordance with accounting principles generally accepted in the United State of America.

**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***

City Council
City of Sacramento, 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 Schedule of Cannabis Business Operations Tax Revenue (Schedule) of the City of Sacramento, California (City), for the year ended June 30, 2024, and the related notes to the Schedule, and have issued our report thereon dated January 13, 2025.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the Schedule, we considered the City’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 opinion on the Schedule, but not for the purpose of expressing an opinion on the effectiveness of the City’s internal control. Accordingly, we do not express an opinion on the effectiveness of the City’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 entity’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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City’s Schedule is 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 Schedule. 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*.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Macias Gini & O'Connell LLP

Sacramento, California

January 13, 2025