

SACRAMENTO LOCAL AGENCY FORMATION COMMISSION

*1112 I Street, Suite #100
Sacramento, California 95814
(916) 874-6458*

November 7, 2012

TO: Sacramento Local Agency Formation Commission

FROM: Peter Brundage, Executive Officer

RE: FY 2011-12 Financial Audit

RECOMMENDATION:

Receive and File the FY 2011-12 Financial Audit and Accompanying Statements for the year ending June 30, 2012.

DISCUSSION:

The LAFCo Financial Audit for FY 2011-12 was completed on September 5, 2012 by James Marta and Company, Certified Public Accountants. The summary of their findings are set forth as follows:

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of Sacramento Local Agency Formation Commission as of June 30, 2012, and the related changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

In accordance with Government Auditing Standards, we have also issued our report dated September 5, 2012 on our consideration of the Commission'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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

There are no audit exceptions and all recommendations from prior years have been implemented. The following recommendation was noted and the recommendation had been partially implemented.

Current Year Recommendation

The Auditor is recommending that procedures should be developed to reconcile cash in the county treasury on a monthly basis. This requires that staff maintain a listing of all receipts received and all disbursements approved. Deposit permits should be matched against this list of receipts to ensure that all amounts in the receipts were deposited. In addition, the activity in the cash in county treasury account should be reconciled with these lists. Any reconciling items should be investigated timely and adjusted with adequate documentation.

Current Status

Partially implemented—Procedures have been implemented to reconcile receipts and disbursements for all months at year end. A risk still exists in that unreconciling items from earlier in the year would not be detected in time.

Management Response

Staff will reconcile receipts and disbursements on a regular basis prior to year end.

Respectfully Submitted:



Peter Brundage
Executive Officer

Attachments



James Marta & Company
Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

**COMMUNICATION WITH THOSE CHARGED
WITH GOVERNANCE**

Commissioners
Sacramento Local Agency Formation Commission
Sacramento, California

We have audited the financial statements of the Sacramento Local Agency Formation Commission (LAFCo) for the year ended June 30, 2012, and have issued our report thereon dated September 5, 2012. Professional standards require that we communicate certain matters to you related to our audit. These are provided below:

Our Responsibility under Generally Accepted Auditing Standards

As communicated in our engagement letter dated March 1, 2012, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in conformity 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 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 internal control of LAFCo 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.

Other Information in Documents Containing Audited Financial Statements

Pursuant to professional standards, our responsibility as auditors for other information in documents containing Sacramento Local Agency Formation Commission's audited financial statements does not extend beyond the financial information identified in the audit report, and we are not required to perform any procedures to corroborate such other information.

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.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Qualitative Aspects of the Organization's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by LAFCo is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during the years audited. 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.

Significant Accounting Estimates

Accounting estimates 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.

We are not aware of any significant estimates in the financial statements.

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 Sacramento Local Agency Formation Commission's financial statements relate to the compensated absences and operating leases in Note 3 and Note 5, respectively, to the financial statements.

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. Management has corrected all identified misstatements.

In addition, professional standards require us to communicate to you all material, corrected misstatements. In the current year, no uncorrected misstatements were identified as result of our audit procedures. All adjustments were presented to us by management. These adjustments are summarized in Attachment 1.

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 the Organization's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in the attached letter dated September 5, 2012 (Attachment 2).

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 Findings or Issues

In the normal course of our professional association with LAFCo, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the Organization, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as LAFCo's auditors.

This report is intended solely for the use of the Commissioners and management of Sacramento Local Agency Formation Commission and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



James Marta & Company
Certified Public Accountants
September 5, 2012

ATTACHMENT 1

Adjusting Entries:

Prepared by management adjustment: AR/Revenue accrual for Greenbriar			
1890000	Accounts Receivable	4,846.00	
96969900	Svc Fees Other		<u>4,846.00</u>
Total		<u>4,846.00</u>	<u>4,846.00</u>

Prepared by management adjustment: to accrue salaries in Other Prof Svc			
20259100	Other Prof. Svc	81,041.00	
5100000	Accounts Payable		<u>81,041.00</u>
Total		<u>81,041.00</u>	<u>81,041.00</u>

Management Representation Letter

James Marta & Company
701 Howe Avenue, Suite E3
Sacramento, California 95825

We are providing this letter in connection with your audit of the Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets, and Statement of Cash Flows of Sacramento Local Agency Formation Commission as of June 30, 2012 and 2011 and for the years then ended for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects the financial position of Sacramento Local Agency Formation Commission, results of operations, and cash flows in conformity with generally accepted accounting principles. We confirm that we are responsible for the fair presentation in the financial statements of Sacramento Local Agency Formation Commission's financial position, results of operations, and cash flows in conformity with generally accepted accounting principles.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, as of September 5, 2012, the following representations made to you during your audit(s).

1. The financial statements of the various opinion units referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America.
2. We have made available to you all:
 - a. Financial records and related data.
 - b. Minutes of the meetings of the Commission and other relevant committees or summaries of actions of recent meetings for which minutes have not yet been prepared.
3. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices.
4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.
5. We believe that the effects of the uncorrected misstatements in the financial statements summarized in the attached schedule and aggregated by you during the current engagement are immaterial, both individually and in the aggregate, to the applicable opinion units and the financial statements taken as a whole.
6. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.

7. We have no knowledge of any fraud or suspected fraud affecting the entity involving (a) management, (b) employees who have significant roles in internal controls, or (c) others where the fraud could have a material effect on the financial statements.
8. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, vendors, regulators, or others.
9. The Sacramento Local Agency Formation Commission has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
10. The following have been properly recorded or disclosed in the financial statements:
 - a. Related-party transactions, including sales or charges for services provided, purchases, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.
 - b. Guarantees, whether written or oral, under which the Sacramento Local Agency Formation Commission is contingently liable.
 - c. Significant estimates and material concentrations known to management that are required to be disclosed in accordance with the AICPA's Statement of Position 94-6, *Disclosure of Certain Significant Risks and Uncertainties*. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.
11. There are no:
 - a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
 - b. Unasserted claims or assessments that our lawyer has advised are probable of assertion and must be disclosed in accordance with Statement of Financial Accounting Standards No. 5 (FAS-5), *Accounting for Contingencies*.
 - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FAS-5.
12. The Sacramento Local Agency Formation Commission has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
13. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
14. Receivables recorded in the financial statements represent valid claims against debtors for sales or other charges arising on or before the balance-sheet date and have been appropriately reduced to their estimated net realizable value.
15. We have reviewed, approved, and taken responsibility for the financial statements and related notes and acknowledge the auditor's role in the preparation of this information.
16. We represent to you the following regarding the financial statements for Sacramento Local Agency Formation Commission:
 - a. All component units, as well as joint ventures with an equity interest, are included and other joint ventures and related organizations are properly disclosed.

- b. All funds and activities are properly classified.
- c. All net assets component and fund balance reserves and designations have been properly reported.
- d. All revenues within the statement of activities have been properly classified as program revenues or general revenues.
- e. All interfund and intra-entity transactions and balances have been properly classified and reported.
- f. Special items and extraordinary items have been properly classified and reported.
- g. Deposit and investment risks have been properly and fully disclosed.
- h. With regards to required supplementary information (RSI):
 - (1) We acknowledge our responsibility for the presentation of the Required Supplementary Information and in accordance with the applicable criteria;
 - (2) The required supplementary information is measured and presented in accordance with prescribed guidelines;
 - (3) The methods of measurement or presentation have not changed from those used in the prior period

To the best of our knowledge and belief, no events have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.

(Name of Chief Executive Officer and Title)

(Name of Chief Financial Officer and Title)

**SACRAMENTO LOCAL AGENCY
FORMATION COMMISSION**

**FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITOR'S REPORT**

FOR THE FISCAL YEAR ENDED

JUNE 30, 2012

SACRAMENTO LOCAL AGENCY FORMATION COMMISSION

JUNE 30, 2012

COMMISSIONERS

Christopher Tooker

Jay Schenirer

Jerry Fox

Ronald Greenwood

Robert Jankovitz

Susan Peters

Jimmy Yee

Gay Jones

Alternate Commissioners

Mike Singleton

Phil Serna

Robert King Fong

John Messner

* * * *

Peter Brundage
Executive Officer

Donald Lockhart
Assistant Executive Officer

Diane Thorpe
Commission Clerk

SACRAMENTO LOCAL AGENCY FORMATION COMMISSION

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James Marta & Company
Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

INDEPENDENT AUDITOR'S REPORT

To the Commissioners
Sacramento Local Agency Formation Commission
Sacramento, California

We have audited the accompanying financial statements of the governmental activities and major fund of the Sacramento Local Agency Formation Commission (the "Commission"), as of and for the year ended June 30, 2012, which collectively comprise the Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Sacramento Local Agency Formation Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of Sacramento Local Agency Formation Commission as of June 30, 2012, and the related changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 5, 2012 on our consideration of the Commission'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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and the Schedule of Revenues, Expenditures and Change in Fund Balances – Budget and Actual – General Fund be presented to supplement the basic financial statements. Such information, 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 auditing standards generally accepted in the United States of America, 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.

James Marta + Company

James Marta & Company
Certified Public Accountants
September 5, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

SACRAMENTO LOCAL AGENCY FORMATION COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED JUNE 30, 2012

This section of the Commission's annual financial report presents a discussion and analysis of the Commission's financial performance during the fiscal year ended June 30, 2012. Please read it in conjunction with the auditor's report, the Commission's basic financial statements, and the notes to the basic financial statements following this section.

FINANCIAL HIGHLIGHTS

The condensed Statement of Net Assets is as follows:

	As of June 30:		
	2012	2011	2010
Current Assets	\$ 562,870	\$ 394,655	\$ 372,854
Current Liabilities	236,058	93,998	80,796
Long-Term Liabilities	149,427	142,987	140,542
Total Liabilities	385,485	236,985	221,338
Net Assets	\$ 177,385	\$ 157,670	\$ 151,516

The condensed Statement of Activities is as follows:

	For the Year Ended June 30:		
	2012	2011	2010
Revenues	\$ 896,465	\$ 872,838	\$ 925,701
Expenditures	(876,750)	(866,684)	(943,878)
Excess (Deficiency)	\$ 19,715	\$ 6,154	\$ (18,177)

The fluctuation in revenues and expenditures throughout the years is mainly due to various projects completed by the Commission. Starting in the fiscal year 2008-09, the Commission increased the assessed contributions from various participating members by \$100,000.

Fund balances and Net Assets were:

	As of June 30:		
	2012	2011	2010
Fund Balances	\$ 326,812	\$ 300,657	\$ 292,058
Net Assets	\$ 177,385	\$ 157,670	\$ 151,516

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements combine two kinds of statements that present different views of the Commission: the fund financial statements and the government-wide statements.

SACRAMENTO LOCAL AGENCY FORMATION COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED JUNE 30, 2012

The *government-wide financial statements* consist of the Statement of Net Assets and the Statement of Activities and provide both short-term and long-term information about the Commission's overall financial status. The Commission as a whole is reported in the Government-wide statements and uses accounting methods similar to those used by companies in the private sector. All of the Commission's assets and liabilities are included in the Statement of Net Assets. The Statement of Activities reports all of the current year's revenues and expenses regardless of when cash is received or paid.

The Commission's financial health or position (net assets) can be measured by the difference between the Commission's assets and liabilities.

- Increases or decreases in the net assets of the Commission over time are indicators of whether its financial position is improving or deteriorating, respectively.

The *fund financial statements* focus on how money flows into and out of the funds and the balances that remain at the end of the year. A modified accrual basis of accounting measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Commission's operations and services. Governmental fund information helps to determine the level of financial resources available in the near future to finance the Commission's programs.

FINANCIAL ANALYSIS

The revenues of the Commission consist of assessed contributions and project revenues. The Commission processes incorporations, annexations, detachments, and formations of special districts. The Commission collects project revenue from applicants and it is also funded by contributions from cities, special districts and the County of Sacramento.

The increase in revenues in 2011-2012 are mainly due to the following projects, which began in 2011 but continued into 2012: Greenbriar annexation to the City of Sacramento, Folsom, and Elk Grove.

FACTORS BEARING ON THE COMMISSION'S FINANCIAL FUTURE

At the time these financial statements were prepared and audited, the Commission was not aware of any circumstance that could significantly affect its financial health in the future.

ADDITIONAL FINANCIAL INFORMATION

This financial report is designed to provide the Commission's customers, contributors, and other interested parties with an overview of the Commission's financial operations and financial condition. Should the reader have questions regarding the information included in this report, or wish to request additional financial information, please contact Sacramento Local Agency Formation Commission Executive Officer at 1112 I Street, Suite 100, Sacramento, California 95814 or call (916) 874-5935.

BASIC FINANCIAL STATEMENTS

SACRAMENTO LOCAL AGENCY FORMATION COMMISSION

**GOVERNMENTAL FUND BALANCE SHEET AND
STATEMENT OF NET ASSETS**

JUNE 30, 2012

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
ASSETS			
Cash and investments	\$ 455,870		\$ 455,870
Receivables, net	107,000		107,000
Total Assets	<u>\$ 562,870</u>	<u>-</u>	<u>562,870</u>
LIABILITIES			
Accounts payable and accrued expenses	236,058		236,058
Compensated absences	-	149,427	149,427
Total Liabilities	<u>236,058</u>	<u>149,427</u>	<u>385,485</u>
FUND BALANCES/NET ASSETS			
Fund balances:			
Unassigned	<u>326,812</u>	<u>(326,812)</u>	<u>-</u>
Total Liabilities and Fund Balances	<u>\$ 562,870</u>		
NET ASSETS			
Unrestricted		<u>\$ 177,385</u>	<u>\$ 177,385</u>

See accompanying notes to the basic financial statements.

SACRAMENTO LOCAL AGENCY FORMATION COMMISSION

**STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE AND
STATEMENT OF ACTIVITIES**

FOR THE YEAR ENDED JUNE 30, 2012

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
REVENUES:			
Intergovernmental contributions	\$ 686,500		\$ 686,500
Charges for services	207,988		207,988
Interest income	<u>1,977</u>		<u>1,977</u>
Total revenues	<u>896,465</u>		<u>896,465</u>
EXPENSES:			
Planning services	<u>870,310</u>	<u>6,440</u>	<u>876,750</u>
Total expenditures/expenses	<u>870,310</u>	<u>6,440</u>	<u>876,750</u>
Excess/ (deficiency) of revenues over/ (under) expenditures	<u>26,155</u>	<u>6,440</u>	<u>19,715</u>
FUND BALANCES / NET ASSETS:			
Beginning of the Year	<u>300,657</u>		<u>157,670</u>
Ending of the Year	<u>\$ 326,812</u>		<u>\$ 177,385</u>

SACRAMENTO LOCAL AGENCY FORMATION COMMISSION

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2012

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. ORGANIZATION

The Sacramento Local Agency Formation Commission (the "Commission") is a state-mandated quasi-judicial countywide Commission, whose purview is to oversee boundary changes of cities and special districts, the formation of new agencies, including incorporation of new cities and districts and the consolidation or reorganization of special districts and cities.

Local Agency Formation Commissions are mandated by State law. Prior to 2001, counties were required to fund the entire cost related to the Commission operations. The Commission was located in the County Executive's Office and was staffed and operated in a manner similar to a county department. However, it operated independently of the County Executive. Staff was accountable and reported to the Commission. The Commission shared space and other office support provided from the County Executive's Office and reimbursed the County for staff time and other operating costs including overhead charges that the Commission incurred.

On July 1, 2001, the Commission was encouraged to become independent under the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000, Government Code Section 56000. As a result, the Commission authorized staff to lease space and relocate to offices outside and apart from the County Administration building.

The Commission is composed of an independent body controlled by a seven member commission elected by member agencies or appointed by the Commission. The Commission includes two Board of Supervisor members, two city council members, two special district board members, one public member and a number of alternates for each seat on the Commission.

The Commission provides services for member agencies including Sacramento County, seven Cities, and sixty-seven independent special districts within Sacramento County. The Commission's office at 1112 - I Street, Suite 100, Sacramento, is currently staffed with three full-time and one part-time worker. The Commission's employees are contracted for from Sacramento County, the City of Sacramento, and a temporary service agency.

The Commission's reporting entity includes all financial activities under control of its Commission members. Control was determined on the basis of government code authority, budget adoption and continuing oversight responsibilities.

The Commission is primarily funded through member assessments and charges for services. Sacramento County funds one-third of the annual member assessment and the City of Sacramento and the Sacramento Municipal Utility Commission each fund one-sixth. The remaining portions of the annual assessment are funded by the remaining six Cities and sixty-five independent special districts and are allocated using base year revenues.

SACRAMENTO LOCAL AGENCY FORMATION COMMISSION

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2012

B. BASIS OF PRESENTATION

Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the Commission. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities.

The government-wide statement of net assets presents information on all of the Commission's assets and liabilities, with the difference between the two presented as net assets. Net assets are reported as one of three categories: invested in capital assets, net of related debt; restricted or unrestricted. Restricted net assets are further classified as either net assets restricted by enabling legislation or net assets that are otherwise restricted. The Commission currently has no restricted net assets.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the Commission's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are, therefore, clearly identifiable to a particular function. The Commission does not allocate indirect expenses to functions in the statement of activities. Program revenues include charges paid by the recipients of goods or services offered by a program, as well as grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues, with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Commission.

The Commission reports all direct expenses by function in the Statement of Activities. Direct expenses are those that are clearly identifiable with a function.

Fund Financial Statements

Fund financial statements report detailed information about the Commission. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. The Commission has only one operating fund.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Assessments and service charges are recognized as revenues in the year for which they are levied. Expenses are recorded when liabilities are incurred.

SACRAMENTO LOCAL AGENCY FORMATION COMMISSION

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2012

Governmental Fund Financial Statement

Governmental fund financial statements (i.e., balance sheet and statement of revenues, expenditures and changes in fund balances) are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Available" means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Commission, "available" means collectible within the current period or within 60 days after year-end.

Non-exchange transactions, in which the Commission receives value without directly giving equal value in return, include assessments and interest income. Under the accrual basis, revenue from assessments is recognized in the fiscal year for which the assessments are levied. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

D. FUND ACCOUNTING

The accounts of the Commission are organized on the basis of funds or account groups, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. The Commission resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The Commission has one governmental fund.

Governmental Fund:

The General Fund is the general operating fund of the Commission. It is used to account for all transactions except those required or permitted by law to be accounted for in another fund.

E. BUDGETS

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. By state law, the Commission must adopt a final budget no later than June 15th. A public hearing must be conducted to receive comments prior to adoption. The Commissioners' satisfied these requirements.

SACRAMENTO LOCAL AGENCY FORMATION COMMISSION

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2012

F. CASH AND CASH EQUIVALENTS

For purposes of the statement of net assets, the Commission considers all short-term highly liquid investments, including restricted assets, amounts held with fiscal agent and amounts held in the County's investment pool, to be cash and cash equivalents. Amounts held with fiscal agent and investments held in the County's investment pool are available on demand to the Commission.

G. CASH AND INVESTMENTS

As described in Note 2, the Commission's cash and investments are held with the Sacramento County Department of Finance Treasury, as part of the cash and investment pool with other County Funds or are held with a Fiscal Agent. In accordance with GASB Statement No. 31, investments are stated at fair value. However, the value of the pool shares in the County Treasurer's investment pool that may be withdrawn is determined on an amortized cost basis, which is different from the fair value of the Commission's position in the pool. The County Treasurer's investment pool is subject to regulatory oversight by the Treasury Oversight Committee, as required by Section 27134 of the California Government Code. Statutes authorize the County to invest in the following:

1. Obligations of the County or any local agency and instrumentality in or of the State of California;
2. Obligations of the U.S. Treasury, agencies and instrumentalities;
3. Bankers' acceptances eligible for purchase by Federal Reserve System;
4. Commercial paper;
5. Repurchase agreements or reverse repurchase agreements;
6. Medium-term notes with a five-year maximum maturity of corporations operating within the United States and rated in the top three rating categories;
7. Guaranteed investment contracts

H. CAPITAL ASSETS

Capital assets, which may include land, structures and improvements, machinery and equipment, and infrastructure assets, are reported in the government-wide financial statements. Capital assets are defined as assets with an initial individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Capital outlay is recorded as expenditures of the General Fund and as assets in the government-wide financial statements to the extent the Commission's capitalization threshold is met. Amortization of assets acquired under capital lease is included in depreciation and amortization. Currently, the Commission has no items meeting the fixed asset criteria.

SACRAMENTO LOCAL AGENCY FORMATION COMMISSION

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2012

I. COMPENSATED ABSENCES

Regular, full-time, contracted employees are granted vacation in varying amounts based upon length of service. Any accrued hours, not in excess of the maximum allowable, which are unused during the current period, are carried forward to following years. The General Fund records expenditures for compensated absences as they are taken by employees. Each year's budget includes a provision for the estimated expenditure for the current year. A year-end accrual is not made in the General Fund as the Commission does not believe any of the available year end financial resources will be required to fund the year-end compensated absences liability. All vacation pay is accrued when incurred in the government-wide statements in accordance with GASB Statement No. 16, "Accounting for Compensated Absences."

The Commission's contracted employees are granted vacation in varying amounts based on classification and length of service. Maximum vacation hours for Sacramento County contracted employees eligible for carry forward to future periods is limited to no more than 400 hours of accrued time. The contracted employee from the City of Sacramento may carry a maximum of up to 2 years of accrued vacation time. Additionally, certain employees are allowed compensated time-off (CTO) in lieu of overtime compensation and/or for working on holidays.

Sick leave is earned by regular, full-time contracted employees. Any sick leave hours not used during the period are carried forward to future years, with no limit to the number of hours that can be accumulated. For Sacramento County contracted employees, any sick leave hours unused at the time of an employee's retirement are either paid-off up to one half of accrued leave, or added to the actual period of service when computing retirement benefits. The County does not pay accumulated sick leave to employees who terminate prior to retirement. The City of Sacramento pays up to one third of accrued sick leave upon employee separation. Provision for payment of sick leave to applicable contracted employees has been included in the compensated absence liability recorded in the government-wide financial statements.

J. REVENUES

Operating revenues, which include service charges, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Revenues classified as non-operating revenues, such as assessments and investment earnings, result from non-exchange transactions or ancillary activities.

K. INCOME TAXES

The Commission is not subject to income tax under Section 115(1) of the Internal Revenue Code and Section 23701d of the California and Taxation Code. Accordingly, no provision for federal or state income taxes has been made in the accompanying financial statements.

SACRAMENTO LOCAL AGENCY FORMATION COMMISSION

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2012

L. USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

M. FUND BALANCE

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*", the Commission is required to report fund balances in the following categories: Nonspendable, Restricted, Committed, Assigned and/or Unassigned.

Nonspendable Fund Balance reflects assets not in spendable form, either because they will never convert to cash (e.g. prepaid expense) or must remain intact pursuant to legal or contractual requirements.

Restricted Fund Balance reflects amounts that can be spent only for the *specific purposes* stipulated by constitution, external resource providers, or through enabling legislation.

Committed Fund Balance reflects amounts that can be used only for the *specific purposes* determined by a formal action of the government's highest level of decision-making authority: the Board of Commissioners. Commitments may be established, modified, or rescinded only through resolutions approved by the Board of Commissioners.

Assigned Fund Balance reflects amounts intended to be used by the government for *specific purposes* but do not meet the criteria to be classified as restricted or committed. In accordance with adopted policy, only the Board of Commissioners is authorized to assign amounts for specific purposes.

Unassigned Fund Balance represents the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications.

When expenditures are incurred for purposes of which restricted, committed, assigned and unassigned fund balances are available, the Commission considers restricted funds to have been spent first, followed by committed, assigned and unassigned, respectively.

2. CASH AND INVESTMENTS

Cash and investments as of June 30, 2012 consisted of Cash in County Treasury of \$455,870.

The Commission maintains specific cash deposits and investments with the County of Sacramento and involuntarily participates in the external investment pool of the County. Its share of the investment pool is separately accounted for and interest earned, net of related expenses, is apportioned quarterly and based upon the relationship of its daily cash balance to the total of the pooled account. The weighted average maturity of the pool as of June 30, 2012 is 170 days. The pool does not have a credit rating.

3. LONG-TERM OBLIGATIONS

The commission has long-term liabilities for compensated absences of its employees in the amount of \$149,427 as of June 30, 2012.

4. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Amounts reported for assets and liabilities for governmental activities in the statement of net assets are different from amounts reported in governmental funds because in governmental funds, only current liabilities are reported. In the statement of net assets, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of compensated absences payable.

Fund Balances	\$ 326,812
Less: Compensated Absences	<u>(149,427)</u>
Net Assets	<u>\$ 177,385</u>

The change in compensated absences reported in the statement of activities does not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

	<u>2012</u>
Change in Fund Balances	\$ 26,155
Less: Change in Compensated Absences	<u>(6,440)</u>
Change in Net Assets	<u>\$ 19,715</u>

5. OPERATING LEASES

The Commission entered into a ten-year lease for building space at 1112 - I Street, Suite 100, Sacramento with monthly payments of \$5,399, which expired on September 1, 2011. The lease was renewed for a five year term beginning with monthly payments of \$3,860, which expires August 31, 2016. The rents are based upon a predetermined schedule with provision for certain other increases. As of June 30, 2012, future minimum lease payments are as follows:

<u>Fiscal Year</u> <u>Ended June 30:</u>	<u>Minimum Payment</u>
2013	47,010
2014	47,828
2015	48,734
2016	49,578
2017	8,286
Total	<u>\$ 201,436</u>

Total rent expense for the year ended June 30, 2012 was \$45,777.

6. SUBSEQUENT EVENTS

Management has reviewed its financial statements and evaluated subsequent events for the period of time from its year ended June 30, 2012 through the date the financial statements were issued. Management is not aware of any subsequent events that would require recognition or disclosure in the accompanying financial statements.

REQUIRED SUPPLEMENTARY INFORMATION



James Marta & Company
Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

**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 Commissioners
Sacramento Local Agency Formation Commission
Sacramento, California

We have audited the financial statements of the governmental activities and major fund of Sacramento Local Agency Formation Commission (the "Commission"), as of and for the fiscal year ended June 30, 2012, and have issued our report thereon dated September 5, 2012. We conducted our audit 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.

Internal Control Over Financial Reporting

Management of Sacramento Local Agency Formation Commission is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of 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 determination of financial statement amounts. 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*.

This report is intended solely for the information and use of management, the Commission, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

James Marta & Company

James Marta & Company
Certified Public Accountants
September 5, 2012

SACRAMENTO LOCAL AGENCY FORMATION COMMISSION
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

JUNE 30, 2012

1. County Cash Reconciliation

Recommendation

Procedures should be developed to reconcile the cash in county treasury on a monthly basis. This requires that the management maintain a listing of all receipts received on site and disbursements approved. Deposit permits should be matched against this list of receipts to ensure that all amounts in the receipts were deposited. In addition, the activity in the cash in county treasury account should be reconciled with these lists. Any reconciling items should be investigated timely and adjusted with adequate documentation.

Current Status

Partially implemented – Procedures have been implemented to reconcile receipts and disbursements for all months at year end. A risk still exists in that unreconciling items from earlier in the year would not be detected in a timely manner.

Management Response

Staff will reconcile receipts and disbursements on a regular basis prior to year end.