

SACRAMENTO LOCAL AGENCY FORMATION COMMISSION

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

December 4, 2013

TO: Sacramento Local Agency Formation Commission
FROM: Peter Brundage, Executive Officer
RE: FY 2012-13 Financial Audit

RECOMMENDATION:

Receive and File the FY 2012-13 Financial Audit and Accompanying Statements for the year ending June 30, 2013.

DISCUSSION:

The LAFCo Financial Audit for FY 2012-13 (year ending June 30, 2013) was completed on October 4, 2013 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, 2013, 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 October 4, 2013 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 has 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.

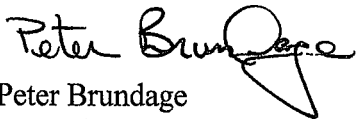
Current Status

Partially implemented—Procedures have been implemented to reconcile receipts and disbursements for all months at year end. A risk still exists in that not reconciling 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 LLP
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, 2013, and have issued our report thereon dated October 4, 2013. 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 February 15, 2013, 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 October 4, 2013 (Attachment 2).

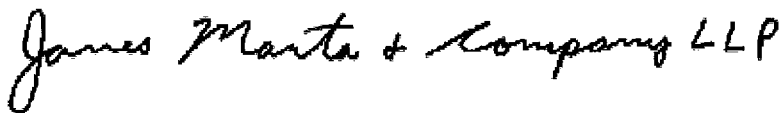
Management's Consultations with Other Accountants

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 LLP
Certified Public Accountants
October 4, 2013

ATTACHMENT 1

Adjusting Entries:

Account	Description	Debit	Credit
Adjusting Journal Entry JE # 1			
To adjust equity to match PY audit report. County does not included audit adjustments. These are adjustments input from PY.			
7400000	Fund Balance Unreserved	41.00	
20227504	Misc		41.00
Total		41.00	41.00
Adjusting Journal Entry JE # 2			
PBC AR/Revenue accrual for Greenbriar			
96969900	Svc Fees Other	4,846.00	
7400000	Fund Balance Unreserved		4,846.00
Total		4,846.00	4,846.00
Adjusting Journal Entry JE # 3			
PBC - To accrue salaries in Other Prof Svc			
7400000	Fund Balance Unreserved	81,041.00	
20259100	Other Prof. Svc		81,041.00
Total		81,041.00	81,041.00
Adjusting Journal Entry JE # 5			
Accrued Salary expense for 3/9/13-6/28/13			
20259100	Other Prof. Svc	49,583.00	
5100000	Accounts Payable		49,583.00
Total		49,583.00	49,583.00
Adjusting Journal Entry JE # 6			
PBC: to correct AR			
96969900	Svc Fees Other	11,275.50	
1890000	Accounts Receivable		11,275.50
Total		11,275.50	11,275.50

Management Representation Letter

October 4, 2013

James Marta & Company LLP
Certified Public Accountants

This representation letter is provided in connection with your audit of the financial statement of the governmental activities, the general fund and the aggregate remaining fund information of Sacramento Local Agency Formation Commission as of June 30, 2013 and for the year then ended, and the related notes to the financial statements, for the purpose of expressing opinions on whether the basic financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows, where applicable, of the various opinion units of Sacramento Local Agency Formation Commission in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP).

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 that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of October 4, 2013:

Financial Statements

- We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated February 15, 2013, for the preparation and fair presentation of the financial statements of the various opinion units referred to above in accordance with U.S. GAAP.
- We acknowledge our responsibility 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.
- We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
- All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
- The effects of uncorrected misstatements 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 to the financial statements as a whole.
- The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
- All component units, as well as joint ventures with an equity interest, are included and other joint ventures and related organizations are properly disclosed.

- All funds and activities are properly classified.
- All funds that meet the quantitative criteria in GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, for presentation as major are identified and presented as such and all other funds that are presented as major are considered important to financial statement users.
- All net assets components and fund balance classifications have been properly reported.
- All revenues within the statement of activities have been properly classified as program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
- All expenses have been properly classified in or allocated to functions and programs in the statement of activities, and allocations, if any, have been made on a reasonable basis.
- All interfund and intra-entity transactions and balances have been properly classified and reported.
- Special items and extraordinary items have been properly classified and reported.
- Deposit and investment risks have been properly and fully disclosed.
- Capital assets, including infrastructure assets, are properly capitalized, reported, and if applicable, depreciated.
- All required supplementary information is measured and presented within the prescribed guidelines.
- With regard to investments and other instruments reported at fair value:
 - The underlying assumptions are reasonable and they appropriately reflect management's intent and ability to carry out its stated courses of action.
 - The measurement methods and related assumptions used in determining fair value are appropriate in the circumstances and have been consistently applied.
 - The disclosures related to fair values are complete, adequate, and in conformity with U.S. GAAP.
 - There are no subsequent events that require adjustments to the fair value measurements and disclosures included in the financial statements.

Information Provided

- We have provided you with:
 - Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements of the various opinion units referred to above, such as records, documentation, meeting minutes, and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- All transactions have been recorded in the accounting records and are reflected in the financial statements.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
 - Management;
 - Employees who have significant roles in internal control; or
 - Others where the fraud could have a material effect on the financial statements.

- We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, vendors, regulators, or others.
- We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the financial statements and we have not consulted legal counsel concerning litigation or claims.
- We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
- There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices.
- Sacramento Local Agency Formation Commission has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
- We have disclosed to you all guarantees, whether written or oral, under which Sacramento Local Agency Formation Commission is contingently liable.
- We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed in accordance with GASB Statement No. 62 (GASB-62), *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. 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.
- We have identified and disclosed to you the laws, regulations, and provisions of contracts and grant agreements that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
- There are no:
 - Violations or possible violations of laws or regulations, or provisions of contracts or grant agreements whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, including applicable budget laws and regulations.
 - Unasserted claims or assessments that our lawyer has advised are probable of assertion and must be disclosed in accordance with GASB-62.
 - Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB-62
- 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 or future revenue been pledged as collateral, except as disclosed to you.
- We have complied with all aspects of grant agreements and other contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
- Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, lines of credit, or similar arrangements have been properly disclosed.

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.

Peter Brundage, Executive Officer

SACRAMENTO LOCAL AGENCY FORMATION COMMISSION

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

FOR THE FISCAL YEAR ENDED

JUNE 30, 2013

SACRAMENTO LOCAL AGENCY FORMATION COMMISSION

JUNE 30, 2013

COMMISSIONERS

Christopher Tooker

Mike Singleton

Ronald Greenwood

Kevin McCarty

Susan Peters

Jimmy Yee

Gay Jones

Alternate Commissioners

Jerry Fox

Phil Serna

Jeannie Bruins

Steve Cohn

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 LLP

Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

INDEPENDENT AUDITOR'S REPORT

To the Commissioners
Sacramento Local Agency Formation Commission
Sacramento, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the general fund and the aggregate remaining fund information of the Sacramento Local Agency Formation Commission (the "Commission"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

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 and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the general fund and the aggregate remaining fund information of the Sacramento Local Agency Formation Commission as of June 30, 2013, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

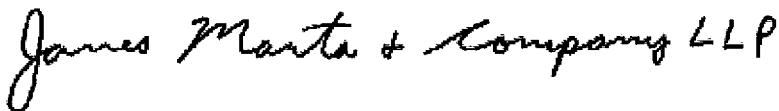
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund on pages 3-4 and page 15, respectively, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2013 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 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 Commission's internal control over financial reporting and compliance.



James Marta & Company LLP
Certified Public Accountants
October 4, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

SACRAMENTO LOCAL AGENCY FORMATION COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED JUNE 30, 2013

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, 2013. 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 Position is as follows:

	As of June 30:		
	2013	2012	2011
Current Assets	\$ 459,793	\$ 562,870	\$ 394,655
Current Liabilities	68,999	236,058	93,998
Long-Term Liabilities	155,264	149,427	142,987
Total Liabilities	224,263	385,485	236,985
Net Position	\$ 235,530	\$ 177,385	\$ 157,670

The condensed Statement of Activities is as follows:

	For the Year Ended June 30:		
	2013	2012	2011
Revenues	\$ 775,998	\$ 896,465	\$ 872,838
Expenditures	(717,853)	(876,750)	(866,684)
Excess (Deficiency)	\$ 58,145	\$ 19,715	\$ 6,154

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 Position were:

	As of June 30:		
	2013	2012	2011
Fund Balances	\$ 390,794	\$ 326,812	\$ 300,657
Net Position	\$ 235,530	\$ 177,385	\$ 157,670

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, 2013

The *government-wide financial statements* consist of the Statement of Net Position 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 Position. 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 position) can be measured by the difference between the Commission's assets and liabilities.

- Increases or decreases in the net position 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 decrease in project revenues in 2012-2013 are mainly due to the completion of several large projects including: Greenbriar litigation, completion of the City of Folsom annexation, and delays in processing the City of Elk Grove Sphere of Influence Amendment. Project revenue can vary significantly from year to year based on workload and project complexity.

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 POSITION**

JUNE 30, 2013

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
ASSETS			
Cash and investments	\$ 401,687		\$ 401,687
Receivables, net	58,106		58,106
Total Assets	<u>\$ 459,793</u>	<u>-</u>	<u>459,793</u>
LIABILITIES			
Accounts payable and accrued expenses	68,999		68,999
Compensated absences	-	\$ 155,264	155,264
Total Liabilities	<u>68,999</u>	<u>155,264</u>	<u>224,263</u>
FUND BALANCES/NET POSITION			
Fund balances:			
Unassigned	<u>390,794</u>	<u>(390,794)</u>	<u>-</u>
Total Liabilities and Fund Balances	<u>\$ 459,793</u>		
NET POSITION			
Unrestricted		<u>\$ 235,530</u>	<u>\$ 235,530</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, 2013

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
REVENUES:			
Intergovernmental contributions	\$ 686,500		\$ 686,500
Charges for services	85,394		85,394
Interest income	4,104		4,104
Total revenues	<u>775,998</u>		<u>775,998</u>
EXPENSES:			
Services and Supplies	707,279		707,279
Salaries and Employee Benefits	4,737	\$ 5,837	10,574
Total expenditures/expenses	<u>712,016</u>	<u>5,837</u>	<u>717,853</u>
Excess/ (deficiency) of revenues over/ (under) expenditures	<u>63,982</u>	<u>\$ 5,837</u>	<u>58,145</u>
FUND BALANCES / NET POSITION:			
Beginning of the Year	<u>326,812</u>		<u>177,385</u>
Ending of the Year	<u>\$ 390,794</u>		<u>\$ 235,530</u>

SACRAMENTO LOCAL AGENCY FORMATION COMMISSION

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2013

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. The Commission's employees are contracted for from Sacramento County and the City of Sacramento.

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, 2013

B. BASIS OF PRESENTATION

Government-wide Financial Statements

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

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, 2013

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, 2013

F. CASH AND CASH EQUIVALENTS

For purposes of the statement of net position, 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, 2013

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, 2013

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, 2013 consisted of Cash in County Treasury of \$401,687.

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, 2013 is 170 days. The pool does not have a credit rating.

SACRAMENTO LOCAL AGENCY FORMATION COMMISSION

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2013

3. LONG-TERM OBLIGATIONS

The commission has long-term liabilities for compensated absences of its employees in the amount of \$155,264 as of June 30, 2013.

4. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

Fund Balances	\$ 390,794
Less: Compensated Absences	<u>(155,264)</u>
Net Position	<u>\$ 235,530</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>2013</u>
Change in Fund Balances	\$ 63,982
Less: Change in Compensated Absences	<u>(5,837)</u>
Change in Net Position	<u>\$ 58,145</u>

SACRAMENTO LOCAL AGENCY FORMATION COMMISSION

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2013

5. OPERATING LEASES

The Commission is under a current lease for building space at 1112 - I Street, Suite 100, Sacramento. The lease is for a five year term, which expires August 31, 2016. The rents are based upon a predetermined schedule with provision for certain other increases. As of June 30, 2013, future minimum lease payments are as follows:

<u>Fiscal Year</u> <u>Ended June 30:</u>	<u>Minimum Payment</u>
2014	\$ 47,828
2015	48,734
2016	49,578
2017	8,286
Total	<u>\$ 154,426</u>

Total rent expense for the year ended June 30, 2013 was \$48,229.

6. SUBSEQUENT EVENTS

Management has reviewed its financial statements and evaluated subsequent events for the period of time from its year ended June 30, 2013 through October 4, 2013 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

SACRAMENTO LOCAL AGENCY FORMATION COMMISSION

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE – BUDGET (NON-GAAP) AND ACTUAL**

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2013

	Original and Final Budget	Actual	Budget Variance Favorable (Unfavorable)
REVENUES:			
Intergovernmental contributions	\$ 686,500	\$ 686,500	\$ -
Charges for services	188,805	85,394	(103,411)
Interest income	<u>2,500</u>	<u>4,104</u>	<u>1,604</u>
Total Revenues	<u>877,805</u>	<u>775,998</u>	<u>(101,807)</u>
EXPENSES:			
Planning services	<u>1,059,920</u>	<u>712,016</u>	<u>347,904</u>
Excess/ (deficiency) of revenues over/ (under) expenditures	(182,115)	63,982	246,097
Beginning fund balance	<u>326,812</u>	<u>326,812</u>	-
Ending fund balance	<u>\$ 144,697</u>	<u>\$ 390,794</u>	<u>\$ 246,097</u>

OTHER REPORTS



James Marta & Company LLP
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**

INDEPENDENT AUDITOR'S REPORT

To the Commissioners
Sacramento Local Agency Formation Commission
Sacramento, California

We have audited, in accordance with the 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, the governmental activities and major fund of Sacramento Local Agency Formation Commission, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Sacramento Local Agency Formation Commission's basic financial statements, and have issued our report thereon dated October 4, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Sacramento Local Agency Formation Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Sacramento Local Agency Formation Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of Sacramento Local Agency Formation Commission'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.

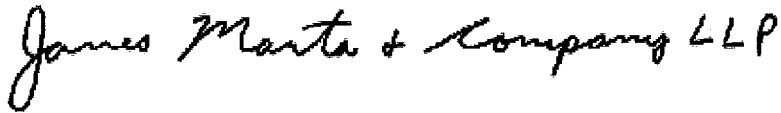
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Sacramento Local Agency Formation 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*.

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. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "James Marta & Company LLP". The signature is written in a cursive, flowing style.

James Marta & Company LLP
Certified Public Accountants
October 4, 2013

SACRAMENTO LOCAL AGENCY FORMATION COMMISSION
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
JUNE 30, 2013

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 reconciling items from earlier in the year would not be discovered in a timely manner.

Management Response

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