

SACRAMENTO LOCAL AGENCY FORMATION COMMISSION

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

March 7, 2012

TO: Sacramento Local Agency Formation Commission

FROM: Peter Brundage, Executive Officer

RE: FY 2010-11 Financial Audit

RECOMMENDATION:

Receive and File the FY 2010-11 Financial Audit and Accompanying Statements for the year ending June 30, 2011.

DISCUSSION:

The LAFCo Financial Audit for FY 2010-11 was completed on December 13, 2011 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, 2011, 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 December 13, 2011 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.

The Auditor determined that there were no new current year recommendations that need to be implemented.

Current Year Recommendations:

No new recommendations in the current year.

The following section describes prior year recommendations and the current status.

STATUS OF PRIOR YEAR RECOMMENDATIONS:

1. Processing Cash Receipts: Check Deposits

Finding

Checks that are received by mail are not immediately restrictively endorsed when the mail is opened. This practice exposes the Commission to the threat of a loss or theft until checks are deposited in the bank.

Recommendation

We recommend that a policy be established that requires checks received be restrictively endorsed and deposited at least once a week.

Status

Recommendation partially implemented. Checks are currently being restrictively endorsed. Management has stated that there is no regular schedule of deposits in place yet, however going forward management intends to implement a regular deposit schedule.

Response: Staff has implemented a policy to deposits checks on a weekly basis.

2. Fixed Asset Schedule

Finding

Currently, there is no schedule of property and equipment owned by Sac LAFCo. While assets owned are under the capitalization threshold established, assets could be potentially misappropriated without the proper records being maintained and controls in place.

Recommendation

We recommend the performance of an annual inventory of all property and equipment currently owned. We further suggest that a detailed schedule be prepared that supports

the cost, book value, and depreciation schedule for each item. This schedule could also be used for insurance purposes to validate total insured value.

Status

Recommendation implemented. All IT items are inventoried due to the contract with the County's IT maintenance program. IT items are where the highest risks are and this inventorying properly addresses those risks. There have not been significant purchases of furniture and fixtures; however, management states that when new significant additions are made, an inventory of those items will be completed.

Response: In the event new equipment is purchased, we will inventory these items.

3. Vacation Accrual Record Keeping

Finding

A schedule of accrued vacation time is not maintained or reviewed by management. This information is all maintained by the County of Sacramento and City of Sacramento.

Recommendation

Vacation and sick leave activity and balances should be reviewed periodically by management to ensure proper record keeping and accuracy of balances.

Status

Recommendation not implemented. However, going forward management will reconcile addition and deletion amounts to the vacation and sick leave balances to maintain oversight on the balances.

Response: Copies of time sheets submitted to the County and City will be kept on file as recommended by the Auditor for reconciliation purposes.

4. Annual Audit

Finding

The Commission did not have an annual audit conducted for the past six years. An audit is part of the process of accountability and transparency for management and the Commission.

Recommendation

We recommend that an audit be undertaken either annually or at least biannually in the future to ensure adherence to proper accounting and reporting principles. This enhances the Commission's oversight and would help improve internal control systems.

Status

Recommendation implemented.

5. Petty Cash

Finding

It was noted during the 2004 audit that the Commission has a minor petty cash balance of \$40 recorded on the COMPASS general ledger. These funds are not currently on hand and staff is unaware of the location of these funds.

Recommendation

It was recommended that the petty cash funds be written-off.

Status

The petty cash account balance is still listed on the general ledger as of June 30, 2011. The Commission did authorize and approve to write off the petty cash funds, however the transaction was never entered into the accounting system. The amount should be written off in the current fiscal year.

Response: Staff will request the Sacramento County Auditor Controller's Office to write this amount off.

The field work for the FY 2011-12 financial audit is tentatively scheduled for the week of August 22nd 2012.

Respectfully Submitted:


Peter Brundage
Executive Officer



James Marta & Company
Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

MANAGEMENT LETTER

To the Commission and Management
Sacramento Local Agency Formation Commission
Sacramento, CA, 95814

We have recently completed the audit of the financial statements of Sacramento Local Agency Formation Commission (SacLAFCO) and have issued our report thereon dated December 13, 2011. In planning and performing our audit of your financial statements for the fiscal years ended June 30, 2011 we applied generally accepted auditing standards (GAAS) as we considered your internal control over financial reporting as a basis for designing our auditing procedures. We did this for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of your internal controls.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. Although our audit was not designed to provide assurance on the internal control structure and its operation, we noted certain matters that we are submitting for your consideration for the improvement of the Commission's accounting and financial reporting functions. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations. We will review the status of these comments during our next audit engagement. This letter does not affect our report dated December 13, 2011 on the financial statements of the Commission.

Current Year Recommendations:

No new recommendations in the current year.

Prior Year Recommendations:

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Recommendation

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Status

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We believe that the implementation of these recommendations will provide Sacramento Local Agency Formation Commission with a stronger system of internal accounting control while also making its operations more efficient. We will be happy to discuss the details of these recommendations with you and assist in any way possible with their implementation.

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



James Marta & Company
Certified Public Accountants
December 13, 2011

SACRAMENTO LOCAL AGENCY FORMATION COMMISSION

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

FOR THE FISCAL YEAR ENDED

JUNE 30, 2011

SACRAMENTO LOCAL AGENCY FORMATION COMMISSION

JUNE 30, 2011

COMMISSIONERS

Christopher Tooker

Steve Cohn

Jerry Fox

Charles Rose

Robert Jankovitz

Susan Peters

Jimmy Yee

Gay Jones

* * * *

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, 2011, 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, 2011, 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 December 13, 2011 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.

Management's Discussion and Analysis and the Schedule of Revenues, Expenditures and Change in Fund Balances – Budget and Actual – General Fund are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

James Marta & Company

James Marta & Company
Certified Public Accountants
December 13, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

SACRAMENTO LOCAL AGENCY FORMATION COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED JUNE 30, 2011

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, 2011. 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:		
	2011	2010	2009
Current Assets	\$ 394,655	\$ 372,854	\$ 405,836
Current Liabilities	93,998	80,796	103,650
Long-Term Liabilities	142,987	140,542	132,493
Total Liabilities	236,985	221,338	236,143
Net Assets	\$ 157,670	\$ 151,516	\$ 169,693

The condensed Statement of Activities is as follows:

	For the Year Ended June 30:		
	2011	2010	2009
Revenues	\$ 872,838	\$ 925,701	\$ 812,076
Expenditures	(866,684)	(943,878)	(857,960)
Excess (Deficiency)	\$ 6,154	\$ (18,177)	\$ (45,884)

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:		
	2011	2010	2009
Fund Balances	\$ 300,657	\$ 292,058	\$ 302,186
Net Assets	\$ 157,670	\$ 151,516	\$ 169,693

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, 2011

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 decreases in revenues in 2010-11 are mainly due to the following projects, which were completed in fiscal year 2009-10: SMUD annexation related to Yolo County, Greenbriar annexation to the City of Sacramento, and the Arden Arcade Incorporation Proposal.

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, 2011

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
ASSETS			
Cash and investments	\$ 105,008		\$ 105,008
Receivables, net	289,647		289,647
Total Assets	<u>\$ 394,655</u>	<u>-</u>	<u>394,655</u>
LIABILITIES			
Accounts payable and accrued expenses	93,998		93,998
Compensated absences	-	142,987	142,987
Total Liabilities	<u>93,998</u>	<u>142,987</u>	<u>236,985</u>
FUND BALANCES/NET ASSETS			
Fund balances:			
Unassigned	<u>300,657</u>	<u>(300,657)</u>	<u>-</u>
Total Liabilities and Fund Balances	<u>\$ 394,655</u>		
NET ASSETS			
Unrestricted		<u>\$ 157,670</u>	<u>\$ 157,670</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, 2011

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
REVENUES:			
Intergovernmental contributions	\$ 686,500		\$ 686,500
Charges for services	184,238		184,238
Interest income	2,100		2,100
Total revenues	<u>872,838</u>		<u>872,838</u>
EXPENSES:			
Services and Supplies	858,172	2,445	860,617
Salaries and Employee Benefits	6,067		6,067
Planning services	864,239	2,445	866,684
Total expenditures/expenses	<u>864,239</u>	<u>2,445</u>	<u>866,684</u>
Excess/ (deficiency) of revenues over/ (under) expenditures	<u>8,599</u>	<u>2,445</u>	<u>6,154</u>
FUND BALANCES / NET ASSETS:			
Beginning of the Year	<u>292,058</u>		<u>151,516</u>
Ending of the Year	<u>\$ 300,657</u>		<u>\$ 157,670</u>

SACRAMENTO LOCAL AGENCY FORMATION COMMISSION

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2011

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, 2011

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 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, 2011

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, 2011

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, 2011

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, 2011

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 consisted of Cash in County Treasury of \$105,008.

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, 2011 is 170 days. The pool does not have a credit rating.

SACRAMENTO LOCAL AGENCY FORMATION COMMISSION

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2011

3. LONG-TERM OBLIGATIONS

The commission has long-term liabilities for compensated absences of its employees in the amount of \$142,987 as of June 30, 2011.

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	\$ 300,657
Less: Compensated Absences	<u>(142,987)</u>
Net Assets	<u>\$ 157,670</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.

Change in Fund Balances	\$ 8,599
Less: Change in Compensated Absences	<u>(2,445)</u>
Change in Net Assets	<u>\$ 6,154</u>

SACRAMENTO LOCAL AGENCY FORMATION COMMISSION

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2011

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, 2011, future minimum lease payments are as follows:

Fiscal Year <u>Ended June 30:</u>	<u>Minimum Payment</u>
2012	<u>\$ 10,798</u>

Total rent expense for the year ended June 30, 2011 was \$64,788.

6. SUBSEQUENT EVENTS

Management has reviewed its financial statements and evaluated subsequent events for the period of time from its year ended June 30, 2011 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 other than the operating lease discussed below.

In June 2011, the Commission renewed its lease for office space for a period of five years effective September 1, 2011. The renewed lease begins with monthly payments of \$3,860 with annual increases less than 2%. Future minimum lease payments will be as follows:

Fiscal Year <u>Ended June 30:</u>	<u>Minimum Payment</u>
2012	\$ 38,600
2013	47,010
2014	47,828
2015	48,734
2016	49,578
2017	8,286
Total	<u>\$ 240,036</u>

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, 2011

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Budget Variance Favorable (Unfavorable)</u>
REVENUES:			
Intergovernmental contributions	\$ 686,500	\$ 686,500	\$ -
Charges for services	415,000	184,238	(230,762)
Interest income	5,000	2,100	(2,900)
Total Revenues	<u>1,106,500</u>	<u>872,838</u>	<u>(233,662)</u>
EXPENSES:			
Planning services	<u>1,221,750</u>	<u>864,239</u>	<u>357,511</u>
Excess/ (deficiency) of revenues over/ (under) expenditures	(115,250)	8,599	123,849
Beginning fund balance	360,183	292,058	(68,125)
Ending fund balance	<u>\$ 244,933</u>	<u>\$ 300,657</u>	<u>\$ 55,724</u>

OTHER REPORTS



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, 2011, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated December 13, 2011. 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.

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.

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

James Marta & Company
Certified Public Accountants
December 13, 2011

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

JUNE 30, 2011

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

Not implemented - Procedures will be developed to reconcile cash in the county treasury on a monthly basis. Currently, monthly reports are received from the Auditor Controller's Office that show cash receipts and disbursements, these reports will be reconciled or verified against supporting documentation.

2. Cut-off Procedures

Recommendation

The Executive Officer should prepare written instructions to be included as a part of the Commission's accounting policies and procedures manual, which indicates basic concepts of proper cutoffs and the individuals responsible for accruing payables at the end of the accounting period. In addition, the Executive Officer should review the transactions before and after the reporting period to ensure provisions for amounts payable are properly recorded.

Current Status

Partially Implemented – Management accrued all payables for which invoices had been received. One invoice from the City of Sacramento was not received until after the posting deadline of the County.

3. Revenue Recognition

Recommendation

A reliable cut-off is critical to the accuracy and reliability of the revenues figures. An analysis of the projects outstanding at the end of the year should be performed to identify potential receipts that should be recorded as deferred revenue. In addition, an analysis of the revenue accounts should be performed at least annually to ensure the validity of recorded revenues.

Current Status

Implemented - All revenues were appropriately recognized for projects during the year.



James Marta & Company
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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, 2011, and have issued our report thereon dated December 13, 2011. 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 September 30, 2011, 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 that were brought to the attention of management as a result of our audit procedures. 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 December 13, 2011 (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
December 13, 2011

Attachment 1

List of Journal Entries

Note that a journal entry number with the suffix "r" is a reversing entry.

FY 2010-11:

Adjusting Journal Entry JE # 2
 To accrue County of Sac Assessment

1800000	Receivables	228,833.00	
97979000	Intergovernmental other		228,833.00
Total		228,833.00	228,833.00

Adjusting Journal Entry JE # 4
 To accrue accounts payable recorded in the wrong period AP Due to City of Sac for Don Lockhart's pay

20259100	Other Prof. Svc	40,656.00	
5100000	Accounts Payable		40,656.00
Total		40,656.00	40,656.00

Reclassifying Journal Entry JE # 3
 To reclass assessments coded as service fees

96969900	Svc Fees Other	15,350.00	
97979000	Intergovernmental other		15,350.00
Total		15,350.00	15,350.00

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, 2011 and for the year 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. We further confirm to you that we are responsible for adopting sound accounting policies in conformance with generally accepted accounting practices and establishing and maintaining adequate internal controls for the prevention and detection of fraud. We acknowledge the auditor's role in preparing the financial statements and the related notes and that we have approved and reviewed the financial statements.

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, the following representations made to you during your audit:

1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America.
2. We have identified for you all organizations that are a part of this reporting entity or with which we have a relationship, as these organizations are defined in Section 2100 of the Governmental Accounting Standards Board's Codification of Governmental Accounting and Financial Reporting Standards, that are:
 - a. Component units.
 - b. Other organizations for which the nature and significance of their relationship with the Commission are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.
 - c. Jointly governed organizations in which we participated.

3. We are not a component unit of any other governmental entity, as this term is defined in Section 2100 of the Governmental Accounting Standards Board's Codification of Governmental Accounting and Financial Reporting Standards.
4. We have identified for you all of our funds and account groups and have properly classified them.
5. We are responsible for compliance with, and have complied with, laws and regulations applicable to the United States of America and the State of California.
6. We have identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.
7. We have:
 - a. Identified to you all applicable generic compliance requirements.
 - b. Identified to you all applicable agency program requirements.
8. We have made available to you:
 - a. All financial records and related data of all funds and account groups, including those of all special funds, programs, departments, projects, activities, etc., in existence at any time during the period covered by your audit.
 - b. All minutes of the meetings of the governing board and committees of board members or summaries of actions of recent meetings for which minutes have not yet been prepared.
 - c. All communications from grantors, lenders, other funding sources or regulatory agencies concerning noncompliance with:
 - i. Statutory, regulatory or contractual provisions or requirements.
 - ii. Financial reporting practices that could have a material effect on the financial statements.
 - iii. Prior year audit finding(s) follow-ups by federal and/or state auditors.
9. There has been no:
 - a. Fraud involving management or employees who have significant roles in the internal control.
 - b. Fraud involving other employees that could have a material effect on the financial statements.
 - c. Communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices that could have a material effect on the financial statements.

10. We know of no violations of state or Federal statutory or regulatory provisions, grant or other contractual provisions, or of provisions of local ordinances.
11. The Sacramento Local Agency Formation Commission does not receive any federal revenues and as such is not subject to the provisions of OMB Circular A-133.
12. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
13. The following have been properly reflected and/or disclosed in the financial statements (as applicable):
 - a. Related party transactions, including those with other organizations for which the nature and significance of their relationship with the Commission are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete, joint ventures in which the Commission has an interest, and jointly governed organizations in which the Commission participates, as defined in Section 2100 of the Governmental Accounting Standards Board's Codification of Governmental Accounting and Financial Reporting Standards, and interfund transactions, including interfund accounts and advances receivable and payable, sale and purchase transactions, interfund transfers, long-term loans, leasing arrangements and guarantees, all of which have been recorded in accordance with the economic substance of the transaction.
 - b. Guarantees, whether written or oral, under which the Commission is contingently liable.
 - c. Agreements to repurchase assets previously sold.
 - d. Security agreements in effect under the Uniform Commercial Code.
 - e. Any other liens or encumbrances on assets or revenues or any assets or revenues which were pledged as collateral for any liability or which were subordinated in any way.
 - f. The fair value of investments.
 - g. Amounts of contractual obligations for plant construction and purchase of real property or equipment not included in the liabilities or encumbrances recorded on the books.
 - h. Any liabilities which are subordinated in any way to any other actual or possible liabilities.
 - i. All leases and material amounts of rental obligations under long-term leases.
 - j. Authorized but unissued bonds and/or notes and our legal debt limit.
 - k. Risk financing activities.
 - l. Reserves and/or designations of fund equities.
 - m. Derivative financial instruments.

14. We are responsible for making the accounting estimates included in the financial statements. Those estimates reflect our judgment based on our knowledge and experience about past and current events and our assumptions about conditions we expect to exist and courses of action we expect to take. In that regard, adequate provisions have been made:
 - a. To reduce receivables to their estimated net collectable amounts.
 - b. To reduce obsolete, damaged, or excess inventories to their estimated net realizable values.
 - c. To reduce investments, intangibles, and other assets which have permanently declined in value to their realizable values.
 - d. For risk retention, including uninsured losses or loss retentions (deductibles) attributable to events occurring through June 30, 2011 and/or for expected retroactive insurance premium adjustments applicable to periods through our audit date.
 - e. For pension obligations, post-retirement benefits other than pensions and deferred compensation agreements attributable to employee services rendered through June 30, 2011.
 - f. For any material loss to be sustained in the fulfillment of, or from the inability to fulfill, any service commitments.
 - g. For any material loss to be sustained as a result of purchase commitments.
 - h. For environmental clean up obligations.
15. 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. In that regard, we specifically represent that we have not been designated as, or alleged to be, a "potentially responsible party" by the Federal Environmental Protection Agency or any equivalent state agencies in connection with any environmental contamination.
 - b. 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.)
 - c. Other material liabilities or gain or loss contingencies that are required to be accrued or disclosed by Statement of Financial Accounting Standards No. 5.
16. No material civil rights suits were settled during the period of your audit and no civil rights suits are pending as of June 30, 2011.

17. There are no unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with Statement of Financial Accounting Standards No. 5 and/or GASB Statement No. 10.
18. We have no direct or indirect, legal or moral, obligation for any debt of any organization, public or private, or to special assessment bond holders that is not disclosed in the financial statement.
19. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statement.
20. We have satisfactory title to all owned assets.
21. We have complied with all aspects of contractual and grant agreements that would have a material effect on the financial statements in the event of noncompliance.
22. No events or transactions other than those disclosed in the financial statements have occurred subsequent to the balance sheet date that would require adjustment to, or disclosure in, the financial statements.
23. We are responsible for establishing and maintaining effective internal control over financial reporting and compliance. We are not aware of any material internal control weaknesses or reportable that should be reported.
24. We confirm all disclosures and financial information for June 30, 2011 to be accurate in the Management Discussion and Analysis.
25. We have followed applicable laws and regulations in adopting, approving and amending budgets.
26. Net assets components (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance reserves and designations are properly classified and approved.
27. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities and allocations have been made on a reasonable basis.
28. Revenues are appropriately classified in the statement of activities within program revenues and general revenues.
29. Interfund, internal and intra-equity activity and balances have been appropriately classified and reported.
30. Special and extraordinary items are appropriately classified and reported. Deposits and investment securities are properly classified in category of custodial credit risk.
31. Capital assets are properly capitalized, reported and depreciated.
32. During the course of your audit, you may have accumulated records containing data which should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.

33. We agree with the adjustments listed in Attachment 1.

/S/ Peter Brundage, Executive Director

Donald Lockhart, Assistant Executive Director