

YOLO COUNTY LOCAL AGENCY FORMATION COMMISSION

Audited Financial Statements and
Compliance Report

June 30, 2011, 2010, and 2009

YOLO COUNTY LOCAL AGENCY FORMATION COMMISSION

Audited Financial Statements and
Compliance Report

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INDEPENDENT AUDITOR'S REPORT

To the Chair and Members of the
Yolo County Local Agency Formation Commission
Woodland, California

We have audited the accompanying financial statements of the governmental activities and the major fund of the Yolo County Local Agency Formation Commission (the LAFCO) as of and for the years ended June 30, 2011, 2010, and 2009, which collectively comprise the LAFCO's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the LAFCO's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits provide a reasonable basis for our opinions.

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 the LAFCO as of June 30, 2011, 2010, and 2009, and the respective changes in financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2012, on our consideration of the LAFCO'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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information 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

To the Chair and Members of the
Yolo County Local Agency Formation Commission

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.

The LAFCO has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of the basic financial statements.

Richardson & Company

March 16, 2012

YOLO COUNTY LOCAL AGENCY FORMATION COMMISSION

STATEMENTS OF NET ASSETS

June 30, 2011, 2010 and 2009

	<u>2011</u>	<u>2010</u>	<u>2009</u>
ASSETS			
Cash	\$ 173,273	\$ 123,523	\$ 118,873
Prepaid expenses	919		
TOTAL ASSETS	<u><u>\$ 174,192</u></u>	<u><u>\$ 123,523</u></u>	<u><u>\$ 118,873</u></u>
LIABILITIES			
Accounts payable	\$ 80	\$ 213	\$ 33
Accrued payroll	8,381	6,360	9,251
Noncurrent liabilities:			
OPEB liability	59,942	29,829	
Compensated absences - current	6,377	6,285	11,954
Compensated absences - noncurrent	27,214	16,908	11,053
TOTAL LIABILITIES	<u><u>101,994</u></u>	<u><u>59,595</u></u>	<u><u>32,291</u></u>
NET ASSETS			
Unrestricted	72,198	63,928	86,582
TOTAL NET ASSETS	<u><u>72,198</u></u>	<u><u>63,928</u></u>	<u><u>86,582</u></u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 174,192</u></u>	<u><u>\$ 123,523</u></u>	<u><u>\$ 118,873</u></u>

The accompanying notes are an integral part of these financial statements.

YOLO COUNTY LOCAL AGENCY FORMATION COMMISSION

STATEMENT OF ACTIVITIES

For the Years Ended June 30, 2011, 2010, and 2009

	<u>2011</u>	<u>2010</u>	<u>2009</u>
EXPENSES			
Salaries and benefits	\$ 290,756	\$ 315,131	\$ 359,936
General and administrative	13,104	16,570	13,571
Legal	6,858	6,055	8,748
Transportation and travel	4,972	6,038	7,933
Training	3,574	4,019	2,654
Office	1,260	1,467	1,747
Professional and specialized services			20,944
TOTAL EXPENSES	<u>320,524</u>	<u>349,280</u>	<u>415,533</u>
PROGRAM REVENUES			
Intergovernmental revenues			
County of Yolo	161,750	162,527	148,090
City of Davis	56,370	58,185	51,757
City of West Sacramento	52,488	49,896	43,909
City of Woodland	47,716	49,408	47,389
City of Winters	5,176	5,038	5,035
Charges for services			54,953
TOTAL PROGRAM REVENUES	<u>323,500</u>	<u>325,054</u>	<u>351,133</u>
NET PROGRAM REVENUES (EXPENSES)	2,976	(24,226)	(64,400)
GENERAL REVENUES			
Other income	4,231	50	6,535
Interest income	1,063	1,522	5,454
TOTAL GENERAL REVENUES	<u>5,294</u>	<u>1,572</u>	<u>11,989</u>
CHANGE IN NET ASSETS	8,270	(22,654)	(52,411)
Net assets at beginning of year	<u>63,928</u>	<u>86,582</u>	<u>138,993</u>
NET ASSETS AT END OF YEAR	<u>\$ 72,198</u>	<u>\$ 63,928</u>	<u>\$ 86,582</u>

The accompanying notes are an integral part of these financial statements.

YOLO COUNTY LOCAL AGENCY FORMATION COMMISSION

BALANCE SHEETS - GOVERNMENTAL FUND

June 30, 2011, 2010, and 2009

	<u>2011</u>	<u>2010</u>	<u>2009</u>
ASSETS			
Cash and investments	\$ 173,273	\$ 123,523	\$ 118,873
Prepaid expenses	919		
	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 174,192</u>	<u>\$ 123,523</u>	<u>\$ 118,873</u>
LIABILITIES AND FUND BALANCE			
LIABILITIES			
Accounts payable	\$ 80	\$ 213	\$ 33
Accrued payroll	8,381	6,360	9,251
Compensated absences - current			6,759
	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES	<u>8,461</u>	<u>6,573</u>	<u>16,043</u>
FUND BALANCE			
Unassigned	165,731	116,950	102,830
	<u> </u>	<u> </u>	<u> </u>
TOTAL FUND BALANCE	<u>165,731</u>	<u>116,950</u>	<u>102,830</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 174,192</u>	<u>\$ 123,523</u>	<u>\$ 118,873</u>

The accompanying notes are an integral part of these financial statements.

YOLO COUNTY LOCAL AGENCY FORMATION COMMISSION

RECONCILIATION OF THE BALANCE SHEETS TO THE GOVERNMENT-WIDE
STATEMENTS OF NET ASSETS

June 30, 2011, 2010, and 2009

Fund balance - governmental funds, June 30, 2011	\$ 165,731
Amounts reported for governmental activities in the statement of net assets are different because:	
Certain liabilities are not due and payable in the current period and, therefore, are not reported in governmental funds:	
OPEB liability	(59,942)
Compensated absences	(33,591)
	<u> </u>
Net assets - governmental activities, June 30, 2011	<u><u>\$ 72,198</u></u>
Fund balance - governmental funds, June 30, 2010	\$ 116,950
Amounts reported for governmental activities in the statement of net assets are different because:	
Certain liabilities are not due and payable in the current period and, therefore, are not reported in governmental funds:	
OPEB liability	(29,829)
Compensated absences	(23,193)
	<u> </u>
Net assets - governmental activities, June 30, 2010	<u><u>\$ 63,928</u></u>
Fund balance - governmental funds, June 30, 2009	\$ 102,830
Amounts reported for governmental activities in the statement of net assets are different because:	
Compensated absences are not due and payable in the current period and, therefore, are not reported in the governmental funds	
	<u> </u>
Net assets - governmental activities, June 30, 2009	<u><u>\$ 86,582</u></u>

The accompanying notes are an integral part of these financial statements.

YOLO COUNTY LOCAL AGENCY FORMATION COMMISSION

STATEMENTS OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE -
GOVERNMENTAL FUND

For the Years Ended June 30, 2011, 2010 and 2009

	<u>2011</u>	<u>2010</u>	<u>2009</u>
REVENUES			
Intergovernmental revenues:			
County of Yolo	\$ 161,750	\$ 162,527	\$ 148,090
City of Davis	56,370	58,185	51,757
City of West Sacramento	52,488	49,896	43,909
City of Woodland	47,716	49,408	47,389
City of Winters	5,176	5,038	5,035
Charges for services			54,953
Other revenues	4,231	50	6,535
Use of money	1,063	1,522	5,454
TOTAL REVENUES	<u>328,794</u>	<u>326,626</u>	<u>363,122</u>
EXPENDITURES			
Salaries and benefits	250,245	278,357	343,688
General and administrative	13,104	16,570	13,571
Legal fees	6,858	6,055	8,748
Transportation and travel	4,972	6,038	7,933
Training	3,574	4,019	2,654
Office expenses	1,260	1,467	1,747
Professional and specialized services			20,944
TOTAL EXPENDITURES	<u>280,013</u>	<u>312,506</u>	<u>399,285</u>
NET CHANGE IN FUND BALANCE	48,781	14,120	(36,163)
Fund balance at beginning of year	<u>116,950</u>	<u>102,830</u>	<u>138,993</u>
FUND BALANCE AT END OF YEAR	<u>\$ 165,731</u>	<u>\$ 116,950</u>	<u>\$ 102,830</u>

The accompanying notes are an integral part of these financial statements.

YOLO COUNTY LOCAL AGENCY FORMATION COMMISSION

RECONCILIATION OF THE STATEMENTS OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
TO THE GOVERNMENT-WIDE STATEMENTS OF ACTIVITIES

For the Years Ended June 30, 2011, 2010 and 2009

Net change in fund balance - governmental funds for the year ended June 30, 2011	\$ 48,781
Amounts reported for governmental funds in the statement of activities are different because:	
Changes in certain expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:	
OPEB expense	(30,113)
Compensated absences	<u>(10,398)</u>
Change in net assets - governmental activities for the year ended June 30, 2011	<u>\$ 8,270</u>
Net change in fund balance - governmental funds for the year ended June 30, 2010	\$ 14,120
Amounts reported for governmental funds in the statement of activities are different because:	
Changes in certain expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:	
OPEB expense	(29,829)
Compensated absences	<u>(6,945)</u>
Change in net assets - governmental activities for the year ended June 30, 2010	<u>\$ (22,654)</u>
Net change in fund balance - governmental funds for the year ended June 30, 2009	\$ (36,163)
Amounts reported for governmental funds in the statement of activities are different because:	
Changes in compensated absences reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	
	<u>(16,248)</u>
Change in net assets - governmental activities for the year ended June 30, 2009	<u>\$ (52,411)</u>

The accompanying notes are an integral part of these financial statements.

YOLO COUNTY LOCAL AGENCY FORMATION COMMISSION

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2011, 2010, and 2009

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Yolo County Local Agency Formation Commission (the LAFCO) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The most significant accounting policies of the LAFCO are described below.

Background: The LAFCO is an independent agency responsible for the implementation of the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 in the County of Yolo. The LAFCO became an independent agency separate from Yolo County in 2001. The LAFCO's membership includes two county supervisors appointed by the County of Yolo Board of Supervisors, two City Council members appointed by the City Selection Committee, and one public member appointed by the LAFCO. The LAFCO is empowered to review, approve or deny boundary changes, city annexations, consolidations, special district formations, incorporations for cities and special districts, and to establish local "Spheres of Influence". The Sphere of Influence for each governmental agency is a plan for its future boundary and service area. The LAFCO's function is outlined in Government Code, Section 56000 et seq. known as the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000.

Basis of Presentation – Government-wide Financial Statements: The statement of net assets and statement of activities display information about the primary government (the LAFCO). These statements include the financial activities of the LAFCO.

The statement of activities presents a comparison between direct expenses and program revenues for the LAFCO's governmental activity. Direct expenses are those that are specifically associated with the LAFCO. Program revenues include contributions that are restricted to meeting the operational requirements of the LAFCO. Revenues that are not classified as program revenues, including interest income, are presented as general revenues.

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. Nonexchange transactions in which the LAFCO gives (or receives) value without directly receiving (or giving) equal value in exchange, include the contributions from member jurisdictions.

When both restricted and unrestricted resources are available, it is the LAFCO's policy to use restricted resources first, then unrestricted resources as they are needed.

Basis of Presentation – Fund Financial Statements: The accounts of the LAFCO are organized on the basis of funds. A fund is a separate accounting entity with a self-balancing set of accounts. Each fund is established for the purpose of accounting for specific activities in accordance with applicable regulations, restrictions, or limitations.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the LAFCO considers all revenues to be available if they are collected within 90 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual basis accounting.

YOLO COUNTY LOCAL AGENCY FORMATION COMMISSION

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2011, 2010, and 2009

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The LAFCO reports the following major governmental fund:

General Fund – The General Fund is the general operating fund of the LAFCO and accounts for revenues collected to provide services and finance the fundamental operations of the LAFCO. The fund is charged with all costs of operations.

Compensated Absences: Unused vacation may be accumulated up to a specified maximum and is paid at the time of termination from the LAFCO's employment. Upon retirement, unused sick leave may either be reported to CalPERS to earn additional retirement service credit (2,000 hours of sick leave earns a full year of service credit) or may be paid to the employee (one half of the balance over 200 hours will be paid at the employee's hourly pay rate) at the discretion of the employee. The LAFCO is not obligated to pay for unused sick leave if an employee terminates prior to retirement or if less than 200 hours are accrued upon retirement. The LAFCO accrues accumulated unpaid compensated absences when earned by the employee. The cost of vacation and sick leave is recorded in the period earned in the government-wide statements. A liability is reported in the General Fund only if the liability has matured, for example, as a result of employee resignations or retirements.

Fund Balance: Governmental funds report nonspendable, restricted, committed, assigned and unassigned balances.

Nonspendable Funds – Fund balance should be reported as nonspendable when the amounts cannot be spent because they are either not in spendable form, or are legally or contractually required to be maintained intact. Nonspendable balances are not expected to be converted to cash within the next operating cycle, which include pre-paid expenses and long-term receivables.

Restricted Funds – Fund balance should be reported as restricted when constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

Committed Funds – Fund balance should be reported as committed when the amounts can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority. These amounts cannot be used for any other purpose unless the governing body modifies or removes the fund commitment.

Assigned Funds – Fund balance should be reported as assigned when the amounts are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed.

Unassigned Funds – Unassigned fund balance is the residual classification of the LAFCO's funds and includes all spendable amounts that have not been restricted, committed, or assigned to specific purposes.

The LAFCO has only unassigned fund balance.

Net Assets: The government-wide financial statements present net assets. Net assets are categorized as invested capital assets, restricted and unrestricted.

Invested in Capital Assets – This category groups all capital assets into one component of net assets. Accumulated depreciation reduces the balance in this category.

YOLO COUNTY LOCAL AGENCY FORMATION COMMISSION

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2011, 2010, and 2009

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Net Assets – This category presents external restrictions imposed by creditors, grantors, contributors, laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Assets – This category represents net assets of the LAFCO that is not restricted for any project or other purpose.

The LAFCO has only unrestricted net assets.

Budget: The LAFCO adopts an annual budget for the General Fund that is consistent with generally accepted accounting principles at the LAFCO's May meeting. The budget includes expenditures and the means of financing them and is used for planning purposes. Budgetary control is exercised at the major object level. All budgetary changes during the year require approval of the Commissioners. Encumbrances are used as an extension of normal budgetary accounting in the General Fund. Under this system, purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of applicable appropriations. Encumbrances outstanding at year-end are recorded as restricted, committed or assigned fund balance since they do not constitute expenditures or liabilities.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

NOTE B – CASH AND INVESTMENTS

Investment in the County of Yolo Investment Pool: The LAFCO's cash is held in the County of Yolo treasury. The County maintains an investment pool and allocates interest to the various funds based upon the average daily cash balances. Investments held in the County's investment pool are available on demand to the LAFCO and are stated at fair value.

Interest Rate Risk: Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value on an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in the market interest rates. As of June 30, 2011, 2010, and 2009, the weighted average maturity of the investments contained in the County of Yolo investment pool was approximately 397, 296, and 318 days, respectively.

Credit Risk: Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The County of Yolo investment pool does not have a rating provided by a nationally recognized statistical rating organization.

Custodial Credit Risk: Custodial risk is the risk that the government will not be able to recover its deposits or the value of its investments that are in the possession of an outside party. Custodial credit risk does not apply to a local government's indirect deposits or investment in securities through the use of government investment pools (such as the County of Yolo investment pool).

YOLO COUNTY LOCAL AGENCY FORMATION COMMISSION

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2011, 2010, and 2009

NOTE C – LONG-TERM LIABILITIES

The following is a summary of long-term liability activity for the years ended June 30, 2011, 2010, and 2009:

	<u>July 1, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2011</u>	<u>Due Within One Year</u>
Compensated absences	<u>\$ 23,193</u>	<u>\$ 12,522</u>	<u>\$ (2,124)</u>	<u>\$ 33,591</u>	<u>\$ 6,377</u>
	<u>July 1, 2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2010</u>	<u>Due Within One Year</u>
Compensated absences	<u>\$ 23,007</u>	<u>\$ 11,589</u>	<u>\$ (11,403)</u>	<u>\$ 23,193</u>	<u>\$ 6,285</u>
	<u>July 1, 2008</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2009</u>	<u>Due Within One Year</u>
Compensated absences	<u>\$ 20,529</u>	<u>\$ 8,920</u>	<u>\$ (6,442)</u>	<u>\$ 23,007</u>	<u>\$ 11,954</u>

NOTE D – DEFINED BENEFIT PENSION PLAN

Plan Description: The LAFCO is a member in the Yolo County Miscellaneous Pension Plan (the Plan), which contributes to the California Public Employees' Retirement System (CalPERS), an agent multiple-employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute. The County selects optional benefits provisions from the benefit menu by contract with CalPERS and adopts those benefits through memorandum of understandings with the various bargaining units. CalPERS issues separate comprehensive annual financial reports. Copies of the CalPERS annual report may be obtained from CalPERS Headquarters, Lincoln Plaza North, 400 Q Street, Sacramento, CA 95811.

Under the option the County has selected, all full and part-time permanent County employees and extra help employees who have worked over 1,000 hours in a fiscal year are required to participate in the Yolo County Miscellaneous Pension Plan. Elected officials may also participate at their option. Per diem employees and extra help employee working less than 1,000 hours in a fiscal year are excluded. Benefits vest after five years of service. To be eligible for retirement an employee must be at least 50 years of age and have 5 years of CalPERS credited service. The annual retirement benefit for eligible employees is payable monthly for life, in an amount equal to 2.5% of their average monthly pay rate for the last consecutive 36 months of employment, for each year of credited service up to 37 1/2 years.

Funding Policy: Plan members were required to contribute 7% through December 2008 and 8% beginning in January 2009 of their annual covered salary to the Plan. Plan member contributions are paid by the plan member or the LAFCO pursuant to employment agreements with the various bargaining units. Plan members contributed 7.5% of their annual covered salary during the year ended June 30, 2011 and

YOLO COUNTY LOCAL AGENCY FORMATION COMMISSION

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2011, 2010, and 2009

NOTE D – DEFINED BENEFIT PENSION PLAN (Continued)

1% from January 2009 to June 30, 2010 and the LAFCO made the remaining contributions required of plan members on their behalf. The LAFCO is required to contribute at an actuarially determined rate. The rates for the years ended June 30, 2011, 2010, and 2009 were 13.092%, 12.936% and 10.408%, respectively. The contribution requirements of plan members and the LAFCO are established and may be amended by PERS. The LAFCO's contributions for the years ended June 30, 2011, 2010, and 2009 were \$50,772, \$62,492, and \$44,853, respectively.

NOTE E – OTHER POSTEMPLOYMENT BENEFITS PLAN

Plan Description: The LAFCO participates in the County of Yolo Retiree Healthcare Plan (the Plan), a cost-sharing multiple-employer defined benefit other postemployment benefits (OPEB) plan, which provides health insurance benefits to eligible retired employees and their beneficiaries. Medical insurance benefits are administered by the California Public Employee's Retirement System (CalPERS), a multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California, in accordance with the Public Employees Medical and Hospital Care Act (PEMHCA). To be eligible, an employee must retire under the CalPERS program within 120 days of separation from employment. Medical and dental insurance benefits for retirees are not currently required by contract, but have been provided as a matter of practice. Information about the Plan may be found in the County of Yolo Comprehensive Annual Financial Report (CAFR) at yolocounty.org under the publications listed on the page for the Auditor-Controller and Treasurer-Tax Collector.

Funding Policy: The contribution requirements of participating employers and plan members are established and may be amended by the County of Yolo Board of Supervisors. Currently the County and the LAFCO do not contribute to the Plan and pay retiree health insurance premiums on a pay-as-you-go basis. However, the County is evaluating trust alternatives for funding the Plan, including the CalPERS California Employers Retiree Benefit Trust (CERBT).

The LAFCO's OPEB cost equals the amount of the annual required contribution (ARC) plus or minus adjustments for prior year differences in the amount of actual contributions as compared to the ARC. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period of 30 years. The LAFCO's annual required contributions for the years ended June 30, 2011 and 2010 were \$32,049 and \$29,829, respectively. These amounts were estimated using the annual required contribution for the County's OPEB Plan as a percentage of covered payroll and applying the contribution percentages to the LAFCO's payroll for the years ended June 30, 2011 and 2010.

The LAFCO made no contributions to the Plan during the years ended June 30, 2011 and 2010. Consequently, the annual required contributions are reported as an OPEB liability in the government-wide financial statements. As required by GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, interest was added to the OPEB liability and the liability was amortized during 2011 to determine the June 30, 2011 OPEB liability.

The LAFCO adopted GASB Statement No. 45 during the year ended June 30, 2010 and the LAFCO must report its OPEB liability beginning June 30, 2010. No ARC or OPEB liability is required to be reported under GASB Statement No. 45 for the year ended June 30, 2009.

YOLO COUNTY LOCAL AGENCY FORMATION COMMISSION

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2011, 2010, and 2009

NOTE F – INSURANCE

The LAFCO participates in the Yolo County Public Agency Risk Management Insurance Authority (YCPARMIA), a public entity risk pool of governmental entities within the County of Yolo, for comprehensive general and auto liability, and workers' compensation insurance. Through the LAFCO's membership in the YCPARMIA, the District is provided with excess coverage through the California State Association of Counties-Excess Insurance for catastrophic liability losses. Loss contingency reserves established by YCPARMIA are funded by contributions from member agencies.

The LAFCO pays an annual premium to YCPARMIA that includes its pro-rata share of excess insurance premiums, charges for the pooled risk, claims adjusting and legal costs, and administrative and other costs to operate the YCPARMIA. The LAFCO's deductibles and maximum coverage for the years ended June 30, 2011, 2010 and 2009 were as follows:

<u>Coverage</u>	<u>YCPARMIA</u>	<u>Excess</u>	<u>Deductible</u>
General and Auto Liability	\$ 500,000	\$ 40,000,000	\$ 1,000
Worker's Compensation	500,000	1,000,000	1,000

The LAFCO has had no settlements which exceeded insurance coverage in the last three fiscal years and no significant changes or reductions in insurance coverage occurred during the years ended June 30, 2011, 2010 and 2009.

NOTE G – RELATED PARTY TRANSACTIONS

The County of Yolo provides office space, furniture, accounting services, information systems equipment and support and legal services to the LAFCO. Legal services and information systems support are billed separately and at amounts that will approximately recover the County's full cost of providing such services. Expenditures provided by the County for legal services totaled \$6,858, \$6,055, and \$8,748 and expenditures for information systems support totaled \$6,072, \$7,896 and \$1,196, respectively, for the years ended June 30, 2011, 2010, and 2009. Office space, furniture and accounting services are provided by the County free of charge.

REQUIRED SUPPLEMENTARY INFORMATION

YOLO COUNTY LOCAL AGENCY FORMATION COMMISSION

SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GOVERNMENTAL FUND

For the Year Ended June 30, 2011

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental revenues				
County of Yolo	\$ 161,750	\$ 161,750	\$ 161,750	
City of Davis	56,370	56,370	56,370	
City of West Sacramento	52,488	52,488	52,488	
City of Woodland	47,716	47,716	47,716	
City of Winters	5,176	5,176	5,176	
Other revenues	2,020	2,020	4,231	\$ 2,211
Use of money	1,000	1,000	1,063	63
TOTAL REVENUES	326,520	326,520	328,794	2,274
EXPENDITURES				
Salaries and benefits	287,720	287,720	250,245	37,475
General and administrative	17,550	17,550	13,104	4,446
Legal fees	15,000	15,000	6,858	8,142
Professional and specialized services	14,000	14,000		14,000
Transportation and travel	6,000	6,000	4,972	1,028
Training	4,000	4,000	3,574	426
Office expenses	2,250	2,250	1,260	990
TOTAL EXPENDITURES	346,520	346,520	280,013	66,507
NET CHANGE IN FUND BALANCE	(20,000)	(20,000)	48,781	68,781
Fund balance at beginning of year	116,950	116,950	116,950	
FUND BALANCE AT END OF YEAR	\$ 96,950	\$ 96,950	\$ 165,731	\$ 68,781

YOLO COUNTY LOCAL AGENCY FORMATION COMMISSION

SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GOVERNMENTAL FUND

For the Year Ended Jun 30, 2010

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental revenues				
County of Yolo	\$ 162,527	\$ 162,527	\$ 162,527	
City of Davis	58,185	58,185	58,185	
City of West Sacramento	49,896	49,896	49,896	
City of Woodland	49,408	49,408	49,408	
City of Winters	5,038	5,038	5,038	
Other revenues	2,525	2,525	50	\$ (2,475)
Use of money	2,500	2,500	1,522	(978)
TOTAL REVENUES	<u>330,079</u>	<u>330,079</u>	<u>326,626</u>	<u>(3,453)</u>
EXPENDITURES				
Salaries and benefits	305,184	305,184	278,357	26,827
General and administrative	17,945	17,945	16,570	1,375
Legal fees	15,000	15,000	6,055	8,945
Professional and specialized services	14,000	14,000		14,000
Transportation and travel	6,000	6,000	6,038	(38)
Training	4,700	4,700	4,019	681
Office expenses	2,250	2,250	1,467	783
TOTAL EXPENDITURES	<u>365,079</u>	<u>365,079</u>	<u>312,506</u>	<u>52,573</u>
NET CHANGE IN FUND BALANCE	(35,000)	(35,000)	14,120	49,120
Fund balance at beginning of year	<u>102,830</u>	<u>102,830</u>	<u>102,830</u>	
FUND BALNACE AT END OF YEAR	<u><u>\$ 67,830</u></u>	<u><u>\$ 67,830</u></u>	<u><u>\$ 116,950</u></u>	<u><u>\$ 49,120</u></u>

YOLO COUNTY LOCAL AGENCY FORMATION COMMISSION

SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GOVERNMENTAL FUND

For the Year Ended June 30, 2009

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental revenues				
County of Yolo	\$ 148,090	\$ 148,090	\$ 148,090	
City of Davis	51,757	51,757	51,757	
City of West Sacramento	43,909	43,909	43,909	
City of Woodland	47,389	47,389	47,389	
City of Winters	5,035	5,035	5,035	
Charges for services		50,000	54,953	\$ 4,953
Other revenues	10,050	10,050	6,535	(3,515)
Use of money	3,500	3,500	5,454	1,954
TOTAL REVENUES	<u>309,730</u>	<u>359,730</u>	<u>363,122</u>	<u>3,392</u>
EXPENDITURES				
Salaries and benefits	326,466	326,466	343,688	(17,222)
Professional and specialized services	50,000	50,000	20,944	29,056
General and administrative	22,464	22,464	13,571	8,893
Legal fees	14,000	14,000	8,748	5,252
Transportation and travel	6,000	6,000	7,933	(1,933)
Training	4,700	4,700	2,654	2,046
Office expenses	2,600	2,600	1,747	853
TOTAL EXPENDITURES	<u>426,230</u>	<u>426,230</u>	<u>399,285</u>	<u>26,945</u>
NET CHANGE IN FUND BALANCE	(116,500)	(66,500)	(36,163)	30,337
Fund balance at beginning of year	<u>138,993</u>	<u>138,993</u>	<u>138,993</u>	
FUND BALANCE AT END OF YEAR	<u>\$ 22,493</u>	<u>\$ 72,493</u>	<u>\$ 102,830</u>	<u>\$ 30,337</u>

COMPLIANCE REPORT

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Chair and Members of the
Yolo County Local Agency Formation Commission
Woodland, California

We have audited the financial statements of the governmental activities and the major fund of the Yolo County Local Agency Formation Commission (the LAFCO) as of and for the years ended June 30, 2011, 2010, and 2009, which collectively comprise the LAFCO's basic financial statements and have issued our report thereon dated March 16, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the LAFCO's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the LAFCO's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the LAFCO'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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

To the Chair and Members of the
Yolo County Local Agency Formation Commission

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the LAFCO'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*.

We noted certain matters that we reported to management of the LAFCO in a separate letter dated March 16, 2012.

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

Richardson & Company

March 16, 2012

YOLO COUNTY LOCAL AGENCY FORMATION COMMISSION

SCHEDULE OF FINDINGS

June 30, 2011, 2010, and 2009

Internal Control Over Financial Reporting

Criteria: Internal controls over financial reporting should be in place to ensure management has the ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements.

CURRENT YEAR FINDINGS:

Finding 2011-1

Condition: Significant consulting expenditures incurred during fiscal year 2007/08 were posted as expenditures during fiscal year 2008/09 and several transactions were not posted in the proper general ledger accounts for reporting purposes, such as the 2008/09 and 2009/10 pension contributions, 2009/10 travel expenditures and 2008/09 accrued payroll and benefits.

Effect: Several adjustments had to be posted during the audit to properly report these balances.

Cause: It does not appear the LAFCO's staff has a procedure in place to regularly review postings made into the general ledger to verify amounts are posted in the proper account and period.

Recommendation: We recommend the LAFCO's staff review invoices paid to ensure the expenditures are posted in the period that the work was performed as indicated on the invoice. We also recommend the LAFCO's staff compare year-end balances to the prior period and budget to ensure transactions are consistently reported in the general ledger each year. This will provide a second level of review over transactions posted on the LAFCO's behalf by the County of Yolo Auditor-Controller, Treasurer & Tax Collector's Office.

Management's Response: We will review the postings made into the LAFCO's general ledger to make sure they are reported in the proper account and period beginning in fiscal year 2011/12.

PRIOR YEAR FINDINGS:

None