YOLO COUNTY LOCAL AGENCY FORMATION COMMISSION

Audited Financial Statements and
Compliance Report

June 30, 2012

YOLO COUNTY LOCAL AGENCY FORMATION COMMISSION

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Compliance Report

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Richardson & Company

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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 year ended June 30, 2012, 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 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 the LAFCO as of June 30, 2012, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 14, 2013, 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 and schedule of funding progress of the other postemployment benefits plan be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The LAFCO has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Richardson & Company

January 14, 2013

YOLO COUNTY LOCAL AGENCY FORMATION COMMISSION

STATEMENT OF NET ASSETS

June 30, 2012

ASSETS		
Cash		$ 199,656
	TOTAL ASSETS	$ 199,656
LIABILITIES		
Accounts payable		$ 9,948
Accrued payroll		6,759
Compensated absences - current		9,479
Noncurrent liabilities:		
OPEB liability		50,000
Compensated absences - noncurrent		2,274
	TOTAL LIABILITIES	78,460
NET ASSETS		
Unrestricted		121,196
	TOTAL NET ASSETS	121,196
	TOTAL LIABILITIES AND NET ASSETS	$ 199,656

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

YOLO COUNTY LOCAL AGENCY FORMATION COMMISSION

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2012

EXPENSES	
Salaries and benefits	$ 224,362
Professional and specialized services	33,314
General and administrative	13,546
Legal	7,261
Training	6,825
Transportation and travel	2,022
Office	2,013
TOTAL EXPENSES	289,343
PROGRAM REVENUES	
Intergovernmental revenues	
County of Yolo	165,909
City of Davis	60,059
City of West Sacramento	53,921
City of Woodland	46,952
City of Winters	4,977
TOTAL PROGRAM REVENUES	331,818
NET PROGRAM REVENUES (EXPENSES)	42,475
GENERAL REVENUES	
Other income	4,334
Interest income	2,189
TOTAL GENERAL REVENUES	6,523
CHANGE IN NET ASSETS	48,998
Net assets at beginning of year	72,198
NET ASSETS AT END OF YEAR	$ 121,196

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

YOLO COUNTY LOCAL AGENCY FORMATION COMMISSION

BALANCE SHEET - GOVERNMENTAL FUND

June 30, 2012

ASSETS	
Cash and investments	$ 199,656
TOTAL ASSETS	$ 199,656
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts payable	$ 9,948
Accrued payroll	6,759
TOTAL LIABILITIES	16,707
FUND BALANCE	
Unassigned	182,949
TOTAL FUND BALANCE	182,949
TOTAL LIABILITIES AND FUND BALANCE	$ 199,656

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

YOLO COUNTY LOCAL AGENCY FORMATION COMMISSION

RECONCILIATION OF THE BALANCE SHEET TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS

June 30, 2012

Fund balance - governmental funds	$ 182,949
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	(50,000)
Compensated absences	(11,753)
Net assets - governmental activities	$ 121,196

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

YOLO COUNTY LOCAL AGENCY FORMATION COMMISSION

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

For the Year Ended June 30, 2012

REVENUES	
Intergovernmental revenues:	
County of Yolo	$ 165,909
City of Davis	60,059
City of West Sacramento	53,921
City of Woodland	46,952
City of Winters	4,977
Other revenues	4,334
Use of money	2,189
TOTAL REVENUES	338,341
EXPENDITURES	
Salaries and benefits	256,142
Professional and specialized services	33,314
General and adminstrative	13,546
Legal fees	7,261
Training	6,825
Transportation and travel	2,022
Office expenses	2,013
TOTAL EXPENDITURES	321,123
NET CHANGE IN FUND BALANCE	17,218
Fund balance at beginning of year	165,731
FUND BALANCE AT END OF YEAR	$ 182,949

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

YOLO COUNTY LOCAL AGENCY FORMATION COMMISSION

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

For the Year Ended June 30, 2012

Net change in fund balance - governmental funds	$ 17,218
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	9,942
Compensated absences	21,838
Change in net assets - governmental activities	$ 48,998

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

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.

<u>Background</u>: 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.

<u>Basis of Presentation – Government-wide Financial Statements</u>: 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.

<u>Basis of Presentation – Fund Financial Statements</u>: 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.

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 Board has a policy of maintaining a reserve for contingencies of 20% of the overall budget. However, the criteria for use of the reserve for contingencies is not defined sufficiently to consider the amount to be a commitment of fund balance under GASB Statement No. 54.

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.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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, 2012, the weighted average maturity of the investments contained in the County of Yolo investment pool was approximately 398 days.

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.

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NOTE B – CASH AND INVESTMENTS (Continued)

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)

NOTE C – LONG-TERM LIABILITIES

The following is a summary of long-term liability activity for the year ended June 30, 2012:

	July 1, 2011	Additions	Retirements	June 30, 2012	Due Within One Year
Compensated absences	$ 33,591	$ 5,255	$ (27,093)	$ 11,753	$ 9,479

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 statue. 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 are required to contribute 8% 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, 2012 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 rate for the year ended June 30, 2012 was 15.743%. 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, 2012, 2011 and 2010 were $24,263, $50,772 and $62,492, respectively.

NOTE E – OTHER POSTEMPLOYMENT BENEFITS PLAN

Plan Description: The LAFCO participates in the County of Yolo Retiree Healthcare Plan (the Plan), an agent 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 current ARC rate was 6.2% of annual covered payroll during the year ended June 30, 2012.

The LAFCO made no contributions to the Plan during the year ended June 30, 2012 or any prior year. Consequently, the annual required contributions are reported as an OPEB liability in the government-wide financial statements.

Annual OPEB Cost: For the year ended June 30, 2012, the LAFCO's annual OPEB cost (expense) of ($9,942) was equal to the ARC of $10,966, $2,548 of interest on the net OPEB obligation and an adjustment to the ARC of ($23,456). The adjustment to the ARC includes a change in estimate of ($18,709) due to the valuation being performed separately for the LAFCO for the first time during the year ended June 30, 2012. The LAFCO's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for the year ended June 30, 2012 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2010	$ 29,829	0.00%	$ 29,829
6/30/2011	30,113	0.00%	59,942
6/30/2012	(9,942)	0.00%	50,000

NOTE E – OTHER POSTEMPLOYMENT BENEFITS PLAN (Continued)

Funded Status and Funding Progress: The funded status of the plan as of June 30, 2012 was as follows:

Actuarial accrued liability (AAL)	$ 50,000
Actuarial value of Plan assets	-
Unfunded actuarial accrued liability (UAAL)	$ 50,000
Funded ratio (actuarial value of Plan assets/AAL)	0.00%
Covered payroll	$ 148,000
UAAL as percentage of covered payroll	33.78%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information, presents multiyear trend information that shows whether the actual value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2012 actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included a 4.25% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 8.5% for non-Medicare participants and 8.9% for Medicare participants initially, reduced by decrements to an ultimate rate of 5.0% in 2020, a 3.0% general inflation assumption and 3.25% payroll increases. The actuarial value of plan assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five year open period. The plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll over a closed 30 year period. The remaining amortization period at June 30, 2012 was 26 years.

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.

NOTE F – INSURANCE (Continued)

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 year ended June 30, 2012 was as follows:

Coverage	YCPARMIA	Excess	Deductible
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 year.

NOTE G – RELATED PARTY TRANSACTIONS

The County of Yolo provides legal services, information systems support, office space, furniture and accounting services to the LAFCO. Expenditures provided by the County for legal services and information systems support totaled $7,189 and $5,029, respectively, for the year ended June 30, 2012. Office space, furniture and accounting services are provided by the County free of charge.

NOTE H – SUBSEQUENT PRONOUNCEMENTS

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* This Statement incorporates into GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and interpretations; Accounting Principles Board Opinions; and Accounting Research Bulletins of the American Institute of Certified Public Accountants (AICPA) Committee on Accounting Procedure. This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB Pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement. The provisions of this Statement are effective for periods beginning after December 15, 2011. Earlier application is encouraged. The provisions of this Statement generally are required to be applied retroactively for all periods presented.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows and inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements,* introduced and defined those elements as consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position.

NOTE H – SUBSEQUENT PRONOUNCEMENTS (Continued)

This Statement amends the net assets reporting requirements of Statement No. 34 and other pronouncements by incorporating deferred inflows and outflows into the definitions of the required components of residual measure and by renaming that measure as net position, rather than net assets. The provisions of this Statement are effective for periods beginning after December 15, 2011. Earlier application is encouraged.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement reclassifies deferred amounts upon refunding of debt as deferred inflows or outflows and requires debt issuance costs to be expensed as incurred. This Statement also changes the recognition requirements of certain imposed and government-mandated nonexchange revenues, sales and intra-entity transfers of future revenues, initial direct costs of leases, acquisition costs related to insurance activities, loan origination fees and costs, loan commitment fees, fees paid to purchase a loan or group of loans, fees relating to loans held for sale and transactions resulting from the effects of regulation on customer rates. This Statement limits the use of the term “deferred” to the items reported as deferred inflows and outflows of resources. The provisions of this Statement are effective for periods beginning after December 15, 2012. Earlier application is encouraged.

In March 2012, the GASB issued Statement No. 66, *Technical Corrections–2012-an amendment of GASB Statements No. 10 and No. 62*. This Statement amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of an entity’s risk financing activities to the general fund and the internal service fund type and instead requires the use of the requirements of Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions* and Statement 34. This Statement also amends Statement No. 62 by modifying the specific guidance on accounting for operating lease payments that vary from a straight-line basis, the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans and service fees related to mortgage loans. The provisions of this Statement are effective for periods beginning after December 15, 2012. Earlier application is encouraged.

In June 2012, the GASB approved Statement No. 68, *Accounting and Financial Reporting for Pensions*. This Statement requires governments providing defined benefit pension plans to recognize their long-term obligation for pension benefits as a liability on the statement of net position and to more comprehensively and comparably measure the annual costs of pension benefits. This Statement requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the cost-sharing plan. This Statement requires the use of the entry age normal method to be used with each period’s service cost determined as a level percentage of pay and requires certain other changes to compute the pension liability and expense. This Statement also requires revised and new note disclosures and required supplementary information (RSI) to be reported by employers. The provisions of this Statement are effective for periods beginning after June 15, 2014. Earlier application is encouraged.

The LAFCO will fully analyze the impact of these new Statements prior to their effective dates listed above.

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, 2012

	Budgeted Amounts		Actual	Variance With Final Budget Positive
	Original	Final	Amounts	(Negative)
REVENUES				
Intergovernmental revenues				
County of Yolo	$ 157,159	$ 165,909	$ 165,909	
City of Davis	56,892	60,060	60,059	$ (1)
City of West Sacramento	51,077	53,921	53,921	
City of Woodland	44,476	46,952	46,952	
City of Winters	4,715	4,977	4,977	
Other revenues	4,000	4,000	4,334	334
Use of money	350	350	2,189	1,839
TOTAL REVENUES	318,669	336,169	338,341	2,172
EXPENDITURES				
Salaries and benefits	251,200	251,200	256,142	(4,942)
Professional and specialized services	56,620	74,120	33,314	40,806
General and adminstrative	16,148	16,148	13,546	2,602
Legal fees	8,000	8,000	7,261	739
Training	8,000	8,000	6,825	1,175
Transportation and travel	1,500	1,500	2,022	(522)
Office expenses	2,200	2,200	2,013	187
TOTAL EXPENDITURES	343,668	361,168	321,123	40,045
NET CHANGE IN FUND BALANCE	(24,999)	(24,999)	17,218	42,217
Fund balance at beginning of year	165,731	165,731	165,731	
FUND BALANCE AT END OF YEAR	$ 140,732	$ 140,732	$ 182,949	$ 42,217

YOLO COUNTY LOCAL AGENCY FORMATION COMMISSION

SCHEDULE OF FUNDING PROGRESS OF THE
OTHER POSTEMPLOYMENT BENEFITS PLAN (UNAUDITED)

June 30, 2012

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/2012	$ -	$ 50,000	$ 50,000	0%	$ 148,000	33.78%

The LAFCO OPEB plan had a separate valuation for the first time as of June 30, 2012. No information is available prior to that date.

COMPLIANCE REPORT

Richardson & Company

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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 year ended June 30, 2012, which collectively comprise the LAFCO's basic financial statements and have issued our report thereon dated January 14, 2013. 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 the LAFCO is responsible for establishing and maintaining effective 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.

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.*

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

January 14, 2013

YOLO COUNTY LOCAL AGENCY FORMATION COMMISSION

SCHEDULE OF FINDINGS

June 30, 2012

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:

None

PRIOR 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.

Status: The recommendation was implemented during the year ended June 30, 2012.