
**FRESNO LOCAL AGENCY FORMATION COMMISSION (LAFCo)
EXECUTIVE OFFICER'S REPORT**

AGENDA ITEM NO. 7

DATE: August 8, 2018
TO: Fresno Local Agency Formation Commission
FROM: David E. Fey, Executive Officer 
SUBJECT: Consider Biannual Financial Audit for Fiscal Year 2015-2016 and amendment of Fresno LAFCo's Financial and Accounting Procedures

RECOMMENDATIONS:

1. Receive and file the financial audit for fiscal year 2015-2016; and
2. Amend the Fresno LAFCo Financial and Accounting Procedures' Organization of Accounting System

Background

On April 14, 2010, the commission established the policy to perform a financial audit biannually and with the change of each executive officer. Fresno LAFCo is not required to conduct a financial audit since it does not receive funding from State and/or Federal governments and there is no statutory mandate. However, LAFCo is still responsible for insuring that public funds are appropriately accounted for and the commission found that regular financial audits support the transparency of its operations.

A copy of the financial audit for the fiscal year ending June 30, 2016 is attached to this report.

Discussion

The independent financial auditor, Sampson, Sampson & Patterson, LLP, noted,
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

In our opinion, the financial statements referred to (in the audit) presented fairly, in all material respects, the financial position of LAFCo as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Amendment of Fresno LAFCo Financial and Accounting Procedures

The 2011 Fresno LAFCo Financial and Accounting Procedures notes that the Commission's organization of accounting is on a cash basis. The audit process revealed that the organization of accounting for public agencies under the Generally Accepted Accounting Procedures ("GAAP") is on an accrual basis. As noted in the audit, this discrepancy did not result in any "deficiencies in internal control over financial reporting that (the auditor) consider to be material weaknesses.

This was the second financial audit to note that LAFCo's organization of accounting does not conform with GAAP. Though no substantive discrepancy or problem was attributed in the earlier financial audit to the Commission's organization of accounting, given the Commission's interest in accountability and transparency in its financial matters, staff recommends that the Commission's accounting procedures reflect GAAP, and change to an accrual basis of accounting, depicted as the following amendment to Fresno LAFCo Financial and Accounting Procedures section C. Organization of Accounting System:

Delete current text:

~~2. Basis of Accounting: Financial transactions shall be accounted for by the use of a cash basis of accounting, whereby revenues are recognized when they become available to finance expenditures of the current fiscal period, and expenditures are generally recognized when the related fund liabilities are incurred.~~

And replace with the following text:

2. Basis of Accounting: Financial transactions shall be accounted for by the use of the modified accrual basis of accounting. Revenues are recognized when measurable and available (susceptible to accrual). Taxes, interest, certain state and federal grants, and charges for services revenues are accrued when their receipts occurs within sixty days after the end of the accounting period so as to be measurable and available. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due.