

## **RESOLUTION NO. 180**

### **A RESOLUTION OF THE FRESNO LOCAL AGENCY FORMATION COMMISSION APPROVING THE BIENNIAL FINANCIAL AUDIT FOR FISCAL YEAR 2015-2016 AND AMENDMENT OF FRESNO LAFCO FINANCIAL AND ACCOUNTING PROCEDURES**

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**WHEREAS**, on April 14, 2010, the Commission established an official policy to have a financial audit performed on a biennial basis and with the change of each Executive Officer; and

**WHEREAS**, following the conclusion of a competitive request for proposals, the Commission contracted with Sampson, Sampson & Patterson, LLP (Auditor) to prepare an audit that covered the 2015-2016 fiscal year and asked the Auditor to provide a list of suggestions that would improve LAFCo's financial procedures; and

**WHEREAS**, the Executive Officer reviewed the Auditor's report and recommendations and prepared a report to the Commission, said report having been mailed at least five days before the public hearing; and

**WHEREAS**, the audit process revealed that the organization of accounting for public agencies under the Generally Accepted Accounting Procedures ("GAAP") is on an accrual basis; and

**WHEREAS**, as noted in the audit, this discrepancy did not result in any deficiencies in internal control over financial reporting; and

**WHEREAS**, this is the second financial audit to note that LAFCo's organization of accounting does not conform with GAAP; and

**WHEREAS**, given the Commission's interest in accountability and transparency in its financial matters, staff recommended that the Commission amend its accounting procedures to reflect GAAP and change to an accrual basis of accounting; and

**NOW, THEREFORE, BE IT RESOLVED that the Fresno Local Agency Formation Commission does HEREBY RESOLVE and DETERMINE as follows:**

1. The Commission by consensus accepted the 2015-2016 Fiscal Year Audit as set forth in Attachment "A."

**ADOPTED THIS 8<sup>TH</sup> DAY OF AUGUST, 2018, BY THE FOLLOWING VOTE:**

**AYES: COMMISSIONERS SILVA, SANTOYO, PACHECO, QUINTERO**

**NOES: NONE**

**ABSENT: COMMISSIONER PARRA**  
**ABSTAIN: NONE**

2. This Commission amends the Fresno LAFCo Financial and Accounting Procedures section C as follows:

Delete the 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.~~

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.

**ADOPTED THIS 8<sup>TH</sup> DAY OF AUGUST, 2018, BY THE FOLLOWING VOTE:**

**AYES: COMMISSIONERS SANTOYO, SILVA, PACHECO, QUINTERO**

**NOES: NONE**

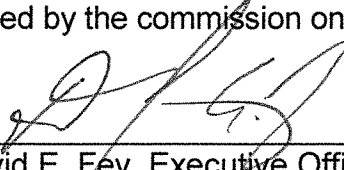
**ABSENT: COMMISSIONER PARRA**

**ABSTAIN: NONE**

**STATE OF CALIFORNIA)  
COUNTY OF FRESNO)**

**CERTIFICATION**

I, David E. Fey, Executive Officer, Fresno Local Agency Formation Commission, hereby certify that the foregoing resolution was adopted by the commission on the 8<sup>th</sup> day of August 2018.

  
\_\_\_\_\_  
David E. Fey, Executive Officer  
Fresno Local Agency Formation Commission

FRESNO LOCAL AGENCY FORMATION COMMISSION

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REPORT ON AUDITED  
FINANCIAL STATEMENTS

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YEAR ENDED JUNE 30, 2016

## CONTENTS

|   | <u>Page</u> |
|---|-------------|
| FINANCIAL STATEMENTS:   |             |
| Independent auditor's report  | 1-2         |
| Management discussion and analysis  | 3-4         |
| Statement of net position   | 5           |
| Statement of activities   | 6           |
| Balance sheet – governmental funds  | 7           |
| Reconciliation of the governmental funds balance sheet to the statement of net position   | 8           |
| Statement of revenues, expenditures and changes in fund balance-governmental funds  | 9           |
| Reconciliation of the governmental funds statement of revenues, expenditures and changes in fund balances to the government-wide statement of activities  | 10          |
| Notes to financial statements   | 11-16       |
| REQUIRED SUPPLEMENTARY INFORMATION:   |             |
| Budget comparison schedule  | 17          |
| Note to required supplemental information   | 18          |
| OTHER 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 <i>Government Auditing Standards</i> | 19-20       |



Sampson, Sampson & Patterson, LLP  
CERTIFIED PUBLIC ACCOUNTANTS

3148 Willow Avenue, Suite 102  
Clovis, California 93612-4739  
(559) 291-0277 • FAX (559) 291-6411

The Board of Commissioners  
Fresno Local Agency Formation Commission  
Fresno, California

### INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of Fresno Local Agency Formation Commission (LAFCo) as of and for the year ended June 30, 2016, and the related notes to the financial statements, as listed in the table of contents.

#### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor's Responsibility**

Our responsibility is to express opinions 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 the 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

#### **Opinion**

In our opinion, the financial statements referred to above 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.

Fresno Local Agency Formation Commission

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-4 and 17-18 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 the 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 for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated June 19, 2018, 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 and contracts 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* in considering the Commission's internal control over financial reporting and compliance.

*Sampson, Sampson & Patterson, LLP*

Clovis, California  
June 19, 2018

FRESNO LOCAL AGENCY FORMATION COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2016

The Fresno Local Agency Formation Commission ("Commission") administers in Fresno County a section of California Government Code known as the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 ("CKH"). The Commission is delegated regulatory and planning responsibilities to coordinate the logical formation and development of local agencies in a manner preserving agricultural and open-space resources, promoting the orderly extension of municipal services, and discouraging urban sprawl. Key duties include regulating boundary changes through annexations or detachments, approving city incorporations or dis-incorporations, and forming, consolidating, or dissolving special districts. The Commission is also responsible for preparing studies to inform its regulatory activities, including establishing and updating spheres of influence for all cities and special districts within its jurisdiction. Spheres of influence are planning tools used by the Commission to designate the territory it believes represents the appropriate and probable future service area of the affected agency. All jurisdictional changes, such as annexations, must be consistent with the spheres of influence of the affected agencies with limited exceptions. As of June 30, 2016, there are currently 15 cities, 29 dependent special districts, and 74 independent special districts in Fresno County subject to Commission jurisdiction.

The Commission was first established in 1963 as an office within the County of Fresno. From 1963 to 2000, 100% of the Commission's annual budget was funded by the County. On July 1, 2001, in conjunction with the enactment of the CKH, the Commission became independent of the County. This transition was highlighted by the Commission appointing its own executive officer and legal counsel as well as altering its funding to include contributions from the 15 cities in Fresno County: Clovis, Coalinga, Firebaugh, Fowler, Fresno, Huron, Kerman, Kingsburg, Mendota, Orange Cove, Parlier, Reedley, San Joaquin, Sanger, and Selma. The County is now responsible for funding 50% of the Commission's annual budget with the remaining portion divided among the 15 cities based on a formula as provided under Government Code Section 56381. CKH permits independent special district representation on the Commission however; to date, the special districts have not formally initiated this process.

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the Commission's basic financial statements. The following is a condensed presentation of assets and liabilities as of FYE 6/30/2016 and FYE 06/30/2015, respectively:

This report is intended solely for the information of the Commission, management and the County and cities that fund the Commission and is not intended to be and should not be used by anyone other than these specified parties.

FRESNO LOCAL AGENCY FORMATION COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2016

|                                     | <u>2016</u>      | <u>2015</u>      | <u>Variance</u>    | <u>% Change</u> |
|-------------------------------------|------------------|------------------|--------------------|-----------------|
| <b>Assets</b>                       |                  |                  |                    |                 |
| Current assets                      | \$477,091        | \$435,759        | \$ 41,332          | 9%              |
| Total assets                        | <u>\$477,091</u> | <u>\$435,759</u> | <u>\$ 41,332</u>   | <u>9%</u>       |
| <b>Liabilities</b>                  |                  |                  |                    |                 |
| Current liabilities                 | \$ 44,623        | \$ 51,100        | \$ (6,477)         | (13)%           |
| Total liabilities                   | <u>\$ 44,623</u> | <u>\$ 51,100</u> | <u>\$ (6,477)</u>  | <u>(13)%</u>    |
| <b>Net Position</b>                 |                  |                  |                    |                 |
| Total net position                  | 432,468          | 384,659          | 47,809             | 12%             |
| Total liabilities and net position  | <u>\$477,091</u> | <u>\$435,759</u> | <u>\$ 41,332</u>   | <u>9%</u>       |
|                                     | <u>2016</u>      | <u>2015</u>      | <u>Variance</u>    | <u>% Change</u> |
| <b>Revenues and expenses:</b>       |                  |                  |                    |                 |
| Total revenues                      | \$503,375        | \$529,776        | \$ (26,401)        | (5)%            |
| Total expenses                      | 455,566          | 413,813          | 41,753             | 10%             |
| Net revenue                         | <u>\$ 47,809</u> | <u>\$115,963</u> | <u>\$ (68,154)</u> |                 |
| <b>Change in net position:</b>      |                  |                  |                    |                 |
| Net position, beginning of the year | \$384,659        | \$268,696        | \$115,963          |                 |
| Net revenue                         | 47,809           | 115,963          | (68,154)           |                 |
| Net position, end of the year       | <u>\$432,468</u> | <u>\$384,659</u> | <u>\$ 47,809</u>   |                 |

**Notes:**

Liabilities for 2015 were accounts payable of \$21,071, accrued vacation of \$24,629, and the retirement plan contribution of \$5,400 not yet paid to ICMA-RC.

Liabilities for 2016 were accounts payable of \$19,848, accrued vacation of \$12,967, and the retirement plan contribution of \$11,808 not yet paid to ICMA-RC.

Change in net revenue \$(68,154) from FYE 2015 to FYE 2016 represents revenue decreases and expense increases. The largest items are:

|  |          |
|--|----------|
| City and County contribution revenue decrease:             | \$26,401 |
| Personnel salary increases (decreases):                    | \$25,967 |
| Clerk payroll (23,207)                                     |          |
| Intern payroll 10,789                                      |          |
| Analyst payroll 7,467                                      |          |
| EO payroll 30,918  |          |
| Office operations increase:                                | \$ 5,621 |
| Independent financial audit increase:                      | \$ 8,500 |
| Net revenue/expense increases/decreases less than \$4,000: | \$ 1,665 |

Currently the Commission prepares monthly financial statements on the modified cash basis to reflect the pension contribution payable. Those statements can be viewed upon request at the office of Fresno Local Agency Formation Commission.



FRESNO LOCAL AGENCY FORMATION COMMISSION  
STATEMENT OF NET POSITION  
JUNE 30, 2016

ASSETS:

|  |                   |
|--|-------------------|
| Cash   | \$459,598         |
| Accounts receivable  | 12,778            |
| Prepaid expenses   | 3,010             |
| Deposit  | 1,705             |
| Property and equipment, net of accumulated depreciation of \$6,738 | <u>          </u> |

|              |                  |
|--------------|------------------|
| TOTAL ASSETS | <u>\$477,091</u> |
|--------------|------------------|

LIABILITIES:

|                         |               |
|-------------------------|---------------|
| Accounts payable        | \$ 19,848     |
| Compensated absences    | 12,967        |
| Retirement plan payable | <u>11,808</u> |

|                   |               |
|-------------------|---------------|
| TOTAL LIABILITIES | <u>44,623</u> |
|-------------------|---------------|

NET POSITION:

|              |                |
|--------------|----------------|
| Unrestricted | <u>432,468</u> |
| Net Position | <u>432,468</u> |

|                                    |                  |
|------------------------------------|------------------|
| TOTAL LIABILITIES AND NET POSITION | <u>\$477,091</u> |
|------------------------------------|------------------|

FRESNO LOCAL AGENCY FORMATION COMMISSION  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2016

EXPENSES:

|                       |                |
|-----------------------|----------------|
| Salaries and benefits | \$320,775      |
| Services and supplies | 134,417        |
| Depreciation          | <u>374</u>     |
| Total expenses        | <u>455,566</u> |

PROGRAM REVENUES:

|                             |                |
|-----------------------------|----------------|
| Intergovernmental revenues: |                |
| County of Fresno Allocation | 186,206        |
| Cities' Allocations         | 186,206        |
| Other                       | <u>130,963</u> |
| Total program revenues      | <u>503,375</u> |

|                        |               |
|------------------------|---------------|
| Change in net position | <u>47,809</u> |
|------------------------|---------------|

|                                  |                |
|----------------------------------|----------------|
| NET POSITION – BEGINNING OF YEAR | <u>384,659</u> |
|----------------------------------|----------------|

|                            |                  |
|----------------------------|------------------|
| NET POSITION – END OF YEAR | <u>\$432,468</u> |
|----------------------------|------------------|

FRESNO LOCAL AGENCY FORMATION COMMISSION  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2016

ASSETS:

|                     |              |
|---------------------|--------------|
| Cash                | \$459,598    |
| Accounts receivable | 12,778       |
| Prepaid             | 3,010        |
| Deposit             | <u>1,705</u> |

TOTAL ASSETS \$477,091

LIABILITIES:

|                         |               |
|-------------------------|---------------|
| Accounts payable        | \$ 19,848     |
| Retirement plan payable | <u>11,808</u> |
|                         | <u>31,656</u> |

TOTAL LIABILITIES

FUND BALANCE:

|                                       |                |
|---------------------------------------|----------------|
| Nonspendable for prepaids and deposit | 4,715          |
| Assigned for legal reserves           | 50,000         |
| Unassigned                            | <u>390,720</u> |

TOTAL FUND BALANCE 445,435

TOTAL LIABILITIES AND FUND BALANCE \$477,091

FRESNO LOCAL AGENCY FORMATION COMMISSION  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
JUNE 30, 2016

Total fund balance - governmental funds \$445,435

Amounts reported for governmental activities in the statement  
of net position are different because:

Capital assets: In governmental funds, only current assets are reported.  
In the statement of net position, all assets are reported, including  
capital assets and accumulated depreciation

|                                   |                |
|-----------------------------------|----------------|
| Capital assets at historical cost | \$ 6,738       |
| Accumulated depreciation          | <u>(6,738)</u> |

Long-term liabilities, including compensated absences are not due and  
payable in the current period and therefore are not reported as liabilities  
in the funds. Long-term liabilities at year end consist of:

|                      |                 |
|----------------------|-----------------|
| Compensated absences | <u>(12,967)</u> |
|----------------------|-----------------|

|                    |                  |
|--------------------|------------------|
| Total Net Position | <u>\$432,468</u> |
|--------------------|------------------|

FRESNO LOCAL AGENCY FORMATION COMMISSION  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2016

REVENUES:

|                            |                |
|----------------------------|----------------|
| Fees – County contribution | \$186,206      |
| Fees – City contributions  | 186,206        |
| Other Fees                 | <u>130,963</u> |
| Total Revenue              | <u>503,375</u> |

EXPENDITURES:

|   |                |
|---|----------------|
| Fresno County Assessor                          | 5,525          |
| LAFCo Council                                   | 18,588         |
| Executive officer salary and benefits           | 149,668        |
| Salaries and benefits                           | 182,769        |
| Insurance                                       | 11,777         |
| Professional membership                         | 7,408          |
| Office operations                               | 5,925          |
| Data processing service and fees                | 17,355         |
| Office lease                                    | 32,082         |
| Transportation, travel and education/conference | 9,801          |
| Mileage reimbursement                           | 802            |
| Publication and legal notices                   | 2,188          |
| Postage   | 2,255          |
| Maintenance                                     | 127            |
| Telephone                                       | 342            |
| Fresno County Health                            | 2,112          |
| Accounting                                      | 6,837          |
| Independent financial audit                     | 8,500          |
| Contingencies                                   | <u>2,793</u>   |
| Total Expenditures                              | <u>466,854</u> |

|                         |        |
|-------------------------|--------|
| CHANGES IN FUND BALANCE | 36,521 |
|-------------------------|--------|

|                                 |                |
|---------------------------------|----------------|
| FUND BALANCE, BEGINNING OF YEAR | <u>408,914</u> |
|---------------------------------|----------------|

|                           |                  |
|---------------------------|------------------|
| FUND BALANCE, END OF YEAR | <u>\$445,435</u> |
|---------------------------|------------------|

FRESNO LOCAL AGENCY FORMATION COMMISSION  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT  
OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2016

|  |                 |
|--|-----------------|
| Change in fund balance - governmental funds  | \$36,521        |
| Amounts reported for governmental activities in the statement<br>of activities are different because:  |                 |
| Capital outlays are reported in governmental funds as expenditures. However, in<br>the statement of activities, the cost of those assets is allocated over their estimated<br>useful lives as depreciation expense. This is the amount of depreciation expense:                                | (374)           |
| Compensated absences: In governmental funds, compensated absences are<br>measured by the amounts paid during the period. In the statement<br>of activities, compensated absences are measured by the amounts earned.<br>The difference between compensated absences paid and those earned was: | <u>11,662</u>   |
| Change in net position of governmental activities  | <u>\$47,809</u> |

FRESNO LOCAL AGENCY FORMATION COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Reporting Entity

The Fresno Local Agency Formation Commission (LAFCo) was created by the California Legislature in 1963. There are 58 county LAFCo's in California. Fresno LAFCo's objectives are to encourage the orderly formation of local governmental agencies, preserve agricultural land resources, and to discourage urban sprawl. LAFCo is under the direction of the Commission which is composed of two County Supervisors and one alternate, two city council members from the County's 15 cities and one alternate, and one member from the public that is appointed by the other four seated Commissioners and one alternate public member.

The Commission is responsible for coordinating logical and timely changes in local governmental boundaries, conducting special studies that review ways to reorganize, simplify, and streamline governmental structure and preparing a sphere of influence for each city and special district within each county.

As of June 30, 2016 there are 15 cities and 103 special districts under the jurisdiction of the Commission in Fresno County.

B. Basis of Presentation and Accounting

*Government-Wide Statements*

The statement of net position and statement of activities display information about the primary government (Commission). These statements include the financial activities of the overall Commission.

The statement of activities presents a comparison between direct expenses and program revenues for the Commission's governmental activity. Direct expenses are those that are specifically associated with the Commission. Program revenues are restricted to meeting the operational or capital requirements of the Commission. Revenues that are not classified as program revenues, including all taxes and investment 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 when the related cash flows take place.

*Fund Financial Statements*

Governmental fund financial statements are reported using the current financial resources measurement focus and 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. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due.

The General Fund is the Commission's primary operating fund. It accounts for all financial resources of the general government.

FRESNO LOCAL AGENCY FORMATION COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2016  
(Continued)

C. Compensated Absences

Full-time employees paid directly by the Commission with less than two years of continuous service accrue paid time off at the rate of 21 working days per year. Upon completion of two continuous years of service, the employee shall earn one additional day of paid time off each year of service thereafter, until the end of the tenth year. Part-time employees paid directly by the Commission who work 20 hours or more currently accrue paid time off benefits on a pro rata basis. Employees paid directly by the Commission can accrue a maximum of three times their annual accrual rate. The Executive Officer has a separate contract that includes different benefits, but must comply with the employee handbook.

The Commission accounts for compensated absences in accordance with Governmental Accounting Standards Board Statement No. 16 *Accounting for Compensated Absences*. An employee whose employment terminates will be paid for accrued unused vacation on a pro-rata basis. There is no payout of sick leave upon termination from the Commission.

D. 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 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 those estimates.

E. Accounts Receivable

Accounts receivable consists primarily of MSR fees billed but not collected. LAFCo does not enforce payment by the cities and districts for the services they have provided. However, LAFCo keeps a list of cities and districts that have been billed but have not paid and plans to request payment of their outstanding bill when these entities request services from LAFCo in the future. LAFCo utilizes the direct write-off method for bad debts. At June 30, 2016, no material write-offs are expected for accounts receivable.

F. Prepays

Prepaid expenditures represent payments made to vendors for services that will benefit periods beyond June 30, 2016.

G. Property and Equipment

Property and equipment are recorded at cost less accumulated depreciation. It is the Commission's policy to capitalize property and equipment over \$5,000, lesser amounts are expensed. Repairs and maintenance and minor alterations are charged to expense as incurred. Costs which are considered improvements are added to the appropriate capital asset account. Depreciable assets are depreciated over their estimated useful lives using the straight-line method. Estimated useful lives are as follows:

Office equipment

3 years



FRESNO LOCAL AGENCY FORMATION COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2016  
(Continued)

NOTE 2 - CASH:

Cash balances at June 30, 2016 consists of the following:

|                  |                  |
|------------------|------------------|
| Checking         | \$409,258        |
| Business savings | <u>50,340</u>    |
|                  | <u>\$459,598</u> |

Investments Authorized by the California Government Code

The Commission does not have an investment policy independent of what is allowed under the California Government Code.

The table below identifies the investment types that are authorized for the Commission by the California Government Code. The table also identifies certain provisions of the Code that addresses interest rate risk, credit risk, and concentration of credit risk.

| Authorized<br>Investment Type       | Maximum<br>Maturity | Maximum<br>Percentage<br>of Portfolio | Maximum<br>Investment<br>in One Issuer |
|-------------------------------------|---------------------|---------------------------------------|--|
| Local Agency Bonds                  | 5 years             | None                                  | None                                   |
| U.S. Treasury Obligations           | 5 years             | None                                  | None                                   |
| U.S. Agency Securities              | 5 years             | None                                  | None                                   |
| Banker's Acceptances                | 180 days            | 40%                                   | 30%                                    |
| Commercial Paper                    | 270 days            | 25%                                   | 10%                                    |
| Negotiable Certificates of Deposit  | 5 years             | 30%                                   | None                                   |
| Repurchase Agreements               | 1 year              | None                                  | None                                   |
| Reverse Repurchase Agreements       | 92 days             | 20% of base value                     | None                                   |
| Medium-Term Notes                   | 5 years             | 30%                                   | None                                   |
| Mutual Funds                        | N/A                 | 20%                                   | 10%                                    |
| Money Market Mutual Funds           | N/A                 | 20%                                   | 10%                                    |
| Mortgage Pass-through Securities    | 5 years             | 20%                                   | None                                   |
| County Pooled Investment Funds      | N/A                 | None                                  | None                                   |
| Local Agency Investment Fund (LAIF) | N/A                 | None                                  | None                                   |
| JPA Pools (other investment pools)  | N/A                 | None                                  | None                                   |
| Supranationals                      | 5 years             | 30%                                   | None                                   |

Required disclosures for the Commission's deposit and investment risks at June 30, 2016, were as follows:

|                              |                |
|------------------------------|----------------|
| Credit risk                  | Not rated      |
| Concentration of credit risk | Not applicable |
| Interest rate risk           | Not applicable |

FRESNO LOCAL AGENCY FORMATION COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2016  
(Continued)

Custodial Credit Risk

Custodial credit *risk* for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provisions for deposits: The California Government Code requires that financial institution secure deposits made by the state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California laws also allows financial institutions to secure district deposits by pledging the first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2016 the Commission's deposits were in excess of FDIC limits. Management does not believe the Commission is exposed to any significant risk related to cash for those times when the FDIC limits are exceeded.

Note 3 - PROPERTY AND EQUIPMENT:

Property and equipment consists of the following:

|                          | <u>June 30, 2016</u> |
|--------------------------|----------------------|
| Office equipment         | \$6,738              |
| Accumulated depreciation | <u>6,738</u>         |
| Total                    | <u>\$</u>            |

NOTE 4 - LEASE COMMITMENTS:

The Commission is lessee of their office facility, classified as an operating lease.

Annual future minimum rental payments for the office facility are as follows:

| <u>Year Ending June 30,</u> | <u>Office<br/>Facilities</u> | <u>Total</u>    |
|-----------------------------|------------------------------|-----------------|
| 2017                        | \$31,982                     | \$31,982        |
| 2018                        | 32,616                       | 32,616          |
| 2019                        | <u>19,026</u>                | <u>19,026</u>   |
| Total                       | <u>\$83,624</u>              | <u>\$83,624</u> |

Office rent expense for the year ended June 30, 2016 was \$26,251, including utilities of \$5,831.

FRESNO LOCAL AGENCY FORMATION COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2016  
(Continued)

NOTE 5 - NET POSITION/FUND BALANCE:

Net Position

Net position comprises of the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net position is classified in the following three components: Invested in capital assets (net of related debt), restricted and unrestricted. The Commission has unrestricted funds. Unrestricted net position represents net position not included in the above categories.

Fund Balance

Governmental funds report fund balance in classifications based primarily on the extent to which the Commission is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. As of June 30, 2016, fund balances for governmental funds are made up of the following:

- *Nonspendable fund balance* – amounts that are not in spendable form (such as inventory) or are required to be maintained intact.
- *Restricted fund balance* – amount constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- *Committed fund balance* – amounts constrained to specific purposes by the Commission itself, using its highest level of decision-making authority. To be reported as committed, amounts cannot be used for any other purpose unless the Commission takes the same highest level of action to remove or change the constraint.
- *Assigned fund balance* – amounts the Commission intends to use for a specific purpose. Intent can be expressed by the Commission's board or by an official or body to which the Commission's board delegates the authority.
- *Unassigned fund balance* – amounts that are available for any purpose. Positive amounts are reported only in the general fund.

The Commission's board establishes fund balance commitments by adopting a final budget no later than June 15<sup>th</sup> and approving amendments as needed throughout the fiscal year. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund.

NOTE 6 - RELATED PARTY TRANSACTIONS:

During the fiscal year ended June 30, 2016, the Commission paid Fresno County, a related party, \$17,180 for support services.

FRESNO LOCAL AGENCY FORMATION COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2016  
(Continued)

In addition, the Commission received \$186,206 during the fiscal year ended June 30, 2016, from Fresno County, a related party, pursuant to Government Code Section 56381. The County provides half of the intergovernmental revenue to the Commission. The other half is funded by the 15 cities in Fresno County.

NOTE 7 - PENSION PLAN:

The Executive Officer's contract authorizes his participation in a retirement plan called ICMARC, which the Commission will match up to 10% of the employee's contribution. The contribution for the fiscal year ended June 30, 2016 was \$12,187.

On May 6, 2015, the Commission approved a qualified defined contribution plan for its full-time employees, which the Commission contributes 10% of its employees gross salary to the retirement plan, ICMARC. Employees are fully vested in the Commission's contribution upon the completion of three years of service. The contribution for the fiscal year ended June 30, 2016 was \$6,408.

NOTE 8 - CONTINGENCY:

LAFCo is subject to legal proceedings and claims which arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the financial position or results of operations of LAFCo.

NOTE 9 - SUBSEQUENT EVENTS:

The Commission has reviewed the results of the operations and evaluated subsequent events for the period of time from its year ended June 30, 2016 through the date of the auditors' report.

The Commission has determined that no adjustments are necessary to amounts reported in the accompanying financial statements, and no subsequent events have occurred, the notice of which would require disclosure.

REQUIRED SUPPLEMENTARY INFORMATION

FRESNO LOCAL AGENCY FORMATION COMMISSION  
BUDGETARY COMPARISON SCHEDULE  
YEAR ENDED JUNE 30, 2016

|  | Original<br>Budget | Final<br>Budget | Actual<br>Amounts | Variance<br>With Final<br>Budget<br>Positive<br>(Negative) |
|--|--------------------|-----------------|-------------------|--|
| REVENUES   |                    |                 |                   |  |
| Fees – County contribution                         | \$186,206          | \$186,206       | \$186,206         | \$   |
| Fees – City contributions                          | 186,206            | 186,206         | 186,206           |  |
| Other Fees   | <u>40,000</u>      | <u>40,000</u>   | <u>130,963</u>    | <u>90,963</u>  |
| Total revenues                                     | <u>412,412</u>     | <u>412,412</u>  | <u>503,375</u>    | <u>90,963</u>  |
| EXPENDITURES:                                      |                    |                 |                   |  |
| Fresno County Assessor                             | 4,500              | 4,500           | 5,525             | (1,025)  |
| LAFCo Council                                      | 30,000             | 30,000          | 18,588            | 11,412   |
| Executive officer salary and benefits              | 131,298            | 131,298         | 149,668           | (18,370)   |
| Salaries and benefits                              | 158,660            | 158,660         | 182,769           | (24,109)   |
| Insurance  | 13,500             | 13,500          | 11,777            | 1,723  |
| Professional membership                            | 7,454              | 7,454           | 7,408             | 46   |
| Office operations                                  | 5,512              | 5,512           | 5,925             | (413)  |
| Data processing service                            | 12,444             | 12,444          | 17,355            | (4,911)  |
| Office lease                                       | 32,290             | 32,290          | 32,082            | 208  |
| Transportation, travel and<br>education/conference | 12,000             | 12,000          | 9,801             | 2,199  |
| Mileage reimbursement                              | 540                | 540             | 802               | (262)  |
| Publication and legal notices                      | 2,000              | 2,000           | 2,188             | (188)  |
| Postage  | 3,500              | 3,500           | 2,255             | 1,245  |
| Maintenance  | 600                | 600             | 127               | 473  |
| Telephone  | 3,005              | 3,005           | 342               | 2,663  |
| Special Council                                    | 2,000              | 2,000           |                   | 2,000  |
| Fresno County Health                               | 1,800              | 1,800           | 2,112             | (312)  |
| Fresno County Elections                            | 1,000              | 1,000           |                   | 1,000  |
| Accounting   | 8,500              | 8,500           | 6,837             | 1,663  |
| Independent financial audit                        | 10,000             | 10,000          | 8,500             | 1,500  |
| Contingencies                                      | 3,000              | 3,000           | 2,793             | 207  |
| General Expenditures                               | <u>4,000</u>       | <u>4,000</u>    |                   | <u>4,000</u>   |
| Total Expenditures                                 | <u>447,603</u>     | <u>447,603</u>  | <u>466,854</u>    | <u>(19,251)</u>  |
| CHANGE IN FUND BALANCE                             | <u>(35,191)</u>    | <u>(35,191)</u> | 36,521            | <u>71,712</u>  |
| FUND BALANCE – BEGINNING OF YEAR                   |                    |                 | <u>408,914</u>    |  |
| FUND BALANCE – END OF YEAR                         |                    |                 | <u>\$445,435</u>  |  |

FRESNO LOCAL AGENCY FORMATION COMMISSION  
NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2016

BUDGET AND BUDGETARY REPORTING

The Commission prepares and legally adopts a final budget on or before June 15<sup>th</sup> of each fiscal year.

After the budget is approved, the appropriations can be added to, subtracted from or changed only by Commission resolution. All such changes must be within the revenues and reserves estimated as available in the final budget or within revised revenue estimates as approved by the Commission.

An operating budget is adopted each fiscal year on the modified accrual basis. Additionally, encumbrance accounting is utilized to assure effective budgetary control. The budget is presented in the accompanying general purpose financial statements on a basis consistent with accounting principles generally accepted in the United States of America.

OTHER REPORT





Sampson, Sampson & Patterson, LLP  
CERTIFIED PUBLIC ACCOUNTANTS

3148 Willow Avenue, Suite 102  
Clovis, California 93612-4739  
(559) 291-0277 • FAX (559) 291-6411

The Board of Commissioners  
Fresno Local Agency Formation Commission  
Fresno, California

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*

We have audited, 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, the financial statements of Fresno Local Agency Formation Commission (LAFCo) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated June 19, 2018.

**Internal Control Over Financial Reporting**

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Commission's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Fresno Local Agency Formation Commission

### 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*.

We noted certain matters that we reported to management of the Commission in a separate letter dated June 19, 2018.

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Sampson, Sampson & Patterson, LLP*

Clovis, California  
June 19, 2018

FRESNO LOCAL AGENCY FORMATION COMMISSION

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REPORT TO MANAGEMENT

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YEAR ENDED JUNE 30, 2016

CONTENTS

|                         | <u>Page</u> |
|-------------------------|-------------|
| Required Communications | 1-2         |
| Current Year Comments   | 3           |

Commissioners  
Fresno Local Agency Formation Commission  
Fresno, California

We have audited the financial statements of the governmental activities of the Fresno Local Agency Formation Commission (LAFCo) for the year ended June 30, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated February 6, 2018. Professional standards also require that we communicate to you the following information related to our audit.

### Significant Audit Findings

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by LAFCo are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2016. We noted no transactions entered into by the Commission during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's 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 significantly from those expected.

LAFCo does not enforce payment by the cities and districts for the services they have provided. However, LAFCo keeps a list of cities and districts that have been billed but have not paid and plans to request payment of their outstanding bill when these entities request services from LAFCo in the future.

The financial statements are neutral, consistent, and clear.

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Fresno Local Agency Formation Commission

*Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated June 19, 2018.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Commission's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Commission's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the budget comparison schedule, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

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

*Sampson, Sampson & Patterson, LLP*

Clovis, California  
June 19, 2018

REPORT TO MANAGEMENT

CURRENT YEAR COMMENTS

I. Cash Disbursements

Comment

During our testing of internal controls for cash disbursements the following was noted out of 33 disbursements tested:

- Five invoices did not indicate they had been initialed by the Chairperson.
- Three checks from the single signor account were missing supporting documentation.

Recommendation

To ensure compliance with the procedures listed in Section E.2 of the Financial and Accounting Procedures Manual, all invoices should have the Chairperson's approval noted on the invoice. We recommend more diligence on retaining invoices, receipts, and other forms of support for every check written to ensure expenses are appropriate business purchases.

Executive Officer's Response

LAFCo staff endeavors to be accurate and accountable in all of its fiscal matters. We will employ the recommended actions.