

**SONOMA LOCAL AGENCY FORMATION
COMMISSION**

SANTA ROSA, CALIFORNIA

ANNUAL FINANCIAL REPORT

JUNE 30, 2020 & 2019

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INDEPENDENT AUDITORS' REPORT

Commissioners
Sonoma Local Agency Formation Commission (LAFCO)
Santa Rosa, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the Sonoma Local Agency Formation Commission, as of and for the years ended June 30, 2020 and 2019 and the related notes to the financial statements. Collectively, they comprise the Sonoma Local Agency Formation Commission's basic 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 State Controller's Minimum Audit Requirements for California Special Districts. 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 our 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, we consider internal control relevant to the Sonoma Local Agency Formation Commission'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 Sonoma Local Agency Formation Commission'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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Sonoma Local Agency Formation Commission, as of June 30, 2020, and 2019, and the respective changes in financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 3-6) and the required supplementary information (page 21-22), as listed in the table of contents, 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.

R. J. Ricciardi, Inc.

R. J. Ricciardi, Inc.
Certified Public Accountants

San Rafael, California
December 14, 2022

Sonoma Local Agency Formation Commission
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2020 & 2019

This section of the Sonoma Local Agency Formation Commission's (the Commission's) basic financial statements presents management's overview and analysis of the financial activities of the organization for the fiscal years ended June 30, 2020, 2019, and 2018. We encourage the reader to consider the information presented here in conjunction with the basic financial statements as a whole.

Introduction to the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the Commission's audited financial statements, which are composed of the basic financial statements. This annual report is prepared in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for States and Local Governments*. The Single Governmental Program for Special Purpose Governments reporting model is used, which best represents the activities of the Commission.

The required financial statements include the Statement of Net Position and Governmental Funds Balance Sheet; and the Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances.

These statements are supported by notes to the basic financial statements. All sections must be considered together to obtain a complete understanding of the financial picture of the Commission.

The Basic Financial Statements

The Basic Financial Statements comprise the Combined Government-wide Financial Statements and the Fund Financial Statements; these two sets of financial statements provide two different views of the Commission's financial activities and financial position.

The Government-wide Financial Statements provide a longer-term view of the Commission's activities as a whole, and comprise the Statement of Net Position and the Statement of Activities. The Statement of Net Position provides information about the financial position of the Commission as a whole, including all of its capital assets and long-term liabilities on the full accrual basis, similar to that used by corporations. The Statement of Activities provides information about all of the Commission's revenues and all of its expenses, also on the full accrual basis, with the emphasis on measuring net revenues or expenses of the Commission's programs. The Statement of Activities explains in detail the change in Net Position for the year.

All of the Commission's activities are grouped into Government Activities, as explained below.

The Fund Financial Statements report the Commission's operations in more detail than the Government-wide statements and focus primarily on the short-term activities of the Commission's Major Funds. The Fund Financial Statements measure only current revenues and expenditures and fund balances; they exclude capital assets, long-term debt and other long-term amounts.

Major Funds account for the major financial activities of the Commission and are presented individually. Major Funds are explained below.

The Government-wide Financial Statements

Government-wide Financial Statements are prepared on the accrual basis, which means they measure the flow of all economic resources of the Commission as a whole.

The Statement of Net Position and the Statement of Activities present information about the following: *Governmental Activities* – the Commission's basic services are considered to be governmental activities. These services are supported by specific general revenues from local agencies.

Sonoma Local Agency Formation Commission
MANAGEMENT'S DISCUSSION AND ANALYSIS
 June 30, 2020 & 2019

Fund Financial Statements

The Fund Financial Statements provide detailed information about each of the Commission's most significant funds, called Major Funds. The concept of Major Funds, and the determination of which are Major Funds, was established by GASB Statement No. 34 and replaces the concept of combining like funds and presenting them in total. Instead, each Major Fund is presented individually, with all Non-major Funds summarized and presented only in a single column. Major Funds present the major activities of the Commission for the year, and may change from year-to-year as a result of changes in the pattern of the Commission's activities.

In the Commission's case, there is only one Major Governmental Fund.

Governmental Fund Financial Statements are prepared on the modified accrual basis, which means they measure only current financial resources and uses. Capital assets and other long-lived assets, along with long-term liabilities, are not presented in the Governmental Fund Financial Statements.

Comparisons of Budget and Actual financial information are presented for the General Fund.

Governmental Activities

Table 1
Governmental Net Position

	2020 Governmental Activities	2019 Governmental Activities	2018 Governmental Activities
Current assets	\$ 519,166	\$ 510,861	\$ 509,572
Noncurrent asset:			
Capital asset, net accumulated depr.	<u>18,298</u>	<u>24,233</u>	<u>-</u>
Total assets	<u>537,464</u>	<u>535,094</u>	<u>509,572</u>
Current liabilities	<u>10,931</u>	<u>21,114</u>	<u>10,088</u>
Total liabilities	<u>10,931</u>	<u>21,114</u>	<u>10,088</u>
Net position			
Net investment in capital assets	18,298	24,233	-
Unrestricted	<u>508,235</u>	<u>489,747</u>	<u>499,484</u>
Total net position	<u>\$ 526,533</u>	<u>\$ 513,980</u>	<u>\$ 499,484</u>

The Commission's governmental net position amounted to \$526,533, \$513,980 and \$499,484 as of June 30, 2020, 2019 and 2018 respectively, an increase of \$12,553 from 2019 and \$14,496 from 2018. This increase is the Change in Net Position reflected in the Statement of Activities shown in Table 2.

The Statement of Activities presents program revenues and expenses and general revenues in detail. All of these are elements in the Changes in Governmental Net Position summarized below.

Sonoma Local Agency Formation Commission
MANAGEMENT'S DISCUSSION AND ANALYSIS
 June 30, 2020 & 2019

Table 2
Changes in Governmental Net Position

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Program revenues:			
Charges for services	\$ 66,173	\$ 79,953	\$ 58,837
General revenues:			
Investment earnings	16,434	29,340	9,417
Other earnings	-	250	-
Intergovernmental	<u>699,295</u>	<u>666,864</u>	<u>606,750</u>
Total general revenues	<u>715,729</u>	<u>696,454</u>	<u>616,167</u>
Total revenues	<u>781,902</u>	<u>776,407</u>	<u>675,004</u>
Program expenditures:			
Services and supplies	763,414	756,471	579,001
Depreciation	<u>5,935</u>	<u>5,440</u>	<u>-</u>
Total expenditures	<u>769,349</u>	<u>761,911</u>	<u>579,001</u>
Changes in net position	<u>\$ 12,553</u>	<u>\$ 14,496</u>	<u>\$ 96,003</u>

As Table 2 above shows, \$66,173 or 8%, \$79,953 or 10% and \$58,837 or 9% of the Commission's fiscal year 2020, 2019 and 2018 governmental revenue, came from program revenues and \$715,729 or 92%, \$696,454 or 90% and \$616,167 or 91%, came from general revenues such as contributions from local agencies.

Program revenues were composed of process fees.

General revenues are not allocable to programs. General revenues are used to pay for the net cost of governmental programs.

Capital Assets

As of June 30, 2020, Sonoma Local Agency Formation Commission had one capital asset of office furniture for \$29,673. This is discussed in detail in Note 10.

Debt Administration

The Commission does not utilize long-term debt to fund operations or growth.

General Fund Budgetary Highlights

For the fiscal years ended June 30, 2020, 2019, and 2018, the Commission experienced considerable activity associated with complex applications for changes of organization and reorganization that resulted in the accrual of a similar level of revenues from charges for services. In major actions, the Commission approved annexation of five islands of unincorporated territory to the City of Santa Rosa and more than 11,000 acres to a fire protection district as well as detachment of a large area of territory from a health care district.

Salary and benefit increases implemented by the County of Sonoma, typically after the Commission approved its final budget, contributed to an increase in the Commission's expenditure levels; Commission staff are County employees, pursuant to a Memorandum of Understanding between the Commission and the County.

Sonoma Local Agency Formation Commission
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2020 & 2019

Additionally, the Commission continued to fund work to upgrade its website and electronic data management system and, in preparation for the relocation of the Commission office, expended some initial funds for new office rent and furniture.

Contacting the Commission's Financial Management

The basic financial statements are intended to provide citizens, taxpayers, and creditors with a general overview of the Commission's finances. Questions about this report should be directed to Sonoma Local Agency Formation Commission, 111 Santa Rosa Avenue, Suite 240, Santa Rosa, CA 95404.

Sonoma Local Agency Formation Commission
STATEMENT OF NET POSITION
 June 30, 2020 and June 30, 2019

	2020	2019
<u>ASSETS</u>		
Cash and investments	\$ 512,277	\$ 505,788
Prepaid items	6,889	5,073
Capital assets, net of accumulated depreciation	18,298	24,233
Total assets	537,464	535,094
 <u>LIABILITIES</u>		
Accounts payable	5,390	15,573
Customer deposits	5,541	5,541
Total liabilities	10,931	21,114
 <u>NET POSITION:</u>		
Net investment in capital assets	18,298	24,233
Unrestricted	508,235	489,747
Total net position	\$ 526,533	\$ 513,980

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

Sonoma Local Agency Formation Commission
STATEMENT OF ACTIVITIES
For the Years Ended June 30, 2020 and June 30, 2019

	2020	2019
Program expenditures/expenses:		
Services and supplies	\$ 763,414	\$ 756,471
Depreciation	5,935	5,440
Total expenditures/expenses	769,349	761,911
Program revenues:		
Charges for services	66,173	79,953
Total program revenues	66,173	79,953
Net program expenses	(703,176)	(681,958)
General revenues:		
Intergovernmental	699,295	666,864
Investment earnings	16,434	29,340
Other earnings	-	250
Total general revenues and transfers	715,729	696,454
Change in net position	12,553	14,496
Net position at beginning of period	513,980	499,484
Net position at end of period	\$ 526,533	\$ 513,980

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

Sonoma Local Agency Formation Commission
GOVERNMENTAL FUNDS BALANCE SHEET
 June 30, 2020 and June 30, 2019

	2020	2019
<u>ASSETS</u>		
Cash and investments	\$ 512,277	\$ 505,788
Prepaid items	6,889	5,073
Total assets	\$ 519,166	\$ 510,861
 <u>LIABILITIES</u>		
Accounts payable	\$ 5,390	\$ 15,573
Customer deposits	5,541	5,541
Total liabilities	10,931	21,114
 <u>FUND BALANCES</u>		
Non-spendable	6,889	5,073
Unassigned	501,346	484,674
Total fund balances	508,235	489,747
Total liabilities and fund balances	\$ 519,166	\$ 510,861

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

Sonoma Local Agency Formation Commission
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
WITH THE GOVERNMENTAL ACTIVITIES STATEMENT OF NET POSITION
For the Years Ended June 30, 2020 and June 30, 2019

	2020	2019
Total Governmental Funds fund balances	\$ 508,235	\$ 489,747
<p>Amounts reported for Governmental Activities in the Statement of Net Position are different from those reported in the Governmental Funds above because of the following:</p>		
<p><u>Capital Assets</u></p>		
Capital assets used in Governmental Activities are not financial resources and therefore are not reported in the Governmental Funds.	18,298	24,233
Net Position of Governmental Activities	\$ 526,533	\$ 513,980

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

Sonoma Local Agency Formation Commission
GOVERNMENTAL FUNDS REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES

For the Years Ended June 30, 2020 and June 30, 2019

	2020	2019
Revenues		
Intergovernmental	\$ 699,295	\$ 666,864
Planning & engineering service fees	66,173	79,953
Investment earnings	16,434	29,340
Other earnings	-	250
Total revenues	781,902	776,407
Expenditures		
Current:		
Services and supplies	763,414	756,471
Capital outlay	-	29,673
Total expenditures	763,414	786,144
Excess (deficiency) of revenue over (under) expenditures	18,488	(9,737)
Fund balances beginning of period	489,747	499,484
Fund balances end of period	\$ 508,235	\$ 489,747

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

Sonoma Local Agency Formation Commission
RECONCILIATION OF THE NET CHANGE IN FUND BALANCES
TOTAL GOVERNMENTAL FUNDS
WITH THE
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES
For the Years Ended June 30, 2020 and June 30, 2019

	2020	2019
<p>The schedule below reconciles the Net Changes in Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance, which measures only changes in current assets and current liabilities on the modified accrual basis, with the Change in Net Position of Governmental Activities reported in the Statement of Activities, which is prepared on the full accrual basis.</p>		
NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 18,488	\$ (9,737)
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
<p><u>CAPITAL ASSETS TRANSACTIONS</u></p>		
<p>Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense:</p>		
The capital outlay expenditures are therefore added back to fund balance	-	29,673
Depreciation expense is deducted from the fund balance	(5,935)	(5,440)
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$ 12,553	\$ 14,496

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

Sonoma Local Agency Formation Commission
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2020 & 2019

NOTE 1 - REPORTING ENTITY

A. Organization of Sonoma Local Agency Formation Commission

The Sonoma Local Agency Formation Commission (the Commission) is an independent agency established under Government Code Section 56000, et seq, the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000. The Commission is responsible for reviewing, approving or disapproving changes of organization or reorganizations involving cities and special districts including annexation and detachment of territory, formation of new districts and incorporation of cities. The Commission is comprised of seven members serving four-year terms: two mayors or city council members, two members of the County Board of Supervisors, two independent special district board members and one member of the public, appointed by the other Commissioners; an alternate member also serves for each authority.

During the audit period, the Commission used the County of Sonoma's Enterprise Financial System (EFS) and its budgetary recording and accounting control policies to account for all financial transactions affecting the Commission. The County, through the Auditor-Controller-Treasurer-Tax Collector's Office tracks billing and collections for apportionment from funding agencies. The responsibility for the financial statements rests with the Commission and its management.

The Commission pays the County of Sonoma for various services. Services include legal counsel, accounting staff, management and support staff, and as requested by the Commission, reasonable and necessary services from other County Departments.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The Commission's basic financial statements are prepared in conformity with U.S. generally accepted accounting principles. The Governmental Accounting Standards Board (GASB) is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.A.

Government-wide Financial Statements

The Commission's financial statements reflect only its own activities; it has no component units. The statement of net position and statement of activities display information about the reporting government as a whole. They include all funds of the reporting entity. Governmental activities generally are financed through intergovernmental revenues and charges for services.

The statement of activities presents a comparison between direct expenses and program revenues for each segment of the Commission's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipients of goods and services offered by the program. Revenues that are not classified as program revenues, including all intergovernmental revenues, are presented as general revenues.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. General Fund operations are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures (or expenses) as appropriate.

Sonoma Local Agency Formation Commission
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2020 & 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Basis of Presentation (concluded)

The Commission's resources are accounted for based on the purposes for which they are to be spent and the means by which spending activities are controlled. An emphasis is placed on major funds within the governmental categories. A fund is considered major if it is the primary operating fund of the Commission or meets the following criteria: Total assets, liabilities, revenues or expenditures (or expenses) of the individual governmental fund are at least 10 percent of the corresponding total for all funds of that category or type. The General Fund is always a major fund.

Governmental Funds

General Fund: This is the operating fund of the Commission. The major revenue source for this fund is intergovernmental revenues. Expenditures are made for intergovernmental revenues projects and administration.

B. Basis of Accounting

The government-wide financial statements are reported using the *economic resources measurement focus* and the *full accrual basis* of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place.

Governmental funds are reported using the *current financial resources measurement focus* and the *modified accrual* basis of accounting. Under this method, revenues are recognized when "measurable and available." The Commission considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as *other financing sources*.

Those revenues susceptible to accrual are intergovernmental, certain charges for services and interest revenue. Charges for services are not susceptible to accrual because they are not measurable until received in cash.

Non-exchange transactions, in which the Commission gives or receives value without directly receiving or giving equal value in exchange, include apportionments. On the accrual basis, revenue from taxes is recognized in the fiscal year for which the taxes are levied or assessed. The Commission may fund programs with a combination of charges for services and general revenues.

C. Commission Budget

Pursuant to Section 56381, et seq of the Government Code, the Commission adopts a proposed budget by May 1 and a final budget by June 15 of each year.

Budgetary revenue estimates represent original estimates modified for any authorized adjustment that was contingent upon new or additional revenue sources. Budgetary expenditure amounts represent original appropriations adjusted by budget transfers and authorized appropriation adjustments made during the year. All budgets are adopted on a non-Generally Accepted Accounting Principles (GAAP) basis. There were no budgetary adjustments made in the fiscal years ended June 30, 2020 and 2019.

Sonoma Local Agency Formation Commission
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2020 & 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

D. Investments

Investments are stated at fair value in the statement of net position and balance sheet and the corresponding changes in fair value of investments are recognized in the year in which the change occurred. The Commission follows the practice of pooling cash and investments of all funds with the County of Sonoma Treasurer.

Fair value of investments is determined annually. Realized gains or losses and interest earned on pooled investments are allocated quarterly to the appropriate fund based on their respective average daily balance for that quarter. The value of participants' pool shares is based on amortized cost, which is different than fair value. The County of Sonoma Treasurer has not provided nor obtained any legally binding guarantees to support the value of pool shares.

E. Liabilities

The accounts payable balance consists of amounts owed to vendors and other governments for which invoices were not received and/or paid as of year-end. Deferred revenues are recorded for advance deposits on projects and debited when staff and auxiliary costs are incurred.

NOTE 3 - CASH AND INVESTMENTS

The Commission's cash is maintained with the Sonoma County Treasury in a non-interest-bearing account. The Commission's cash on deposit with the Sonoma County Treasury at June 30, 2020 and 2019 was \$512,277 and \$505,788 respectively.

Investment in the Sonoma County Treasurer's Investment Pool (Treasury Pool)

The Commission's cash is pooled with the Sonoma County (the County) Treasurer, who acts as a disbursing agent for the Commission. The fair value of the Commission's investment in this pool is reported in the accompanying financial statements at amounts based upon the Commission's pro-rata share of the fair value provided by the Treasury Pool for the entire Treasury Pool portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on accounting records maintained by the Treasury Pool, which are recorded on an amortized cost basis. Interest earned on investments pooled with the County is allocated quarterly to the appropriate fund based on its respective average daily balance for that quarter. The Treasury Oversight Committee has regulatory oversight for all monies deposited into the Treasury Pool.

Investment Guidelines

The Commission's pooled cash and investments are invested pursuant to investment policy guidelines established by the County Treasurer and approved by the Board of Supervisors. The objectives of the policy are, in order of priority: safety of capital, liquidity and maximum rate of return. The policy addressed the soundness of financial institutions in which the County will deposit funds, types of investment instruments as permitted by the California Government Code 53601, and the percentage of the portfolio that may be invested in certain instruments with longer terms to maturity.

A copy of the Treasury Pool investment policy is available upon request from the Sonoma County Treasurer at 585 Fiscal Drive, Room 100-F, Santa Rosa, CA 95403-2871.

Sonoma Local Agency Formation Commission
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2020 & 2019

NOTE 3 - CASH AND INVESTMENTS (continued)

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. As a means of limiting its exposure to fair value losses arising from rising interest rates, one of the ways that the Treasury Pool manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturing evenly over time as necessary to provide the cash flow and liquidity needed for operations.

As of June 30, 2020, approximately 30% of the investments in the Treasury Pool had maturities of one year or less. Of the remainder, only 4% had a maturity of more than five years.

Disclosures Relating to 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 Treasury Pool does not have a rating provided by a nationally recognized statistical rating organization.

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 custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Treasury Pool's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits and securities lending transactions:

The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. 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.

The California Government Code limits the total of all securities lending transactions to 20% of the fair value of the investment portfolio. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as the Treasury Pool).

Concentration of Credit Risk

The investment policy of the County contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. For a listing of investments in any one issuer (other than U.S. Treasury securities, mutual funds, or external investment pools) that represent 5% or more of total County investments, refer to the 2020 Annual Comprehensive Financial Report.

Sonoma Local Agency Formation Commission
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2020 & 2019

NOTE 3 - CASH AND INVESTMENTS (concluded)

Fair Value Reporting - Investments

The Commission categorizes the fair value measurements of its investments within the fair value hierarchy established by GAAP. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. These levels are determined by the Commission's investment manager based on a review of the investment class, structure and what kind of securities are held in the portfolio. The Commission's holdings are classified in Level 1 of the fair value hierarchy.

NOTE 4 - USE OF ESTIMATES

The basic financial statements have been prepared in conformity with U.S. generally accepted accounting principles and, as such, include amounts based on informed estimates and judgments of management with consideration given to materiality. Actual results could differ from those amounts.

NOTE 5 - INTERGOVERNMENTAL REVENUE

The Commission's intergovernmental revenue is received from the County of Sonoma, cities and independent special districts in the County. The Commission's net operating costs are apportioned to these governmental organizations according to the following ratios: 40% to be paid by the County of Sonoma, 40% to be paid by cities, as a whole, and 20% to be paid by independent special districts, as a whole.

NOTE 6 - RISK MANAGEMENT

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission participates in Sonoma County's risk pool. Information about coverage can be found in the County's basic financial statements.

NOTE 7 - CONTINGENCIES

The Commission may be involved from time to time in various claims and litigation arising in the ordinary course of business. The Commission's management, based upon the opinion of legal counsel, is of the opinion that the ultimate resolution of such matters should not have a materially adverse effect on the Commission's financial position or results of operations.

NOTE 8 - FUND EQUITY

The accompanying basic financial statements reflect certain changes that have been made with respect to the reporting of the components of Fund Balances for governmental funds. In previous years, fund balances for governmental funds were reported in accordance with previous standards that included components for reserved fund balance, unreserved fund balance, designated fund balance, and undesignated fund balance. Due to the implementation of GASB Statement No. 54, the components of the fund balances of governmental funds now reflect the component classifications described below. In the fund financial statements, governmental fund balances are reported in the following classifications:

Non-spendable fund balance includes amounts that are not in a spendable form, such as prepaid items or supplies inventories, or that are legally or contractually required to remain intact, such as principal endowments.

Sonoma Local Agency Formation Commission
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2020 & 2019

NOTE 8 - FUND EQUITY (concluded)

Restricted fund balance includes amounts that are subject to externally enforceable legal restrictions imposed by outside parties (i.e., creditors, grantors, contributors) or that are imposed by law through constitutional provisions or enabling legislation.

Committed fund balance includes amounts whose use is constrained by specific limitations that the government imposes upon itself, as determined by a formal action of the highest level of decision-making authority. The Commissioners serve as the Commission's highest level of decision-making authority and have the authority to establish, modify or rescind a fund balance commitment via Commission action.

Assigned fund balance includes amounts intended to be used by the Commission for specific purposes, subject to change, as established either directly by the Commissioners or by management officials to whom assignment authority has been delegated by the Commissioners.

Unassigned fund balance is the residual classification that includes spendable amounts in the General Fund that are available for any purpose.

When expenditures are incurred for purposes for which both restricted and unrestricted (committed, assigned or unassigned) fund balances are available, the Commission specifies that restricted revenues will be applied first. When expenditures are incurred for purposes for which committed, assigned or unassigned fund balances are available, the Commission's policy is to apply committed fund balance first, and then assigned fund balance, and finally unassigned fund balance.

Minimum Fund Balance

Beginning with Fiscal Year 2003-04 the Commission adopted a resolution (No. 2418) to maintain a minimum "unreserved/undesignated fund balance of \$25,000." For the fiscal years ended June 30, 2020 and 2019, the fund balances were substantially larger than the minimum required. In its resolutions approving the proposed and final budgets for those years, the Commission stated its intention to "maintain an unreserved/undesignated fund balance to cover unforeseen needs."

Net Position

Net Position is the excess of all the Commission's assets over all its liabilities, regardless of fund. Net Position is divided into three captions under GASB Statement No. 34. These captions apply only to Net Position, which is determined only at the government-wide level, and are described below:

Net investment in capital assets describes the portion of Net Position that is represented by the current net book value of the Commission's capital assets, less the outstanding balance of any debt issued to finance these assets.

Restricted describes the portion of Net Position that is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions that the Commission cannot unilaterally alter.

Unrestricted describes the portion of Net Position that is not restricted to use.

Sonoma Local Agency Formation Commission
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2020 & 2019

NOTE 9 - LEASE

The Commission entered into a five-year non-cancellable operating lease for administrative and program facilities at 111 Santa Rosa Avenue, Suite 240, Santa Rosa, California, commencing April 13, 2018. Rent in equal monthly installments of \$3,345 (\$2.10 per square foot of the rentable area per month) is due on or before the last day of every calendar month during the lease. The monthly rental rate shall adjust at the commencement of year 2-5 of the initial term and during each option period an additional \$0.05 per square foot annually. Options to renew the lease with the landlord are available upon the expiration of the current lease. Minimum future payments under this non-cancellable operating lease are as follows:

Lease	Total
June 30, 2021	\$ 42,259
June 30, 2022	43,214
April 12, 2023	<u>34,438</u>
Total	<u>\$ 119,911</u>

Rental expense for the year ended June 30, 2020 totaled \$41,904.

NOTE 10 - CAPITAL ASSETS

Capital assets, which include property, plant, equipment, and infrastructure assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The Commission currently capitalizes assets that cost more than \$5,000 and have a life of more than one year. Such capital assets are recorded at historical cost or at estimated historical cost if purchased or constructed. Donated capital assets are recorded at the acquisition value on the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed and depreciated over their remaining useful lives.

Capital assets of the primary government, as well as the component units, are depreciated, using the straight-line method over their estimated useful lives:

Infrastructure:

Bridges	50 years
Streets	25 years
Storm drainage system	35 years
Concrete, curb and gutter	50 years
Buildings & improvements	15-20 years
Water distribution and sewage collection systems	50 years
Water and sewage treatment plants	25 years
Raw water service and treated water storage facilities	15-50 years
Vehicles, machinery, and equipment	3-25 years

Sonoma Local Agency Formation Commission
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2020 & 2019

NOTE 10 - CAPITAL ASSETS (concluded)

A summary of changes in the capital asset follows:

For the Fiscal Year ended June 30, 2020

	<u>Balance as of July 1, 2019</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance as of June 30, 2020</u>
Capital asset, being depreciated:				
Office furniture & equipment	\$ 29,673	\$ -	\$ -	\$ 29,673
Less accumulated depreciation	(5,440)	(5,935)	-	(11,375)
Capital asset, net	<u>\$ 24,233</u>	<u>\$ (5,935)</u>	<u>\$ -</u>	<u>\$ 18,298</u>

For the Fiscal Year ended June 30, 2019

	<u>Balance as of July 1, 2018</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance as of June 30, 2019</u>
Capital asset, being depreciated:				
Office furniture & equipment	\$ -	\$ 29,673	\$ -	\$ 29,673
Less accumulated depreciation	-	(5,440)	-	(5,440)
Capital asset, net	<u>\$ -</u>	<u>\$ 24,233</u>	<u>\$ -</u>	<u>\$ 24,233</u>

Depreciation expense charged to governmental activities for the year ended June 30, 2020 and 2019 was \$5,935 and \$5,440 respectively.

NOTE 11 - SUBSEQUENT EVENTS

In preparing the financial statements, the Commission has evaluated events and transactions for potential recognition or disclosure through December 14, 2022, the date of the financial statements were available to be issued.

Sonoma Local Agency Formation Commission
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
 Required Supplemental Information
 Budget and Actual
 General Fund (Unaudited)
 For the Year Ended June 30, 2019

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenue:				
County, cities & special districts	\$ 666,865	\$ 666,865	\$ 666,864	\$ (1)
Investment earnings	5,000	5,000	29,340	24,340
Planning & engineering service fees	-	-	79,953	79,953
Other earnings	-	-	250	250
Total revenue	671,865	671,865	776,407	104,542
Expenditures:				
Current:				
Services and supplies	797,977	797,977	756,471	41,506
Capital outlay	-	-	29,673	(29,673)
Total expenditures	797,977	797,977	786,144	11,833
Excess (deficit) of revenue over expenditures	\$ (126,112)	\$ (126,112)	(9,737)	\$ 116,375
Fund balance, beginning of period			499,484	
Fund balance, end of period			\$ 489,747	

Sonoma Local Agency Formation Commission
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
 Required Supplemental Information
 Budget and Actual
 General Fund (Unaudited)
 For the Year Ended June 30, 2020

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenue:				
County, cities & special districts	\$ 699,295	\$ 699,295	\$ 699,295	\$ -
Investment earnings	8,000	8,000	16,434	8,434
Planning & engineering service fees	-	-	66,173	66,173
Total revenue	<u>707,295</u>	<u>707,295</u>	<u>781,902</u>	<u>74,607</u>
Expenditures:				
Current:				
Services and supplies	<u>800,295</u>	<u>800,295</u>	763,414	<u>36,881</u>
Total expenditures	<u>800,295</u>	<u>800,295</u>	<u>763,414</u>	<u>36,881</u>
Excess (deficit) of revenue over expenditures	<u>\$ (93,000)</u>	<u>\$ (93,000)</u>	18,488	<u>\$ 111,488</u>
Fund balance, beginning of period			<u>489,747</u>	
Fund balance, end of period			<u>\$ 508,235</u>	

**SONOMA LOCAL AGENCY FORMATION COMMISSION
COMMISSIONERS & MANAGEMENT REPORT**

**FOR THE YEARS ENDED
JUNE 30, 2020 & 2019**

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Commissioners
Sonoma Local Agency Formation Commission
Santa Rosa, California

We have audited the basic financial statements of Sonoma Local Agency Formation Commission (the Commission) for the years ended June 30, 2020, and 2019. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated April 13, 2022, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Commission. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Commission are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the years. We noted no transactions entered into by the Commission during the years for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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. We evaluated the key factors and assumptions used to develop the accounting estimates in determining that they are reasonable in relation to the financial statements taken as a whole. There were no sensitive estimates affecting the basic financial statements that came to our attention.

Difficulties Encountered in Performing the Audit

We encountered no 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. One accounting adjustment was detected as a result of audit procedures.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' 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 December 14, 2022.

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 Management’s Discussion and Analysis and the Budgetary Comparison Schedule for the General Fund, 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.

This report is intended solely for the information and use of management and Commissioners of the Sonoma Local Agency Formation Commission and is not intended to be, and should not be, used by anyone other than these specified parties.

Sonoma Local Agency Formation Commission
COMMISSIONERS & MANAGEMENT REPORT
For the Years Ended June 30, 2020 and 2019

Current Year Observations

There are no current year observations.

Prior Year Observations

There were no prior year observations.