

**SACRAMENTO EMPLOYMENT
AND TRAINING AGENCY**

**INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS**

FOR THE YEAR ENDED JUNE 30, 2014

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

FINANCIAL STATEMENTS AND SINGLE AUDIT REPORT FOR THE YEAR ENDED JUNE 30, 2014

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT



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CPAs and Advisors

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**Governing Board
Sacramento Employment and Training Agency
Sacramento, California**

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the Sacramento Employment and Training Agency (SETA) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise SETA'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 the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 in 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 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 Sacramento Employment and Training Agency, as of June 30, 2014, and the respective changes in financial position, thereof, for the year 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 and budgetary comparison information on pages 3 through 8 and 27 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise SETA's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2014, on our consideration of SETA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 SETA's internal control over financial reporting and compliance.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.
Sacramento, California

November 7, 2014

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2014

This section of the Sacramento Employment and Training Agency's (SETA) financial statements presents a discussion and analysis of SETA's financial performance during the fiscal year ended June 30, 2014. Please read it in conjunction with the basic financial statements included in this report.

FINANCIAL HIGHLIGHTS

- As of June 30, 2014, SETA reported a combined fund balance of \$3,021,090, an increase of \$26,375 from last year.
- Government Accounting Standards Board (GASB) 45 requires that the implicit rate subsidy associated with healthcare premiums paid by active and retired employees be included with SETA's Other Post-Employment Benefits (OPEB) liability and expensed annually. Primarily due to the OPEB liability recognition and depreciation, SETA's net position decreased by \$561,980 in the current fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to SETA's basic financial statements. SETA's basic financial statements consist of three components 1) **Government-wide** financial statements; 2) **Fund** financial statements and 3) **Notes** to the basic financial statements.

Government-wide Financial Statements provide readers with a broad overview of SETA's finances, in a manner similar to a private sector business. The Statement of Net Position presents information on all of SETA's assets and liabilities, with the differences between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of SETA is improving or deteriorating. The Statement of Activities presents information showing how net position changed during the most recent fiscal year. Changes in Net Position are reported as soon as the underlying event giving rise to the change occurs regardless of the timing of related cash flows. Thus, some revenues and expenses included in this statement will result in cash flows in future fiscal periods.

Both of these government-wide financial statements distinguish functions of SETA that are 100% supported by grants received and contracts for service. The governmental activities of SETA include Head Start/Early Head Start, Workforce Development, Refugee Employment Social Services, Child Care Food Program, State Department of Education Programs, Community Services Block Grant, Targeted Refugee Assistance, Human Trafficking, Youth Crime Prevention and CalWORKS Services. SETA does not engage in any business type activities.

Government-wide financial statements are on pages 9 and 10 of this report.

Fund Financial Statements are groupings of related funding sources that are used to maintain control over resources that have been segregated for specific activities or objectives. SETA uses fund accounting to ensure and demonstrate finance-related legal compliance. SETA maintains one governmental fund, the General Fund.

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2014

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on near term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. Both the governmental fund balance sheet and the governmental fund statement of revenue, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental fund and governmental activities.

The governmental fund financial statements are on pages 11-14 of this report.

Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes are on pages 15-26 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of SETA, assets exceeded liabilities by \$1,113,103 at the close of the most recent fiscal year.

Statement of Net Position

	2014	2013
Assets:		
Other Assets	\$ 11,386,805	\$ 10,809,069
Capital Assets	1,095,611	1,554,287
Total Assets	<u>\$ 12,482,416</u>	<u>\$ 12,363,356</u>
Liabilities:		
Other Liabilities	\$ 8,390,709	\$ 7,848,529
Non-current Liabilities	2,978,604	2,839,744
Total Liabilities	<u>\$ 11,369,313</u>	<u>\$ 10,688,273</u>
Net Position:		
Invested in capital assets	\$ 1,095,611	\$ 1,554,287
Fund balance	17,492	120,796
Total Net Position	<u>\$ 1,113,103</u>	<u>\$ 1,675,083</u>
Liabilities and Net Position	<u>\$ 12,482,416</u>	<u>\$ 12,363,356</u>

Of SETA's total net position of \$1,113,103, 98.4% or \$1,095,611 reflects the investment in capital assets. There is no debt associated with these capital assets. Total net position decreased by \$561,980 during the current fiscal year. The decrease in net position is attributable to the increase in OPEB liability recognized as a result of GASB 45, increase in compensated absence liability and depreciation expense, net of capital purchases.

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2014

Statement of Activities: SETA's grants and contract activities decreased net position by \$561,980. The table below indicates the changes in net position:

	2014	2013
Program Revenues:		
Grants and Contracts	\$ 94,689,346	\$ 95,973,202
Total Operating Grants and Contracts	94,689,346	95,973,202
General Revenues/(Loss):		
Unrestricted Investment Earnings/(Loss)	2,570	20,244
Total General Revenues/(Loss)	2,570	20,244
Total Revenue	\$ 94,691,916	\$ 95,993,446
Program Expenses:		
Head Start/Early Head Start	\$ 61,663,112	\$ 65,459,970
Workforce Development	19,530,052	17,590,913
Other Programs	14,060,732	13,534,320
Total Operating Grant Activities	\$ 95,253,896	\$ 96,585,203
Change in net position	\$ (561,980)	\$ (591,757)
Total net position, beginning of year	1,675,083	2,266,840
Total net position, end of year	\$ 1,113,103	\$ 1,675,083

SETA receives revenue from federal, state, and local grants and contracts on a cost reimbursement basis therefore expenses are usually equal to revenue.

FINANCIAL ANALYSIS OF SETA'S FUNDS

As noted earlier, SETA uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. SETA is a joint powers agency of the County of Sacramento and the City of Sacramento. The County manages most financial functions for SETA including vendor and employee payments and investment activities.

Governmental funds: SETA maintains one major governmental fund, the General Fund. The General Fund is used to account for the operations of SETA. SETA's unrestricted fund balance includes interest income received for unrestricted funds held at the County. Accordingly, interest income is allocable to a particular funding source based on which fund balance earned the income.

As of June 30, 2014, SETA reported a total fund balance of \$3,021,090, which is an increase of \$26,375 compared to total fund balance of \$2,994,715 at June 30, 2013. SETA's fund balance equals the authorized amounts in its custodial checking accounts, any prepaid expenses, amounts to cover the compensated absences balance, and amounts that are unassigned and spendable.

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2014

Revenue Analysis: Total revenue received for the year ended June 30, 2014, totaled \$94,691,916. The table below presents the amounts of revenue and the percent of total by source for FYE 2014 and FYE 2013.

Revenues Classified by Source Governmental Funds

Revenues by Source	FYE 2014 <u>Amount</u>	Percent <u>of Total</u>	FYE 2013 <u>Amount</u>	Percent <u>of Total</u>	Increase/ <u>(Decrease)</u>	Percent <u>Change</u>
Grant revenue	\$ 73,319,535	77.43%	\$ 74,903,647	78.03%	\$ (1,584,112)	(2.11%)
Child care food revenue	1,478,491	1.56%	1,545,210	1.61%	(66,719)	(4.32%)
Intergovernmental	6,218,286	6.57%	5,496,648	5.73%	721,638	13.13%
Investment income	2,570	0.00%	20,243	0.02%	(17,673)	(87.30%)
Miscellaneous income	267,707	0.28%	270,238	0.28%	(2,531)	(0.94%)
In-Kind contributions	13,405,327	14.16%	13,757,460	14.33%	(352,133)	(2.56%)
Total revenues	\$ 94,691,916	100.0%	\$ 95,993,446	100.0%	\$ (1,301,530)	(1.36%)

The following provides an explanation of revenues by fund that changed significantly over the prior year.

- Grant revenue decreased by \$1,584,112 during the fiscal year. The decrease is primarily due to the reduced funding in the Head Start Program as a result of sequestration.
- Head Start In-Kind contributions decreased by \$352,133 during the fiscal year. This decrease is due to decreased in-kind revenue sources.

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2014

Expense Analysis: Expenditures for the year ended June 30, 2014, totaled \$94,665,541. The table below presents the expenditures summarized by granting source.

Expenditures Classified by Grantor Governmental Fund

Expenditures by Grantor	FYE 2014 <u>Amount</u>	Percent <u>of Total</u>	FYE 2013 <u>Amount</u>	Percent <u>of Total</u>	Increase/ <u>(Decrease)</u>	Percent <u>Change</u>
Head Start/Early Head Start	\$ 61,449,509	64.91%	\$ 65,217,932	67.98%	\$ (3,768,423)	(5.78%)
Workforce Development	19,214,465	20.30%	17,265,712	18.00%	1,948,753	11.29%
Refugee Employment Social Services	654,708	0.69%	514,905	0.54%	139,803	27.15%
Child Care Food Program	1,474,399	1.56%	1,535,758	1.60%	(61,359)	(4.00%)
State Department of Education	3,159,885	3.34%	3,102,765	3.23%	57,120	1.84%
Community Services Block Grant	1,573,364	1.66%	1,612,245	1.68%	(38,881)	(2.41%)
Targeted Refugee Assistance	338,141	0.36%	483,436	0.50%	(145,295)	(30.05%)
Human Trafficking	286,955	0.30%	286,693	0.30%	262	0.09%
CalWORKS	6,078,661	6.42%	5,246,758	5.47%	831,903	15.86%
Youth Crime Prevention	96,037	0.10%	159,259	0.17%	(63,222)	(39.70%)
Other	339,417	0.36%	515,193	0.53%	(175,776)	(34.12%)
Total expenditures	\$ 94,665,541	100.0%	\$ 95,940,656	100.0%	\$ (1,275,115)	(1.33%)

The following provides an explanation of expenses by fund that changed significantly over the prior year.

- Head Start program costs decreased primarily due to sequestration and decreased in-kind contributions.
- Workforce Development and CalWORKS program costs increased primarily due to additional discretionary funding.

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2014

The table below presents the expenditures summarized by type.

Expenditures by Type	Expenditures Classified by Type Governmental Fund			
	FYE 2014 <u>Amount</u>	Percent <u>of Total</u>	FYE 2013 <u>Amount</u>	Percent <u>of Total</u>
Salaries	\$ 24,291,887	25.66%	\$ 25,670,185	26.75%
Fringe Benefits	12,783,739	13.50%	12,889,172	13.43%
Space Costs	3,545,815	3.75%	3,622,367	3.78%
Services & Supplies	5,280,583	5.58%	5,655,514	5.90%
Fixed Assets	42,146	0.04%	72,516	0.08%
Subrecipient Costs	35,316,044	37.31%	34,273,442	35.72%
In Kind Match	13,405,327	14.16%	13,757,460	14.34%
Total Expenses	<u>\$ 94,665,541</u>	<u>100.0%</u>	<u>\$ 95,940,656</u>	<u>100.0%</u>

As noted above, SETA's largest expenses are subrecipient costs, staff salaries, and fringe benefits. The Head Start In-Kind match has no financial impact on the agency and serves only as a reporting item.

GENERAL FUND BUDGETARY HIGHLIGHTS

SETA had no change in the original budget and the final budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets: SETA's investment in capital assets as of June 30, 2014, amounted to \$1,095,611 (net of accumulated depreciation).

Debt Administration: SETA has no long-term debt obligation.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

SETA's budget for next year will vary based on final allocated funding by the Department of Labor under the Workforce Investment Act and the Department of Health and Human Services under the Head Start Act.

REQUESTS FOR INFORMATION

This financial report provides a general overview of SETA's finances for all those with an interest in the agency's finances. Should there be questions regarding this report, or requests for additional financial information, please contact the Sacramento Employment and Training Agency, Fiscal Department, 925 Del Paso Blvd., Suite 100, Sacramento, CA 95815.

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

STATEMENT OF NET POSITION JUNE 30, 2014

ASSETS:

Cash and investments	\$ 5,134,389
Accounts receivable	5,749,189
Prepaid expenses	503,227
Capital assets, net	<u>1,095,611</u>

Total assets	<u>12,482,416</u>
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LIABILITIES

Current liabilities:

Accounts payable	5,338,946
Accrued liabilities	988,534
Unearned revenue	2,038,235
Compensated absences	<u>24,994</u>

Total current liabilities	<u>8,390,709</u>
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Non-current liabilities:

Compensated absences	1,762,279
OPEB liability	<u>1,216,325</u>

Total non-current liabilities	<u>2,978,604</u>
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Total liabilities	<u>11,369,313</u>
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NET POSITION:

Net investment in capital assets	1,095,611
Unrestricted	<u>17,492</u>

Total net position	<u>\$ 1,113,103</u>
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SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2014

Functions/Programs	Expenses	Program Revenue Operating Grants and Contracts	Net (Expense) Revenue Total Governmental Activities
Head Start/Early Head Start	\$ 61,663,112	\$ 61,455,685	\$ (207,427)
Workforce Development	19,530,052	19,223,621	(306,431)
Refugee Employment Social Services	658,296	654,306	(3,990)
Child Care Food Program	1,475,605	1,478,491	2,886
State Department of Education	3,159,885	3,159,885	
Community Services Block Grant	1,602,636	1,574,897	(27,739)
Targeted Refugee Assistance	341,729	337,739	(3,990)
CalWORKS	6,078,661	6,078,661	
Youth Crime Prevention	103,278	98,823	(4,455)
Human Trafficking	291,456	287,412	(4,044)
Other	349,186	339,826	(9,360)
Total governmental activities	\$ 95,253,896	\$ 94,689,346	(564,550)
General revenue:			
Unrestricted investment gain			2,570
Change in net position			(561,980)
Net position, beginning of year			1,675,083
Net position, end of year			\$ 1,113,103

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

BALANCE SHEET GOVERNMENTAL FUND JUNE 30, 2014

ASSETS:	
Cash and investments	\$ 5,134,389
Accounts receivable	5,749,189
Prepaid expenditures	<u>503,227</u>
Total assets	<u>\$ 11,386,805</u>
LIABILITIES AND FUND BALANCE	
Liabilities:	
Accounts payable	\$ 5,338,946
Accrued expenditures	988,534
Unearned revenue	<u>2,038,235</u>
Total liabilities	<u>8,365,715</u>
Fund balance:	
Nonspendable	503,227
Assigned	1,787,273
Unassigned	<u>730,590</u>
Total fund balance	<u>3,021,090</u>
Total liabilities and fund balance	<u>\$ 11,386,805</u>

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

RECONCILIATION OF GOVERNMENTAL FUND BALANCE TO THE STATEMENT OF NET POSITION FOR THE YEAR ENDED JUNE 30, 2014

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

Total fund balance, governmental fund \$ 3,021,090

Capital assets used in governmental activities are not financial resources and, therefore are not reported in the governmental funds. The historical cost of the capital assets is \$12,465,572, and the accumulated depreciation is \$11,369,961. 1,095,611

Long-term liabilities: In governmental funds, only current liabilities are reported. In the statement of net position, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:

Compensated absences \$ 1,787,273

OPEB liability 1,216,325

Total: (3,003,598)

Total net position, governmental activities \$ 1,113,103

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE GOVERNMENTAL FUND FOR THE YEAR ENDED JUNE 30, 2014

REVENUES:

Grant revenue	\$ 73,319,535
Child care food revenue	1,478,491
Intergovernmental	6,218,286
Investment income	2,570
Miscellaneous Income	267,707
In-Kind contributions	<u>13,405,327</u>
Total revenues	<u>94,691,916</u>

EXPENDITURES:

Head Start/Early Head Start	61,449,509
Workforce Development	19,214,465
Refugee Employment Social Services	654,708
Child Care Food Program	1,474,399
State Department of Education	3,159,885
Community Services Block Grant	1,573,364
Targeted Refugee Assistance	338,141
CalWORKS	6,078,661
Youth Crime Prevention	96,037
Human Trafficking	286,955
Other	<u>339,417</u>
Total expenditures	<u>94,665,541</u>

Net increase in fund balance	26,375
Fund balance, July 1, 2013	<u>2,994,715</u>
Fund balance, June 30, 2014	<u>\$ 3,021,090</u>

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2014

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

Net increase in fund balance, governmental fund	\$ 26,375
Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense (\$503,157) exceeds capital outlay (\$44,481) in the period.	(458,676)
The change in compensated absences expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(23,805)
OPEB: In governmental funds, OPEB costs are recognized when benefits are paid. In the statement of activities, OPEB costs are recognized on the accrual basis. The difference between OPEB costs and benefits paid was:	<u>(105,874)</u>
Change in net position of governmental activities	<u>\$ (561,980)</u>

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

1. SIGNIFICANT ACCOUNTING POLICIES

The Reporting Entity

The Sacramento Employment and Training Agency (SETA) was organized in 1978 and operates under a joint powers agreement between the City and County of Sacramento. SETA administers human service programs with financial assistance provided by the Federal and State governments and private sources.

Basis of Presentation

Government-wide financial statements – The statement of net position and the statement of activities display information about SETA as a whole. These statements include the financial activities of the primary government.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of SETA's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues include grants and contributions that are restricted to meeting the operations of a particular program. Revenues which are not classified as program revenues are presented as general revenues of SETA. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenue of SETA which is unrestricted investment earnings.

Fund financial statements – Fund financial statements report more detailed information about SETA. The focus of governmental fund financial statements is on major funds rather than reporting funds by type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using the current financial resources measurement focus. The financial statements for governmental funds include a Balance Sheet, which generally includes only current assets and current liabilities, and a Statement of Revenues, Expenditures, and Changes in Fund Balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

SETA maintains one major governmental fund, the General Fund. The General Fund is used to account for the operations of SETA. Generally, the proceeds of specific revenue sources are restricted to expenditures for specific purposes.

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

Basis of Accounting

Basis of accounting refers to when transactions are recorded in the financial records and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental fund financial statements use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current fiscal period. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For SETA, "available" means collectible within the current period or within sixty days after year end, depending on revenue source. Expenditures are recognized in the accounting period in which the liability is incurred (when goods are received or services rendered). Many of SETA's programs are funded by "cost-reimbursement" grants from Federal and State agencies. For those grants, revenue is recognized as earned when the related expenditures are incurred.

When both restricted and unrestricted resources are available for use, it is SETA's policy to use restricted resources first, then unrestricted resources as they are needed. When all types of fund balance resources are available it is SETA's policy to first use the most restrictive form of fund balance, then use the less restrictive resources.

Budgetary Information

SETA's annual expenditure budget is approved by SETA's Governing Board and adopted for SETA through the City and County of Sacramento's executive and legislative process. SETA is not authorized to exceed total budgeted expenditures. Any amendments that increase total budgeted expenditures must be approved by the Governing Board, as well as the City and County of Sacramento. There was no amendment to the original budget presented in the Statement of Expenditures Budget and Actual – General Fund during the year ended June 30, 2014.

Cost Allocation Plan

All costs are distributed to programs in accordance with a Cost Allocation Plan. SETA reviews, updates and certifies its cost allocation plan annually, which is on file in the main accounting office. SETA allocates its cost based on the relative benefit received by the programs or activities.

Capital Assets

Capital assets are those purchased or acquired with an original cost of \$5,000 or more, or computer or website software with costs more than \$100,000 and other intangible assets with costs more than \$25,000, and are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on a straight-line basis over the following estimated useful lives:

<u>Asset Class</u>	<u>Years</u>
Buildings	30
Machinery and Equipment	5
Computer Software	3-10

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

Compensated Absences

Accumulated unpaid employee vacation benefits are recognized as liabilities of SETA on the government-wide financial statements.

Net Position and Fund Balance

The government-wide financial statements utilize a net position presentation. Net position is categorized as invested in capital assets and unrestricted.

Net Investment in Capital Assets - This category groups all capital assets into one component of net position. Accumulated depreciation and the outstanding balances of debt, if any, that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.

Unrestricted Net Position - This category represents net position of the Agency not restricted for any project or other purpose.

The governmental fund statements utilize a fund balance presentation. Fund balances are categorized as nonspendable, restricted, assigned, and unassigned.

Nonspendable – This category presents amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example, inventories and prepaid amounts. At June 30, 2014, SETA has \$503,227 for prepaid expenditures that are considered nonspendable.

Restricted Fund Balance - This category presents those portions of the fund balance that are for specific purposes stipulated by constitution, external resource providers or enabling legislation. At June 30, 2014, SETA has no restricted fund balances.

Assigned Fund Balance - This category presents those portions of the fund balance that are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted. SETA management has the authority to assign portions of fund balance. At June 30, 2014, SETA has \$1,787,273 assigned to cover the compensated absences balance.

Unassigned Fund Balance – This category presents those portions of the fund balance that do not fall into restricted, or assigned and are spendable.

Future Accounting Pronouncements

In June of 2012, the GASB issued GASB Statement 68 (GASB 68), *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, with required implementation for SETA during the year ended June 30, 2015. GASB 68 is an amendment of GASB Statement 27, *Accounting for Pensions by State and Local Governmental Employers*. The primary objective of GASB 68 is to improve accounting and financial reporting by state and local governments for pensions by establishing standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures. It will require employers to report a net pension liability for the difference between the present value of projected pension

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

benefits for past service and restricted resources held in trust for the payment of benefits. The Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. GASB 68 is required to be implemented retroactively and will require a restatement of beginning position.

2. CASH AND INVESTMENTS

Cash and investments as of June 30, 2014 are classified in the accompanying financial statements as follows:

Cash and investments in Sacramento County Treasury	\$ 4,981,887
Cash on hand	<u>152,502</u>
Total cash and investments	<u>\$ 5,134,389</u>

Cash in County Treasury

The County of Sacramento Treasury (the Treasury) acts as a bank for most of SETA's cash transactions. Cash receipts are deposited and warrants drawn against the balance of SETA's cash on deposit. Under Board resolution, excess cash balances are invested in the County of Sacramento's external investment pool. Interest income is prorated to SETA based on the average cash balance maintained in the pool. Interest earned on grant funds is remitted to the grantors or used for program purposes. The County of Sacramento Treasurer's investment pool is subject to regulatory oversight by the Treasury Oversight Committee, as required by California Government Code Section 27134. The value of the pool shares which may be withdrawn is determined on an amortized cost basis, which may be different than the fair value of SETA's position in the pool.

Participants' equity in the investment pool is determined by the dollar amount of the participant deposits, adjusted for withdrawals and distributed income. This method differs from the fair value method used to value investments in these financial statements in that unrealized gains or losses are not distributed to pool participants.

The Treasury is authorized to deposit cash and invest excess funds by California Government Code Section 53648 et seq. The funds maintained by the Treasury are either secured by federal depository insurance or are collateralized.

The Treasury is restricted by Government Code Section 53635, pursuant to Section 53601, to invest in time deposits; U.S. government securities; state registered warrants, notes, or bonds; the State Treasurer's investment pool; bankers' acceptances; commercial paper; negotiable certificates of deposit; and repurchase or reverse repurchase agreements.

The investment policy and a number of reports regarding investment positions and performance of the external investment pool are available at the County of Sacramento webpage.

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

Investments Authorized by SETA's Investment Policy

By Board resolution, SETA has adopted the investment policy of the County of Sacramento external investment pool. The table below identifies the investment types authorized for SETA by the California Government Code Section 53601. This table also identifies certain provisions of the California Government Code that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury Notes and Agency Obligations	5 years	100%	None
Bonds issued by Local Agencies	5 years	80%	10%
Registered State Warrants and Municipal Notes	5 years	80%	10%
Bankers Acceptances	180 Days	40%	10%
Commercial Paper	270 days	40%	10%
Negotiable Certificates of Deposit	180 days	30%	10%
CRA Bank Deposits/Certificates of Deposit	1 year	30%	10%
Repurchase Agreements	1 year	30%	10%
Reverse Repurchase Agreements	92 days	20%	10%
Medium-Term Corporate Notes	180 days	30%	10%
Shares of a Money Market Mutual Fund	Per SEC regulations	20%	10%
Collateralized Mortgage Obligations	180 days	20%	10%
Local Agency Investment Funds (LAIF)	N/A	State Limit	\$50 million

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 fair values of investments with longer maturities have a greater sensitivity to changes in market interest rates. As of June 30, 2014, the weighted average maturity of the investments contained in the Treasury investment pool is approximately 293 days.

Credit Risk

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

Derivative Investments

SETA did not directly enter into any derivative investments. Information regarding the amount invested in derivatives by the Treasury was not available.

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

3. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following as of June 30, 2014:

	General Fund
Federal government	\$ 4,763,939
State government	390,389
Local government	593,071
Miscellaneous	1,790
Totals	\$ 5,749,189

4. CAPITAL ASSETS

The changes in capital assets (which consists primarily of office and program related equipment) were as follows:

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014
Capital assets, not being depreciated:				
Land	\$ 66,308			\$ 66,308
Capital assets, being depreciated:				
Building	297,910			297,910
Machinery and equipment	12,062,268	\$ 44,481	\$ (5,395)	12,101,354
Total capital assets, being depreciated	12,360,178	44,481	(5,395)	12,399,264
Less accumulated depreciation for:				
Building	(100,129)	(9,932)		(110,061)
Machinery and equipment	(10,772,070)	(493,225)	5,395	(11,259,900)
Total accumulated depreciation	(10,872,199)	(503,157)	5,395	(11,369,961)
Total capital assets, being depreciated, net	1,478,979	(458,676)		1,029,303
Governmental activities capital assets, net	\$ 1,554,287	\$ (458,676)	\$	\$ 1,095,611

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

For the year ended June 30, 2014, depreciation expense was charged to functions as follows:

Governmental activities:

Workforce Development	\$	284,414
Head Start/Early Head Start		159,239
Community Services Block Grant		27,739
Child Care Food Program		5,926
Youth Crime Prevention		4,455
Human Trafficking		4,044
Targeted Refugee Assistance		3,990
Refugee Employment Social Services		3,990
Other		<u>9,360</u>
Total depreciation expense	\$	<u>503,157</u>

5. COMPENSATED ABSENCES

SETA employees are granted vacation in varying amounts, depending upon the employee's length of service. These hours are accrued for all employees on the basis of bi-weekly payrolls. Upon separation, employees are paid for accumulated vacation days. All vacation pay is accrued when incurred in the government-wide financial statements as compensated absences. Long-term liability activity for the year ended June 30, 2014, was as follows:

	<u>Balance</u> <u>June 30, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2014</u>	<u>Due Within</u> <u>One Year</u>
Compensated Absences	\$ 1,763,468	\$ 1,661,962	\$ (1,638,157)	\$ 1,787,273	\$ 24,994

6. OPERATING LEASE OBLIGATIONS

SETA leases certain office space under noncancellable operating lease agreements. Total lease payments for the year were \$3,223,810. Future minimum lease payments are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Total</u>
2015	\$ 3,133,954
2016	2,868,635
2017	1,432,017
2018	328,471
2019	<u>195,157</u>
Total	<u>\$ 7,958,234</u>

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

7. EMPLOYEE RETIREMENT PLAN

Plan Description

The Sacramento County Employees Retirement System (SCERS) is a cost-sharing multiple-employer defined benefit pension plan governed by the County Employees' Retirement Law of 1937. The plan covers substantially all of the employees of SETA.

The plan provides retirement, disability, and death benefits based on employees' years of service, age and final compensation. Employees vest after five years of service and may receive retirement benefits at age 50 (with at least 10 years of service) or after 30 years of service. These benefit provisions and all other requirements are established and may be amended by State statute and Sacramento County ordinance.

SCERS issues a stand-alone financial report, which is available at its office, located in Sacramento, California or from www.scers.org.

Funding Policy

Pursuant to provisions of the 1937 Act, the Retirement Board recommends the annual contribution rates for adoption by the County Board of Supervisors. The contribution requirements are determined as a percentage of payroll.

The "entry age normal funding" method is used to calculate the rate required to provide all the benefits promised to a new member.

Active plan members are required to contribute an actuarially determined percentage of their annual covered salary. The required percentages vary according to the benefit section and entry age of the employee.

The SCERS is divided into three separate benefit sections of the 1937 Act. These sections are known as: General – Tier I, General – Tier II and General – Tier III. Effective January 1, 2013, a new Tier V was established pursuant to the California Public Employees' Pension Reform Act of 2013 (PEPRA). SETA's employees only qualify for General – Tier I, General – Tier III, and General – Tier V of the SCERS benefit plan. SETA employer rates of the contribution, calculated as a percentage of SETA's covered payroll of \$24,291,889, for the year ended June 30, 2014, were:

General Members, Tier I	27.77%
General Members, Tier III	28.15%
General Members, Tier V	22.03%

The following table shows SETA's required contributions and the percentage contributed, for the current year and the two preceding years:

<u>Fiscal Year</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2012	\$ 5,904,329	100%
2013	\$ 6,231,972	100%
2014	\$ 6,372,644	100%

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

8. OTHER POSTEMPLOYMENT BENEFITS

Plan Description

SETA, through the County of Sacramento's agent multiple-employer defined benefit plan, provides medical insurance and dental insurance, and subsidy/offset payments as authorized and amended by the SETA Governing Board on an annual basis. The Board must approve the benefit annually or it is terminated.

All annuitants are eligible to enroll in a retiree medical and/or dental insurance plan in a given calendar year if (1) they began receiving a continuing retirement allowance from SCERS during that calendar year, or (2) they were enrolled in the annual plan previously approved by the County, or (3) they previously waived coverage but elected to enroll during the County authorized enrollment period with a coverage date effective January of the given calendar year.

Annuitants who retired for any reason on or before August 31, 2007 are eligible to receive a SETA-paid medical insurance subsidy/offset payment during calendar year 2014. Annuitants who retire after August 31, 2007 are not entitled to any subsidy/offset payment.

The amount of any medical subsidy/offset payments made available to annuitants (who retire on or before August 31, 2007) is calculated based upon the annuitant's SCERS service credits. The amount of any dental subsidy/offset payments made available to annuitants is set by the SETA Governing Board. Neither SETA nor the Sacramento County Employees Retirement System (SCERS) guarantees that a subsidy/offset payment will be made available to annuitants for the purchase of medical and/or dental insurance. Subsidy/offset payments are not a vested benefit of SETA employment or SCERS membership.

The amount of subsidy/offset payment, if any, payable on account of enrollment in a sponsored retiree medical and/or dental insurance plan shall be established within the sole discretion of the SETA Governing Board. For the calendar year 2014, the amount of the subsidy/offset payments is as follows:

<u>Years of SCERS service credit payment</u>	<u>Amount of subsidy/offset</u>
Less than 10 years	\$ 72
10 years but less than 15 years	90
15 years but less than 20 years	108
20 years but less than 25 years	126
25 years or more	144
Dental Coverage	0

Approximately twenty-two employees met the eligibility requirement and received the insurance subsidy as of June 30, 2014. SETA's current contributions for postemployment benefits consist of eligible retirees on a pay-as-you-go basis and the implicit subsidy. These financial statements assume that pay-as-you-go funding will continue.

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

Annual OPEB Cost and Net OPEB Obligation

SETA's annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an on-going basis, is projected to amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of SETA's annual OPEB cost for the year, the amount, if any, actually contributed to the plan, and changes in SETA's net OPEB obligation.

Annual required contribution	\$	173,118
Interest on net OPEB obligation		0
Adjustment to annual required contribution		0
Annual OPEB cost (expense)		173,118
Contributions made:		
Pay-as-you-go		(25,776)
Implicit Subsidy		(41,468)
Increase in net OPEB obligation		105,874
Net OPEB obligation – beginning of year		1,110,451
 Net OPEB obligation – end of year	 \$	 1,216,325

The SETA's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year ended June 30, 2014 and the preceding two years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Contribution</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/12	\$ 305,900	\$ 87,800	28.70%	\$ 899,101
6/30/13	325,650	114,300	35.10%	1,110,451
6/30/14	173,118	67,244	38.84%	1,216,325

Funding Status and Progress

As of June 30, 2013, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability was \$1,430,333 and the actuarial value of assets was \$0 resulting in an unfunded actuarial accrued liability (UAAL) of \$1,430,333.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions made about future employment, mortality and the healthcare cost trend. Amounts are determined regarding the funded status of the plan, and the annual required contribution of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

Actuarial Methods and Assumptions

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

In the June 30, 2013, actuarial valuation, the entry age normal, level percent of payroll actuarial cost method was used. The actuarial assumptions utilized a 4.0% discount rate, increases in aggregate payroll of 3.25%, general inflation of 3.0%, and a medical trend rate of 7.5%, reduced by decrements of 0.5% each year to an ultimate rate of 5%. The UAAL is being amortized as a level percent of payroll. The remaining amortization period at June 30, 2014, was 23 years.

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
6/30/09	\$ 0	\$ 1,901,796	\$ 1,901,796	0%	\$ 24,594,186	7.73%
6/30/11	\$ 0	\$ 2,310,892	\$ 2,310,892	0%	\$ 26,483,224	8.73%
6/30/13	\$ 0	\$ 1,430,333	\$ 1,430,333	0%	\$ 25,670,185	5.57%

9. COMMITMENTS AND CONTINGENCIES

SETA has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is management's opinion that any required reimbursements would not be material.

The premium cost of SETA's workers compensation insurance coverage is subject to annual adjustment based on SETA's loss experience. At the present time, the amount of this adjustment, if any, is not determinable.

10. RELATED PARTY TRANSACTIONS

During the current year, the County of Sacramento Department of Human Assistance provided funding in the amount of \$6,078,661 for the operation of SETA's "one-stop" employment centers and other workforce development programs. Through its banking relationship with the County of Sacramento Treasury, substantially all of SETA's cash receipts, payment transactions, purchasing and payroll processing are processed by the County. During 2014, the County charged fees of \$138,887 for these services.

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

11. MATCHING FUNDING AND NON-MONETARY EXCHANGES

SETA operates Head Start programs for the City and County of Sacramento under a grant from the Federal government. Under the terms of that grant, SETA and its delegate agencies are required to provide matching funding equal to 20% of the grant for the grant year August 1, 2013 to July 31, 2014. During the current fiscal year, the amount of matching funding provided was \$13,405,327 which is 28% of the expenditures during the fiscal year.

Some matching funds are provided in the form of non-monetary items such as parent and partner involvement hours. The value of these non-monetary exchanges is determined using market measures of value.

12. RISK MANAGEMENT

SETA 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. SETA purchased insurance coverage for commercial property, commercial general liability, commercial auto, fiduciary liability, directors and officers liability, employment practices liability, umbrella coverage, workers compensation, and employee dishonesty.

13. USES OF ESTIMATES TO PREPARE FINANCIAL STATEMENTS

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were assumed in preparing the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

STATEMENT OF EXPENDITURES BUDGET AND ACTUAL - GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2014

<u>Functions/Programs</u>	Expenditures			Variance Positive (Negative)
	Original Budget	Final Budget	Actual	
Head Start/Early Head Start	\$ 47,803,477	\$ 47,803,477	\$ 48,044,182	\$ (240,705)
Workforce Development	22,569,816	22,569,816	19,214,465	3,355,351
Refugee Employment Social Services	561,840	561,840	654,708	(92,868)
Child Care Food Programs	1,600,000	1,600,000	1,474,399	125,601
State Department of Education	3,017,818	3,017,818	3,159,885	(142,067)
Community Services Block Grant	1,964,128	1,964,128	1,573,364	390,764
Targeted Refugee Assistance	404,791	404,791	338,141	66,650
CalWORKS	6,314,500	6,314,500	6,078,661	235,839
Youth Crime Prevention	125,000	125,000	96,037	28,963
Human Trafficking	287,412	287,412	286,955	457
Other	429,999	429,999	339,417	90,582
Total governmental funds	<u>\$ 85,078,781</u>	<u>\$ 85,078,781</u>	<u>\$ 81,260,214</u>	<u>\$ 3,818,567</u>

Note: No expenditures exceeded allowable grant funds for this period.

Notes to Required Supplementary Information

While SETA reports expenditures on the basis of generally accepted accounting principles (GAAP), SETA's budgetary basis does not include amounts related to In-Kind Contributions that have been expended. Expenditures above have been presented on this budgetary basis to provide a more meaningful comparison of actual results with the budget. The following is a reconciliation between the budgetary basis and the GAAP basis reflected in the statement of revenues, expenditures and changes in fund balance.

Head Start/Early Head Start - Budgetary Basis	\$ 48,044,182
In-Kind Contributions Expended	<u>13,405,327</u>
Head Start/Early Head Start - GAAP Basis	<u>\$ 61,449,509</u>

SINGLE AUDIT SECTION

**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**

Independent Auditor's Report

**Governing Board
Sacramento Employment and Training Agency
Sacramento, California**

We have audited, in accordance with the 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 the governmental activities and the major fund of the Sacramento Employment and Training Agency (SETA) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise SETA's basic financial statements, and have issued our report thereon dated November 7, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered SETA'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the SETA's internal control. Accordingly, we do not express an opinion on the effectiveness of SETA'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 entity'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 over 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 material weaknesses, or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether SETA'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 instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of 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.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.
Sacramento, California

November 7, 2014

**REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
OMB CIRCULAR A-133**

Independent Auditor's Report

**Governing Board
Sacramento Employment and Training Agency
Sacramento, California**

Report on Compliance for Each Major Federal Program

We have audited Sacramento Employment and Training Agency's (SETA's) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of SETA's major federal programs for the year ended June 30, 2014. SETA's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of SETA's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about SETA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on SETA's compliance.

Opinion on Each Major Federal Program

In our opinion, SETA complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of SETA is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered SETA's internal control over compliance with the requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of SETA's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



GILBERT ASSOCIATES, INC.
Sacramento, California

November 7, 2014

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2014

	CFDA#	Grant Number	Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Passed-Through California Department of Education:			
Program Name:			
Child Care Food Program	10.558	34-1826-1-J	\$ 1,478,491
Total U.S. Department of Agriculture			1,478,491
U.S. DEPARTMENT OF LABOR			
Workforce Investment Act Cluster			
Passed-Through California Employment Development Department:			
Program Name:			
WIA Title I Adult Formula	17.258	K386317-202	132,442
WIA Title I Adult Formula	17.258	K386317-500	1,163,888
WIA Title I Adult Formula	17.258	K491038-201	101,023
WIA Title I Adult Formula	17.258	K491038-202	3,891,413
WIA Title I Adult Formula	17.258	K491038-500	570,356
WIA 15% DEI Control	17.258	K282495-328	22,985
WIA 15% VEAP SFP	17.258	K282495-464	91,136
WIA 15% VEAP SFP	17.258	K386317-216	157,470
Total WIA Adult Programs			6,130,713
Program Name:			
WIA Title I Youth Formula	17.259	K491038-301	3,946,320
WIA Title I Youth Formula	17.259	K386317-301	131,918
Total WIA Youth Programs			4,078,238
Program Name:			
WIA Rapid Response	17.278	K386317-541	254,534
WIA Rapid Response	17.278	K491038-540	178,029
WIA Rapid Response	17.278	K491038-541	525,894
WIA Title I Dislocated Worker	17.278	K386317-502	1,576,725
WIA Title I Dislocated Worker	17.278	K491038-501	456,307
WIA Title I Dislocated Worker	17.278	K491038-502	797,725
WIA 25% Veterans Employment Assistance	17.278	K282495-485	63,476
WIA 25% Veterans Employment Assistance	17.278	K386317-217	77,738
Total WIA Dislocated Worker Programs			3,930,428
Passed-Through South Bay Workforce Investment Board:			
Program Name:			
WIA 25% Additional Assistance	17.278	13-WO-66	3,368,915
Total Workforce Investment Act Cluster			17,508,294

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2014

	CFDA#	Grant Number	Expenditures
National Emergency Grants			
Passed-through California Employment Development Department:			
Program Name:			
Dislocated Workers Training National Response			
Emergency Grant	17.277	K491038-343	40,939
National Response Emergency Grant OJT 2nd Incr	17.277	K386317-338	384,392
Passed-Through South Bay Workforce Investment Board:			
NEG Public Sector	17.277	11-W121	368,277
Total National Emergency Grants			793,608
Total U.S. Department of Labor			18,301,902
 U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed-Through California Department of Education:			
Program Name:			
Child Care and Development Block Grant	93.596	CSPP-3385	249,741
Child Care and Development Block Grant	93.575	CSPP-3385	119,127
Child Care and Development Block Grant	93.596	CCTR-3196	347,715
Child Care and Development Block Grant	93.575	CCTR-3196	165,860
Total Child Care and Development Block Grant Cluster			882,443
Total Passed-Through California Department of Education			882,443
Passed-Through California Department of Social Services:			
Program Name:			
Targeted Refugee Assistance	93.584	TAFO 1204	34,184
Targeted Refugee Assistance	93.584	TAFO 1304	259,337
Total Targeted Refugee Assistance			293,521
Program Name:			
Refugee Employment Social Services	93.566	RESS 1104	132,015
Refugee Employment Social Services	93.566	RESS 1204	149,762
Refugee Employment Social Services	93.566	RESS 1304	357,214
Total Refugee Employment Social Services			638,991
Program Name:			
Older Refugee Discretionary	93.576	TARL 1204	7,454
Older Refugee Discretionary	93.576	TARL 1304	7,862
Targeted Assistance Discretionary	93.576	TART 1204	20,182
Targeted Assistance Discretionary	93.576	TART 1303	24,036
Total Older Refugee Discretionary			59,534
Total Passed-Through California Department of Social Services			992,046

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2014

	CFDA#	Grant Number	Expenditures
Passed-Through Office of Refugee Resettlement:			
Program Name:			
Human Trafficking	93.598	90ZV0088	287,412
Passed-Through California Department of Community Services and Development:			
Program Name:			
Community Service Block Grant	93.569	14F-3033	588,494
Community Service Block Grant	93.569	13F-3033	886,403
Community Service Discretionary Grant	93.569	13F-3107	100,000
Total Community Service Block Grant			1,574,897
Direct Program through Office of Head Start:			
Program Name:			
Head Start/Early Head Start	93.600	09CH0012/32	45,098,705
Head Start/Early Head Start	93.600	09CH0012/31	2,951,655
Total Head Start			48,050,360
Passed-Through California Health Benefits Exchange			
State Planning and Establishment Grants for the Affordable Care Act Exchange	93.525	12-E9120	586,864
 Total U.S. Department of Health and Human Services			 52,374,022
 U.S. DEPARTMENT OF JUSTICE			
Passed-Through the County of Sacramento			
Program Name:			
Second Chance Act Technology Career Training	16.812		40,803
 Total U.S. Department of Justice			 40,803
 Total Expenditures of Federal Awards			 \$ 72,195,218

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2014

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards of Sacramento Employment and Training Agency (SETA) is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Actual expenditures of the Agency differ from the amounts presented in this schedule by SETA's in-kind match of \$13,405,327.

2. PASS-THROUGH AWARDS

Of the federal expenditures presented in the Schedule of Expenditures of Federal Awards, SETA provided federal awards to subrecipients as follows:

<u>Program</u>	<u>Federal CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
Head Start	93.600	\$ 20,626,273
Workforce Investment Act Cluster	17.258, 17.259, 17.278	6,548,754
National Emergency Grants	17.277	332,841
Refugee Employment Social Services	93.566	391,502
Older Refugee Discretionary	93.576	45,941
Targeted Refugee Assistance	93.584	256,986
Community Services Block Grant	93.569	881,942
Human Trafficking	93.598	167,748
State Planning and Establishment Grants for the Affordable Care Act Exchange	93.525	<u>317,982</u>
Total		<u>\$ 29,569,969</u>

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2014

3. SUPPLEMENTAL STATEMENTS OF REVENUE AND EXPENDITURES AS REQUIRED BY THE CALIFORNIA DEPARTMENT OF COMMUNITY SERVICES AND DEVELOPMENT

Contract No. 13F-3033

	<u>1/1/13-6/30/13</u>	<u>7/1/13-12/31/13</u>	<u>Total</u>
Revenue			
Grant revenue	\$ 735,492	\$ 886,403	\$ 1,621,895
Expenditures			
Salaries and wages	149,917	226,711	376,628
Fringe benefits	53,178	114,986	168,164
Operating expenses & equipment	34,222	26,493	60,715
Out of state travel		4,578	4,578
Subcontractor costs	471,531	358,469	830,000
Other costs	26,644	155,166	181,810
Total Expenditures	735,492	866,403	1,621,895
Excess (deficiency) of revenues over (under) expenditures	\$	\$	\$

Contract No. 13F-3107

	<u>6/15/13-6/30/13</u>	<u>7/1/13-6/30/14</u>	<u>Total</u>
Revenue			
Grant revenue	\$	\$ 100,000	\$ 100,000
Expenditures			
Salaries and wages		10,086	10,086
Fringe benefits		4,504	4,504
Operating expenses & equipment		3,732	3,732
Subcontractor services		80,000	80,000
Other costs		1,678	1,678
Total Expenditures		100,000	100,000
Excess (deficiency) of revenues over (under) expenditures	\$	\$	\$

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2014

A. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness identified? Yes No
- Significant deficiencies identified? Yes None reported
- Noncompliance material to financial statements noted? Yes No

Federal Awards

Type of auditor's report issued: Unmodified

Internal control over major programs:

- Material weaknesses identified? Yes No
- Significant deficiencies identified? Yes None reported

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? Yes No

Type of auditor's report issued on compliance for major programs: Unmodified

Identification of major programs:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
Head Start Program	93.600
Workforce Investment Act Cluster	17.258, 17.259, 17.278

Dollar threshold used to distinguish between Type A and Type B programs: \$2,165,857

Auditee qualified as low-risk auditee? Yes No

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2014

B. FINANCIAL STATEMENTS FINDINGS

None.

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None.

D. STATE COMPLIANCE FINDINGS AND QUESTIONED COSTS

None.

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2014

E. STATUS OF PRIOR YEAR AUDIT FINDINGS

None reported in prior year.