

**SACRAMENTO EMPLOYMENT  
AND TRAINING AGENCY**

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

**FOR THE YEAR ENDED JUNE 30, 2013**

# SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

## FINANCIAL STATEMENTS AND SINGLE AUDIT REPORT FOR THE YEAR ENDED JUNE 30, 2013

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## **FINANCIAL SECTION**

## INDEPENDENT AUDITOR'S REPORT

**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, 2013, 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, 2013, 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 4 through 9 and 28 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 October 15, 2013, 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**

**October 15, 2013**

# SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2013

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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, 2013. Please read it in conjunction with the basic financial statements included in this report.

### FINANCIAL HIGHLIGHTS

- As of June 30, 2013, SETA reported a combined fund balance of \$2,994,715, an increase of \$52,790 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, SETA's net position decreased and non-current liability increased by \$211,350 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 10 and 11 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, 2013

**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 12-15 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 16-27 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 \$1,675,083 at the close of the most recent fiscal year.

#### Statement of Net Position

	2013	2012
Assets:		
Other Assets	\$ 10,809,069	\$ 11,259,787
Capital Assets	1,554,287	1,954,938
Total Assets	<u>\$ 12,363,356</u>	<u>\$ 13,214,725</u>
Liabilities:		
Other Liabilities	\$ 7,848,529	\$ 8,336,853
Non-current Liabilities	2,839,744	2,611,032
Total Liabilities	<u>\$ 10,688,273</u>	<u>\$ 10,947,885</u>
Net Position:		
Invested in capital assets	\$ 1,554,287	\$ 1,954,938
Fund balance	120,796	311,902
Total Net Position	<u>\$ 1,675,083</u>	<u>\$ 2,266,840</u>
Liabilities and Net Position	<u>\$ 12,363,356</u>	<u>\$ 13,214,725</u>

Of SETA's total net position of \$1,675,083, 92.8% or \$1,554,287 reflects the investment in capital assets. There is no debt associated with these capital assets. Total net position decreased by \$591,757 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 and depreciation expense net of capital purchases.

# SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2013

**Statement of Activities:** SETA's grants and contract activities and general revenues decreased net position by \$591,757. The table below indicates the changes in net position:

	2013	2012
Program Revenues:		
Grants and Contracts	\$ 95,973,202	\$ 96,023,043
Total Operating Grants and Contracts	95,973,202	96,023,043
General Revenues/(Loss):		
Unrestricted Investment Earnings/(Loss)	20,244	5,223
Total General Revenues/(Loss)	20,244	5,223
Total Revenue	\$ 95,993,446	\$ 96,028,266
Program Expenses:		
Head Start/Early Head Start	\$ 65,459,970	\$ 64,419,014
Workforce Development	17,590,913	17,903,570
Other Programs	13,534,320	13,878,148
Total Operating Grant Activities	\$ 96,585,203	\$ 96,200,732
Change in net position	\$ (591,757)	\$ (172,466)
Total net position, beginning of year	2,266,840	2,439,306
Total net position, end of year	\$ 1,675,083	\$ 2,266,840

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, 2013, SETA reported a total fund balance of \$2,994,715, which is an increase of \$52,790 compared to total fund balance of \$2,941,925 at June 30, 2012. 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, 2013

**Revenue Analysis:** Total revenue received for the year ended June 30, 2013, totaled \$95,993,446. The table below presents the amounts of revenue and the percent of total by source for FYE 2013 and FYE 2012.

### Revenues Classified by Source Governmental Funds

Revenues by Source	FYE 2013 <u>Amount</u>	Percent <u>of Total</u>	FYE 2012 <u>Amount</u>	Percent <u>of Total</u>	Increase/ <u>(Decrease)</u>	Percent <u>Change</u>
Grant revenue	\$ 74,903,647	78.03%	\$ 75,408,117	78.53%	\$ (504,470)	(0.67%)
Child care food revenue	1,545,210	1.61%	1,607,475	1.67%	(62,265)	(3.87%)
Intergovernmental	5,496,648	5.73%	5,498,456	5.73%	(1,808)	(0.03%)
Investment income	20,243	0.02%	11,554	0.01%	8,689	75.20%
Miscellaneous income	270,238	0.28%	246,628	0.26%	23,610	9.57%
In-Kind contributions	13,757,460	14.33%	13,256,036	13.80%	501,424	3.78%
Total revenues	<u>\$ 95,993,446</u>	<u>100.0%</u>	<u>\$ 96,028,266</u>	<u>100.0%</u>	<u>\$ (34,820)</u>	<u>(0.04%)</u>

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

- Grant revenue decreased by \$504,470 during the fiscal year. The decrease is primarily due to the expiration of one-time programs under the American Recovery and Reinvestment Act of 2009.
- Head Start In-Kind contributions increased by \$501,424 during the fiscal year. This increase is due to improved local economic conditions and increased in-kind revenue sources.

# SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2013

**Expense Analysis:** Expenditures for the year ended June 30, 2013, totaled \$95,940,656. The table below presents the expenditures summarized by granting source.

### Expenditures Classified by Grantor Governmental Fund

Expenditures by Grantor	FYE 2013 <u>Amount</u>	Percent <u>of Total</u>	FYE 2012 <u>Amount</u>	Percent <u>of Total</u>	Increase/ <u>(Decrease)</u>	Percent <u>Change</u>
Head Start/Early Head Start	\$ 65,217,932	67.98%	\$ 64,508,708	67.19%	\$ 709,224	1.10%
Workforce Development	17,265,712	18.00%	17,688,222	18.42%	(422,510)	(2.39%)
Refugee Employment Social Services	514,905	0.54%	703,156	0.73%	(188,251)	(26.77%)
Child Care Food Program	1,535,758	1.60%	1,605,842	1.67%	(70,084)	(4.36%)
State Department of Education	3,102,765	3.23%	3,373,799	3.51%	(271,034)	(8.03%)
Community Services Block Grant	1,612,245	1.68%	1,524,681	1.59%	87,564	5.74%
Targeted Refugee Assistance	483,436	0.50%	307,105	0.32%	176,331	57.42%
Human Trafficking	286,693	0.30%	286,257	0.30%	436	0.15%
CalWORKS	5,246,758	5.47%	5,224,552	5.45%	22,206	0.43%
Youth Crime Prevention	159,259	0.17%	299,108	0.31%	(139,849)	(46.76%)
Other	515,193	0.53%	483,526	0.51%	31,667	6.55%
<b>Total expenditures</b>	<b>\$ 95,940,656</b>	<b>100.0%</b>	<b>\$ 96,004,956</b>	<b>100.0%</b>	<b>\$ (64,300)</b>	<b>(0.07%)</b>

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

- Head Start program costs increased primarily due to increased in-kind contributions.
- Workforce Development program costs decreased primarily due to the expiration of one-time programs under the American Recovery and Reinvestment Act of 2009.
- State Department of Education Program costs decreased due to reduced funding.
- Youth Crime Prevention Program costs decreased due to the expiration of one-time awards.

# SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2013

The table below presents the expenditures summarized by type.

Expenditures by Type	Expenditures Classified by Type Governmental Fund			
	FYE 2013 <u>Amount</u>	Percent <u>of Total</u>	FYE 2012 <u>Amount</u>	Percent <u>of Total</u>
Salaries	\$ 25,670,185	26.75%	\$ 25,849,515	26.93%
Fringe Benefits	12,889,172	13.43%	12,269,726	12.78%
Space Costs	3,622,367	3.78%	3,758,917	3.91%
Services & Supplies	5,655,514	5.90%	5,518,999	5.75%
Fixed Assets	72,516	0.08%	602,838	0.63%
Subrecipient Costs	34,273,442	35.72%	34,748,925	36.19%
In Kind Match	13,757,460	14.34%	13,256,036	13.81%
Total Expenses	<u>\$ 95,940,656</u>	<u>100.0%</u>	<u>\$ 96,004,956</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

On April 4, 2013, a revision to SETA's original budget amount of \$84,234,051 increased the budget to \$87,363,087. The increase of \$3,129,036 was due to the receipt of additional funding from the Head Start/Early Head Start and Workforce Development Programs.

### CAPITAL ASSET AND DEBT ADMINISTRATION

**Capital Assets:** SETA's investment in capital assets as of June 30, 2013, amounted to \$1,554,287 (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. In addition, SETA anticipates reduced funding in several programs as the American Recovery and Reinvestment Act funding ends.

### 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, 2013

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<b>ASSETS</b>	
Cash and investments	\$ 3,351,939
Accounts receivable	7,323,512
Prepaid expenses	133,618
Capital assets, net	<u>1,554,287</u>
Total assets	<u>12,363,356</u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	5,194,045
Accrued liabilities	968,131
Unearned revenue	1,652,178
Compensated absences	<u>34,175</u>
Total current liabilities	<u>7,848,529</u>
Non-current liabilities:	
Compensated absences	1,729,293
OPEB liability	<u>1,110,451</u>
Total non-current liabilities	<u>2,839,744</u>
Total liabilities	<u>10,688,273</u>
<b>NET POSITION</b>	
Net investment in capital assets	1,554,287
Unrestricted	<u>120,796</u>
Total net position	<u>\$ 1,675,083</u>

# SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

## STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2013

Functions/Programs	Expenses	Program Revenue Operating Grants and Contracts	Net (Expense) Revenue Total Governmental Activities
Head Start/Early Head Start	\$ 65,459,970	\$ 65,233,971	\$ (225,999)
Workforce Development	17,590,913	17,262,139	(328,774)
Refugee Employment Social Services	519,581	515,427	(4,154)
Child Care Food Program	1,550,257	1,545,211	(5,046)
State Department of Education	3,109,765	3,109,765	
Community Services Block Grant	1,641,830	1,613,865	(27,965)
Targeted Refugee Assistance	488,112	483,958	(4,154)
CalWORKS	5,246,758	5,246,758	
Youth Crime Prevention	162,944	159,898	(3,046)
Human Trafficking	291,049	287,412	(3,637)
Other	524,024	514,798	(9,226)
Total governmental activities	\$ 96,585,203	\$ 95,973,202	(612,001)
General revenue:			
Unrestricted investment gain			20,244
Change in net position			(591,757)
Net position, beginning of year			2,266,840
Net position, end of year			\$ 1,675,083

# SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

## BALANCE SHEET GOVERNMENTAL FUND JUNE 30, 2013

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### ASSETS

Cash and investments	\$ 3,351,939
Accounts receivable	7,323,512
Prepaid expenditures	<u>133,618</u>

Total assets \$ 10,809,069

### LIABILITIES AND FUND BALANCE

#### Liabilities:

Accounts payable	\$ 5,194,045
Accrued expenditures	968,131
Unearned revenue	<u>1,652,178</u>

Total liabilities 7,814,354

#### Fund balance:

Nonspendable	133,618
Assigned	1,763,468
Unassigned	<u>1,097,629</u>

Total fund balance 2,994,715

Total liabilities and fund balance \$ 10,809,069

# SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

## RECONCILIATION OF GOVERNMENTAL FUND BALANCE TO THE STATEMENT OF NET POSITION FOR THE YEAR ENDED JUNE 30, 2013

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

Total fund balance, governmental fund \$ 2,994,715

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 \$12,426,486, and the accumulated depreciation is \$10,872,199. 1,554,287

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

Compensated absences	\$ 1,763,468	
OPEB liability	<u>1,110,451</u>	
Total:		<u>(2,873,919)</u>

Total net position, governmental activities \$ 1,675,083

# SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

## STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE GOVERNMENTAL FUND FOR THE YEAR ENDED JUNE 30, 2013

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### REVENUES

Grant revenue	\$ 74,903,647
Child care food revenue	1,545,210
Intergovernmental	5,496,648
Investment income	20,243
Miscellaneous Income	270,238
In-Kind contributions	<u>13,757,460</u>
Total revenues	<u>95,993,446</u>

### EXPENDITURES

Head Start/Early Head Start	65,217,932
Workforce Development	17,265,712
Refugee Employment Social Services	514,905
Child Care Food Program	1,535,758
State Department of Education	3,102,765
Community Services Block Grant	1,612,245
Targeted Refugee Assistance	483,436
CalWORKS	5,246,758
Youth Crime Prevention	159,259
Human Trafficking	286,693
Other	<u>515,193</u>
Total expenditures	<u>95,940,656</u>

Net increase in fund balance	52,790
Fund balance, July 1, 2012	<u>2,941,925</u>
Fund balance, June 30, 2013	<u>\$ 2,994,715</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, 2013

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

Net increase in fund balance, governmental fund	\$ 52,790
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 (\$511,298) exceeds capital outlay (\$110,647) in the period.	(400,651)
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.	(32,546)
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>(211,350)</u>
Change in net position of governmental activities	<u>\$ (591,757)</u>

# SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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### 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, 2013

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### 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 one amendment to the original budget presented in the Statement of Expenditures Budget and Actual – General Fund during the year ended June 30, 2013.

### 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, 2013

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### 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, 2013, SETA has \$133,618 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, 2013, 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, 2013, SETA has \$1,763,468 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.

### Current Year GASB Implementation

For the year ended June 30, 2013, SETA implemented Governmental Accounting Standards Board (GASB) Statement No. 63 (GASB 63), Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, and GASB Statement No. 65 (GASB 65), Items Previously Reported as Assets and Liabilities. The objective of GASB 63 is to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on SETA’s net position. The objective of GASB 65 is to reclassify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or to recognize certain items that were previously reported as assets

# SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

and liabilities as outflows of resources (expenses) or inflows of resources (revenues). The implementation of the two GASB statements resulted in certain changes in presentation but did not have a material impact on the financial statements.

### 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 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 net assets.

## 2. CASH AND INVESTMENTS

Cash and investments as of June 30, 2013 are classified in the accompanying financial statements as follows:

Cash and investments in Sacramento County Treasury	\$ 3,199,437
Cash on hand	<u>152,502</u>
Total cash and investments	<u>\$ 3,351,939</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.

# SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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.

### 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, 2013, the weighted average maturity of the investments contained in the Treasury investment pool is approximately 301 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.

# SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

### Derivative Investments

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

### 3. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following as of June 30, 2013:

	<b>General Fund</b>
Federal government	\$ 6,690,544
State government	65,846
Local government	560,777
Miscellaneous	6,345
Totals	\$ 7,323,512

### 4. CAPITAL ASSETS

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

	<b>Balance July 1, 2012</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance June 30, 2013</b>
Capital assets, not being depreciated:				
Land	\$ 66,308			\$ 66,308
Capital assets, being depreciated:				
Building	297,910			297,910
Machinery and equipment	12,014,725	\$ 110,647	\$ (63,104)	12,062,268
Total capital assets, being depreciated	12,312,635	110,647	(63,104)	12,360,178
Less accumulated depreciation for:				
Building	(90,199)	(9,930)		(100,129)
Machinery and equipment	(10,333,806)	(501,368)	63,104	(10,772,070)
Total accumulated depreciation	(10,424,005)	(511,298)	63,104	(10,872,199)
Total capital assets, being depreciated, net	1,888,630	(400,651)		1,487,979
Governmental activities capital assets, net	\$ 1,954,938	\$ (400,651)	\$	\$ 1,554,287

# SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

For the year ended June 30, 2013, depreciation expense was charged to functions as follows:

**Governmental activities:**

Workforce Development	\$ 287,227
Head Start/Early Head Start	166,843
Community Services Block Grant	27,965
Child Care Food Program	5,046
Targeted Refugee Assistance	4,154
Refugee Employment Social Services	4,154
Human Trafficking	3,637
Youth Crime Prevention	3,046
Other	<u>9,226</u>
Total depreciation expense	<u>\$ 511,298</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, 2013, was as follows:

	<u>Balance</u> <u>June 30, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2013</u>	<u>Due Within</u> <u>One Year</u>
Compensated Absences	\$ 1,730,922	\$ 1,698,021	\$ (1,665,475)	\$ 1,763,468	\$ 34,175

### 6. OPERATING LEASE OBLIGATIONS

SETA leases certain office space under noncancellable operating lease agreements. Total lease payments for the year were \$3,181,412. Future minimum lease payments are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Total</u>
2014	\$ 3,262,723
2015	2,916,431
2016	2,681,124
2017	1,247,778
2018	<u>94,856</u>
Total	<u>\$ 10,202,912</u>

# SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

### 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](http://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 \$25,807,683, for the year ended June 30, 2013, were:

General Members, Tier I	25.59%
General Members, Tier III	25.88%
General Members, Tier V	19.52%

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>
2011	\$ 6,152,462	100%
2012	\$ 5,904,329	100%
2013	\$ 6,231,972	100%

# SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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### 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 2013. 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 2013, 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, 2013. 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, 2013

### 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	\$	325,650
Interest on net OPEB obligation		0
Adjustment to annual required contribution		0
Annual OPEB cost (expense)		325,650
Contributions made:		
Pay-as-you-go		(28,692)
Implicit Subsidy		(85,608)
Increase in net OPEB obligation		211,350
Net OPEB obligation – beginning of year		899,101
 Net OPEB obligation – end of year	 \$	 <u>1,110,451</u>

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, 2013 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>
6/30/11	\$ 266,235	\$ 33,210	12.47%	\$ 681,001
6/30/12	305,900	87,800	28.70%	899,101
6/30/13	325,650	114,300	35.10%	1,110,451

### Funding Status and Progress

As of June 30, 2011, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability was \$2,310,892 and the actuarial value of assets was \$0 resulting in an unfunded actuarial accrued liability (UAAL) of \$2,310,892.

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, 2013

### 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, 2011, 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 9%, 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, 2013, was 24 years.

### Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
6/30/07	\$ 0	\$ 2,744,196	\$ 2,744,196	0%	\$ 21,607,905	12.70%
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%

## 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 \$5,246,758 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 2013, the County charged fees of \$168,074 for these services.

# SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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### **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, 2012 to July 31, 2013. During the current fiscal year, the amount of matching funding provided was \$13,757,460 which is 27% of the expenditures during the fiscal year.

Some matching funds are provided in the form of non-monetary items such as parent involvement hours and use of delegate agency facilities at below-market rents. 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, 2013

Functions/Programs	Expenditures			Variance Positive (Negative)
	Original Budget	Final Budget	Actual	
Head Start/Early Head Start	\$ 50,410,126	\$ 50,438,404	\$ 51,460,472	\$ (1,022,068)
Workforce Development	18,658,273	22,234,031	17,265,712	4,968,319
Refugee Employment Social Services	620,983	620,983	514,905	106,078
Child Care Food Programs	1,600,000	1,600,000	1,535,758	64,242
State Department of Education	3,376,412	3,376,412	3,102,765	273,647
Community Services Block Grant	1,731,005	1,731,005	1,612,245	118,760
Targeted Refugee Assistance	401,679	401,679	483,436	(81,757)
CalWORKS	6,129,500	5,654,500	5,246,758	407,742
Youth Crime Prevention	60,000	60,000	159,259	(99,259)
Human Trafficking	287,412	287,412	286,693	719
Other	958,661	958,661	515,193	443,468
Total governmental funds	<u>\$ 84,234,051</u>	<u>\$ 87,363,087</u>	<u>\$ 82,183,196</u>	<u>\$ 5,179,891</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	\$ 51,460,472
In-Kind Contributions Expended	<u>13,757,460</u>
Head Start/Early Head Start - GAAP Basis	<u>\$ 65,217,932</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, 2013, and the related notes to the financial statements, which collectively comprise SETA's basic financial statements, and have issued our report thereon dated October 15, 2013.

**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.

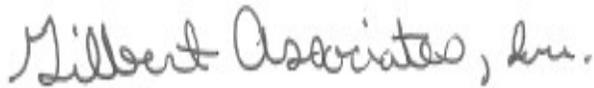
Our consideration of internal control over was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses, or significant deficiencies. Given these limitations, during our audit we did 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.

A handwritten signature in cursive script that reads "Gilbert Associates, Inc." in dark ink.

**GILBERT ASSOCIATES, INC.**  
**Sacramento, California**

**October 15, 2013**

## **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, 2013. 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, 2013.

### **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**

**October 15, 2013**

# SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2013

	CFDA#	Grant Number	Expenditures
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
Passed-Through California Department of Education:			
Program Name:			
Child Care Food Program	10.558	34-1826-1-J	\$ 1,545,210
Total U.S. Department of Agriculture			1,545,210
<b>U.S. DEPARTMENT OF LABOR</b>			
Workforce Investment Act Cluster			
Passed-Through California Employment Development Department:			
Program Name:			
WIA Title I Adult Formula	17.258	K282495-500	1,435,186
WIA Title I Adult Formula	17.258	K386317-201	311,600
WIA Title I Adult Formula	17.258	K386317-202	3,639,988
WIA 15% DEI Control	17.258	K282495-328	37,015
WIA 15% VEAP SFP	17.258	K282495-464	208,864
WIA 15% VEAP SFP	17.258	K178680-485	100,000
WIA 15% VEAP SFP	17.258	K282495-485	36,524
WIA 15% Green Job Innovation	17.258	K178680-476	133,164
Total WIA Adult Programs			5,902,341
Program Name:			
WIA Title I Youth Formula	17.259	K282495-301	805,352
WIA Title I Youth Formula	17.259	K386317-301	4,058,099
WIA 15% Youth CalGrip	17.259	K178680-471	170,408
Total WIA Youth Programs			5,033,859
Program Name:			
WIA Rapid Response	17.278	K386317-540	222,192
WIA Rapid Response	17.278	K386317-541	412,042
WIA Title I Dislocated Worker	17.278	K282495-502	603,652
WIA Title I Dislocated Worker	17.278	K386317-501	684,150
WIA Title I Dislocated Worker	17.278	K386317-502	1,230,788
ARRA National Response Emergency Grant	17.277	K074161-775	363,766
Total WIA Dislocated Worker Programs			3,516,590
Passed-Through South Bay Workforce Investment Board:			
Program Name:			
NEG Public Sector	17.277	11-W121	560,732
WIA 25% Additional Assistance	17.278	13-WO-66	1,129,138
Total SBWIB			1,689,870
Total Workforce Investment Act Cluster			16,142,660

# SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2013

	CFDA#	Grant Number	Expenditures
Passed-Through California Employment Development Department:			
Program Name:			
National Response Emergency Grant OJT 2nd Incr	17.277	K282495-338	591,075
National Response Emergency Grant OJT 3rd Incr	17.277	K386317-338	193,133
Total National Emergency Response Grant			784,208
Passed-Through California Employment Development Department:			
Program Name:			
ARRA State Energy Sector Partnership	17.275	K074161-146	80,460
Passed-Through Los Rios Community College:			
Program Name:			
ARRA Health Force Initiative	17.275	J-20085-10-60-A	81,128
Total CFDA #17.275			161,588
Total U.S. Department of Labor			17,088,456
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
Passed-Through California Department of Education:			
Program Name:			
Child Care and Development Block Grant	93.575	CSPP-2397	177,581
Child Care and Development Block Grant	93.596	CSPP-2397	322,773
Child Care and Development Block Grant	93.575	CCTR-2209	148,282
Child Care and Development Block Grant	93.596	CCTR-2209	269,519
Total Child Care and Development Block Grant Cluster			918,155
Total Passed-Through California Department of Education			918,155
Passed-Through California Department of Social Services:			
Program Name:			
Targeted Refugee Assistance	93.584	TAFO 1104	124,217
Targeted Refugee Assistance	93.584	TAFO 1204	326,179
Total Targeted Refugee Assistance			450,396
Program Name:			
Refugee Employment Social Services	93.566	RESS 1104	109,770
Refugee Employment Social Services	93.566	RESS 1204	384,595
Total Refugee Employment Social Services			494,365
Program Name:			
Older Refugee Discretionary	93.576	TARL 1106	8,411
Older Refugee Discretionary	93.576	TARL 1204	12,651
Targeted Assistance Discretionary	93.576	TART1104	11,486
Targeted Assistance Discretionary	93.576	TART1204	22,075
Total Older Refugee Discretionary			54,623
Total Passed-Through California Department of Social Services			999,384

# SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2013

	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	12F-4433	798,373
Community Service Block Grant	93.569	13F-3033	735,492
Community Service Discretionary Grant	93.569	12F-4508	80,000
Total Community Service Block Grant			1,613,865
Total Passed-Through California Department of Community Services and Development			1,613,865
Direct Program through Office of Head Start:			
Program Name:			
Head Start/Early Head Start	93.600	09CH0012/30	4,018,039
Head Start/Early Head Start	93.600	09CH0012/31	47,458,472
Total Head Start			51,476,511
Total U.S. Department of Health and Human Services			55,295,327
<b>U.S. DEPARTMENT OF JUSTICE</b>			
Passed-Through the City of Sacramento			
Program Name:			
Sacramento Safe Community Partnership	16.541	P1111001241B	50,648
Passed-Through County of Sacramento			
Program Name:			
Second Chance Act Technology Career Training	16.812		99,085
Total U.S. Department of Justice			149,733
<b>Total Expenditures of Federal Awards</b>			<b>\$ 74,078,726</b>

# SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

## NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2013

### 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 \$13,757,460.

### 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	\$ 21,798,008
Workforce Investment Act	17.258, 17.259, 17.277, 17.278	7,876,248
ARRA - Workforce Investment Act Cluster	17.277	100,880
Refugee Employment Social Services	93.566	416,132
Older Refugee Discretionary	93.576	51,447
Targeted Refugee Assistance	93.584	274,572
Community Services Block Grant	93.569	955,179
Human Trafficking	93.598	174,434
Youth Crime Prevention	16.541	<u>51,063</u>
Total		<u>\$ 31,697,963</u>

### 3. CFDA NUMBER 17.277

The accompanying Schedule of Expenditures of Federal Awards of Sacramento Employment Training Agency includes various awards under federal CFDA number 17.277. According to federal guidance issued in the June 2012 Compliance Supplement, awards made on or after July 1, 2011, with CFDA number 17.277 should be excluded from the WIA cluster. Grants awarded between June 1, 2010, and June 30, 2011, with CFDA number 17.277 were considered part of the WIA cluster as noted in the March 2011 Compliance Supplement. SETA's grants under CFDA number 17.277 have all been included in the WIA cluster with the exception of the National Response Emergency Grant OJT grants, which have a period beginning July 1, 2011 or later, and therefore are considered a separate program.

# SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

## NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2013

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

Contract No. 12F-4433

	<u>1/1/12-6/30/12</u>	<u>7/1/12-12/31/12</u>	<u>Total</u>
Revenue			
Grant revenue	\$ 752,632	\$ 798,373	\$ 1,551,005
Expenditures			
Salaries and wages	189,500	187,698	377,198
Fringe benefits	74,158	88,921	163,079
Operating expenses & equipment	18,441	38,035	56,476
Out of state travel		4,282	4,282
Subcontractor costs	381,492	384,478	765,970
Other costs	89,041	94,959	184,000
Total Expenditures	752,632	798,373	1,551,005
Excess (deficiency) of revenues over (under) expenditures	\$	\$	\$

Contract No. 12F-4508

	<u>6/15/12-6/30/12</u>	<u>7/1/12-6/30/13</u>	<u>Total</u>
Revenue			
Grant revenue	\$	\$ 80,000	\$ 80,000
Expenditures			
Salaries and wages		10,328	10,328
Fringe benefits		4,652	4,652
Operating expenses & equipment		4,826	4,826
Other costs		60,194	60,194
Total Expenditures		80,000	80,000
Excess (deficiency) of revenues over (under) expenditures	\$	\$	\$

# SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2013

### 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

Dollar threshold used to distinguish between Type A and Type B programs: \$2,222,362

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, 2013**

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### **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, 2013**

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### **E. STATUS OF PRIOR YEAR AUDIT FINDINGS**

None reported in prior year.