

**SACRAMENTO EMPLOYMENT
AND TRAINING AGENCY**

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

FOR THE YEAR ENDED JUNE 30, 2010

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

FINANCIAL STATEMENTS AND SINGLE AUDIT REPORT FOR THE YEAR ENDED JUNE 30, 2010

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FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

Governing Board
Sacramento Employment and Training Agency
Sacramento, California

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, 2010, which collectively comprise SETA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of SETA's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2010, and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2010, 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* and should be considered in assessing the results of our audit.

Governing Board
Sacramento Employment and Training Agency
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The Management's Discussion and Analysis on pages 3 through 8 and the budgetary comparison information on page 27 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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 and state childcare awards are 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 are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC
Sacramento, California

November 8, 2010

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2010

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, 2010. Please read it in conjunction with the basic financial statements included in this report.

FINANCIAL HIGHLIGHTS

- As of June 30, 2010, SETA reported a combined fund balance of \$2,878,630, an increase of \$469,258 from last year.
- SETA's investment in capital assets decreased by \$417,381.
- A retired employee benefits plan was approved on an annual basis by SETA's Governing Board for employees retired before August 31, 2007.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve 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 are designed to provide readers with a broad overview of SETA's finances, in a manner similar to a private sector business. The Statement of Net Assets presents information on all of SETA's assets and liabilities, with the differences between the two reported as net assets. Over time, increases or decreases in net assets 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 assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that 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, Youth Crime Prevention, CalWORKS, and Employment Training Panel Services. SETA does not engage in any business type activities.

Government-wide financial statements may be found on pages 9 and 10 of this report.

Fund Financial Statements are groupings of related accounts 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.

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.

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2010

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 funds financial statements may be found 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 may be found on pages 15-26 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of SETA, assets exceeded liabilities by \$1,927,700 at the close of the most recent fiscal year.

Statement of Net Assets

	2010	2009
Assets:		
Other Assets	\$ 13,490,075	\$ 10,349,084
Capital Assets	<u>696,860</u>	<u>1,114,241</u>
Total Assets	<u>\$ 14,186,935</u>	<u>\$ 11,463,325</u>
Liabilities:		
Other Liabilities	\$ 10,717,167	\$ 8,001,260
Non-current Liabilities	<u>1,542,068</u>	<u>1,485,554</u>
Total Liabilities	<u>\$ 12,259,235</u>	<u>\$ 9,486,814</u>
Net Assets:		
Invested in capital assets	\$ 696,860	\$ 1,114,241
Restricted	623,803	576,953
Unrestricted	<u>607,037</u>	<u>285,317</u>
Total Net Assets	<u>\$ 1,927,700</u>	<u>\$ 1,976,511</u>
Liabilities and Net Assets	<u>\$ 14,186,935</u>	<u>\$ 11,463,325</u>

Of SETA's total net assets of \$1,927,700, 36.15% or \$696,860 reflects the investment in capital assets. There is no debt associated with these capital assets. Total net assets decreased by \$48,811 during the current fiscal year. The decrease in net assets represents depreciation, net of capital purchases.

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2010

Statement of Activities. SETA's grants and contract activities decreased net assets by \$48,811. The table below indicates the changes in net assets:

	2010	2009
Statement of Activities		
Program Revenues:		
Grants and Contracts	\$ 105,879,234	\$ 93,078,071
Total Operating Grants and Contracts	105,879,234	93,078,071
General Revenues:		
Unrestricted Investment Earnings	83,634	34,835
Total General Revenues	83,634	34,835
Total Revenue	<u>\$ 105,962,868</u>	<u>\$ 93,112,906</u>
Program Expenses:		
Head Start/Early Head Start	\$ 64,170,464	\$ 61,093,104
Workforce Development	24,291,497	16,783,467
Other Programs	17,549,718	15,959,982
Total Operating Grant Activities	<u>\$ 106,011,679</u>	<u>\$ 93,836,553</u>
Change in net assets	\$ (48,811)	\$ (723,647)
Total net assets, beginning of year	1,976,511	2,700,158
Total net assets, end of year	<u>\$ 1,927,700</u>	<u>\$ 1,976,511</u>

SETA's revenues are received from federal, state, and local grants and contracts. Revenues are received on a cost reimbursement basis; 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 payments and investment activities.

Governmental funds. The program functions for SETA are recorded in the General Fund. Interest income received from the County for unrestricted funds held at the County is added to SETA's unrestricted fund balances. However, these funds must be distributed to the funding sources whose fund balances are attributed to interest income earned.

As of June 30, 2010, SETA reported a total fund balance of \$2,878,630, which is an increase of \$469,258 compared to total fund balance of \$2,409,372 at June 30, 2009. SETA has a reserved fund balance equal to the authorized amounts in its custodial checking accounts, any prepaid expenses, and amounts reserved for CDE activities.

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2010

Revenue Analysis. Total revenue received for the year ended June 30, 2010, totaled \$105,962,868. The table below presents the amounts of revenue and the percent of total by source for FYE 2010 and FYE 2009.

Revenues Classified by Source Governmental Funds

Revenues by Source	2010 <u>Amount</u>	Percent <u>of Total</u>	2009 <u>Amount</u>	Percent <u>of Total</u>	Increase/ <u>(Decrease)</u>	Percent <u>Change</u>
Grant revenue	\$ 80,823,415	76.28%	\$ 70,969,800	76.22%	\$ 9,853,615	13.88%
Child care food reimbursements	1,655,881	1.56%	1,454,219	1.56%	201,662	13.87%
Intergovernmental	5,086,295	4.80%	3,364,327	3.61%	1,721,968	51.18%
Investment income	41,209	0.04%	83,766	0.09%	(42,557)	(50.80%)
Miscellaneous income	451,555	0.43%	344,715	0.37%	106,840	30.99%
In-Kind contributions	17,904,513	16.89%	16,896,079	18.15%	1,008,434	5.97%
Total revenues	\$ 105,962,868	100.0%	\$ 93,112,906	100.0%	\$ 12,849,962	13.80%

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

- Grant revenue increased by \$9,853,615 due to funding from the American Recovery and Reinvestment Act of 2009.
- Child care food reimbursements increased due to increased enrollment and number of eligible meals served.
- Head Start In-Kind contributions increased by \$1,008,434 due to improved tracking of eligible in-kind contributions and increased reporting by delegate agencies.
- SETA received a one-stop career center share of cost payment from the Department of Human Assistance in 2010 of \$3,700,000, an increase of \$1,100,000 from 2009.

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2010

Expense Analysis. Expenditures for the year ended June 30, 2010, totaled \$105,493,610. The table below presents the expenditures summarized by granting source.

Expenditures Classified by Grantor Governmental Fund						
Expenditures by Grantor	2010	Percent	2009	Percent	Increase/ (Decrease)	Percent Change
	<u>Amount</u>	<u>of Total</u>	<u>Amount</u>	<u>of Total</u>		
Head Start/Early Head Start	\$ 63,999,932	60.67%	\$ 60,647,663	65.25%	\$ 3,352,269	5.53%
Workforce Development	24,034,609	22.78%	16,539,640	17.79%	7,494,969	45.32%
Clean Energy	290,342	0.28%	-	0.0%	290,342	100%
Refugee Employment Services	1,012,624	0.96%	1,550,601	1.67%	(537,977)	(34.69%)
Child Care Food Program	1,651,136	1.56%	1,191,813	1.28%	459,323	38.54%
State Department of Education Program	3,799,010	3.60%	4,065,087	4.37%	(266,077)	(6.55%)
Community Services Block Grant	2,804,814	2.66%	1,609,294	1.73%	1,195,520	74.29%
Targeted Refugee Assistance Program	1,167,930	1.11%	1,681,304	1.81%	(513,374)	(30.53%)
Human Trafficking	280,913	0.27%	17,660	0.02%	263,253	1490.67%
CalWORKS	5,125,245	4.86%	3,508,067	3.77%	1,617,178	46.10%
Cal Trans Training Initiative	505,143	0.48%	599,537	0.65%	(94,394)	(15.74%)
Youth Crime Prevention	405,831	0.38%	534,934	0.58%	(129,103)	(24.13%)
CDCR Curriculum Development	246,406	0.23%	-	0.0%	246,406	100%
Los Rios Projects	167,709	0.16%	236,669	0.25%	(68,960)	(29.14%)
Other	1,966	0.0%	768,863	0.83%	(766,897)	(99.74%)
Total expenditures	<u>\$ 105,493,610</u>	<u>100.0%</u>	<u>\$ 92,951,132</u>	<u>100.0%</u>	<u>\$ 12,542,478</u>	<u>13.49%</u>

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

- All program costs increased primarily due to funding from the American Recovery and Reinvestment Act of 2009.
- The Head Start grant requires the grantee to report and record in-kind contributions from the community. The amount of in-kind contributions reported increased by \$1,008,434 due to improved tracking of eligible in-kind contributions and increased reporting by delegate agencies. The amount reported for in-kind contributions was \$17,904,513 in 2010 and \$16,896,079 in 2009.
- Refugee Employment Services and Targeted Refugee Assistance Program costs decreased due to reduced numbers of refugee arrivals resulting in reduced formula allocations.
- Child Care Food Program costs increased due to increased enrollment and number of eligible meals served.
- CalWorks costs increased primarily due to an increase in the one-stop career center share of cost payment from the Department of Human Assistance in 2010 of \$1,100,000.

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2010

The table below presents the expenditures summarized by type.

Expenditures by Type	Expenditures Classified by Type Governmental Fund			
	2010 <u>Amount</u>	Percent <u>of Total</u>	2009 <u>Amount</u>	Percent <u>of Total</u>
Salaries	\$ 25,468,885	24.14%	\$ 24,467,247	26.32%
Fringe Benefits	11,229,735	10.64%	11,199,422	12.05%
Space Costs	3,560,751	3.38%	3,424,581	3.68%
Services & Supplies	4,876,725	4.62%	4,962,933	5.34%
Fixed Assets	89,975	0.09%	153,978	0.17%
Subrecipient Costs	42,363,026	40.16%	31,846,892	34.26%
In Kind Match	17,904,513	16.97%	16,896,079	18.18%
Total Expenses	<u>\$ 105,493,610</u>	<u>100.0%</u>	<u>\$ 92,951,132</u>	<u>100.0%</u>

As noted above, SETA's largest expenses are subrecipient costs, staff salaries, and fringe benefits. The increased expenditures were primarily due to funding from the American Recovery and Reinvestment Act of 2009. Staff also received a 3.1% COLA in June of 2009 affecting fiscal year 2010. 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's original budget of \$91,836,928 was revised on April 29, 2010 to \$103,464,530. The increase of \$11,627,602 was primarily due to the receipt of additional funding from the American Recovery and Reinvestment Act of 2009. The Recovery Act's emphasis on efficiently expending program funds, coupled with extended grant terms, led to significant variations between the final budget and actual results in the Head Start, Workforce Development and Community Services Block Grant programs.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

SETA's investment in capital assets as of June 30, 2010, amounted to \$696,860 (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 was the recipient of funds under the American Recovery and Reinvestment Act, and anticipates reduced funding in several programs. SETA has negotiated an agreement with employees to increase salaries as of July 1, 2010 and health care benefits as of January 1, 2011.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of SETA's finances for all those with an interest in the agency's finances. Questions concerning any information provided in this report or requests for additional financial information should be addressed to Sacramento Employment and Training Agency, Fiscal Department, 925 Del Paso Blvd., Suite 100, Sacramento, CA 95815.

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

STATEMENT OF NET ASSETS JUNE 30, 2010

ASSETS

Cash and investments	\$	3,277,582
Accounts receivable		9,774,045
Prepaid expenses		438,448
Capital assets, net		696,860

Total assets		<u>14,186,935</u>
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LIABILITIES

Current liabilities:

Accounts payable		6,731,016
Accrued liabilities		1,247,174
Unearned revenue		2,633,255
Compensated absences		105,722

Total current liabilities		<u>10,717,167</u>
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Non-current liabilities:

Compensated absences		<u>1,542,068</u>
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Total non-current liabilities		<u>1,542,068</u>
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Total liabilities		<u>12,259,235</u>
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NET ASSETS

Invested in capital assets		696,860
Unrestricted		1,230,840

Total net assets	\$	<u>1,927,700</u>
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SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2010

Functions/Programs	Expenses	Program Revenue Operating Grants and Contracts	Net (Expense) Revenue Total Governmental Activities
Head Start/Early Head Start	\$ 64,170,464	\$ 64,050,994	\$ (119,470)
Workforce Development	24,291,497	24,359,323	67,826
Refugee Employment Social Services	1,022,393	1,016,350	(6,043)
Child Care Food Programs	1,660,473	1,655,881	(4,592)
State Department of Education	3,800,064	3,800,064	0
Community Services Block Grant	2,833,724	2,810,440	(23,284)
Targeted Refugee Assistance	1,168,622	1,162,916	(5,706)
CalTRANS	509,959	503,405	(6,554)
CalWORKS	5,133,297	5,122,500	(10,797)
Youth Crime Prevention	412,836	406,681	(6,155)
Curriculum Development	254,103	249,017	(5,086)
Los Rios Projects	167,388	165,220	(2,168)
Clean Energy	293,858	290,738	(3,120)
Human Trafficking	283,773	280,897	(2,876)
Other	9,228	4,808	(4,420)
Total Governmental Activities	\$ 106,011,679	\$ 105,879,234	(132,445)
General Revenue:			
Unrestricted Investment Earnings			83,634
Change in net assets			(48,811)
Net assets, beginning of year			1,976,511
Net assets, end of year			\$ 1,927,700

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

BALANCE SHEET GOVERNMENTAL FUND JUNE 30, 2010

ASSETS

Cash and investments	\$	3,277,582
Accounts receivable		9,774,045
Prepaid expenditures		<u>438,448</u>

Total assets	\$	<u><u>13,490,075</u></u>
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LIABILITIES AND FUND BALANCE

Liabilities:

Accounts payable	\$	6,731,016
Accrued expenditures		1,247,174
Deferred revenue		<u>2,633,255</u>

Total liabilities		<u>10,611,445</u>
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Fund balance:

Reserved		623,803
Unreserved		<u>2,254,827</u>
Total fund balance		<u><u>2,878,630</u></u>

Total liabilities and fund balance	\$	<u><u>13,490,075</u></u>
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SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

RECONCILIATION OF GOVERNMENTAL FUND BALANCE TO THE STATEMENT OF NET ASSETS FOR THE YEAR ENDED JUNE 30, 2010

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

Total fund balance, governmental fund	\$	2,878,630
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 \$10,643,085, and the accumulated depreciation is \$9,946,225.		696,860
Compensated absences liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		<u>(1,647,790)</u>
Total net assets, governmental activities	\$	<u><u>1,927,700</u></u>

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE GOVERNMENTAL FUND FOR THE YEAR ENDED JUNE 30, 2010

REVENUES

Grant revenue	\$ 80,823,415
Child care food reimbursements	1,655,881
Intergovernmental	5,086,295
Investment income	41,209
Miscellaneous Income	451,555
In-Kind contributions	17,904,513
Total revenues	<u>105,962,868</u>

EXPENDITURES

Head Start/Early Head Start	63,999,932
Workforce Development	24,034,609
Refugee Employment Services	1,012,624
Child Care Food Program	1,651,136
State Department of Education Program	3,799,010
Community Services Block Grant	2,804,814
Targeted Refugee Assistance Program	1,167,930
CalTRANS	505,143
CalWORKS	5,125,245
Clean Energy	290,342
Youth Crime Prevention	405,831
Cirriculum Development	246,406
Los Rios Project	167,709
Human Trafficking	280,913
Other	1,966
Total expenditures	<u>105,493,610</u>

Excess of revenues over expenses	<u>469,258</u>
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Net increase in fund balance	469,258
Fund balance, July 1, 2009	<u>2,409,372</u>
Fund balance, June 30, 2010	<u>\$ 2,878,630</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, 2010

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

Net increase in Fund Balance Governmental Fund	\$	469,258
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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 (\$507,356) exceeds capital outlay (\$89,975) in the period.	(417,381)
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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.	<u>(100,688)</u>
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Change in net assets of governmental activities	\$	<u><u>(48,811)</u></u>
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SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

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 assets 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, 2010

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.

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, 2010.

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 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

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

Compensated Absences

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

Future Accounting Standards Implementation

In March of 2009, the GASB issued GASB Statement No. 54 (GASB 54) Fund Balance Reporting and Governmental Fund Type Definition, with required implementation for SETA during the year ended June 30, 2011. The objective of GASB 54 is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. GASB 54 provides for classifications such as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent.

2. CASH AND INVESTMENTS

Cash and investments as of June 30, 2010 are classified in the accompanying financial statements as follows:

Cash and Investments in Sacramento County Treasury	\$	3,124,822
Cash on hand		<u>152,760</u>
Total cash and investments	\$	<u><u>3,277,582</u></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, 2010

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	90 days	20%	10%
Collateralized Mortgage Obligations	180 days	20%	10%
Local Agency Investment Funds (LAIF)	N/A	State Limit	\$40 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, 2010, the weighted average maturity of the investments contained in the Treasury investment pool is approximately 170 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, 2010

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, 2010:

	General Fund
Federal government	\$ 8,668,286
State government	319,221
Local government	754,078
Miscellaneous	32,460
Totals	\$ 9,774,045

4. CAPITAL ASSETS

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

	Balance July 1, 2009	Additions	Deductions	Balance June 30, 2010
Capital assets, not being depreciated:				
Land	\$ 66,308			\$ 66,308
Capital assets, being depreciated:				
Building	297,910			297,910
Machinery and equipment	10,418,927	\$ 89,975	\$ (230,035)	10,278,867
Total capital assets, being depreciated	10,716,837	89,975	(230,035)	10,576,777
Less accumulated depreciation for:				
Building	(60,409)	(9,930)		(70,339)
Machinery and equipment	(9,608,495)	(497,426)	230,035	(9,875,886)
Total accumulated depreciation	(9,668,904)	(507,356)	230,035	(9,946,225)
Total capital assets, being depreciated	1,047,933	(417,381)		630,552
Governmental activities capital assets, net	\$ 1,114,241	\$ (417,381)	\$	\$ 696,860

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

For the year ended June 30, 2010, depreciation expense was charged to functions as follows:

Governmental activities:

Head Start/Early Head Start	\$	209,445
Workforce Development		217,110
Community Services Block Grant		23,284
CalWORKS		10,797
CalTRANS		6,554
Targeted Refugee Assistance		5,706
Refugee Employment Social Services		6,043
Child Care Food Program		4,592
Youth Crime Prevention		6,155
Curriculum Development		5,086
Los Rios Project		2,168
Clean Energy		3,120
Human Trafficking		2,876
Other		<u>4,420</u>
Total depreciation expense	\$	<u>507,356</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, 2010, was as follows:

		<u>Balance</u>		<u>Balance</u>	<u>Due Within</u>
	\$	<u>June 30, 2009</u>	<u>Additions</u>	<u>June 30, 2010</u>	<u>One Year</u>
Compensated Absences	\$	<u>1,547,102</u>	<u>\$ 1,710,980</u>	<u>\$ (1,610,292)</u>	<u>\$ 105,722</u>

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

6. OPERATING LEASE OBLIGATIONS

SETA leases certain office space under noncancellable operating lease agreements. Total lease payments for the year were \$3,126,128. Future minimum lease payments are as follows:

<u>Year Ending June 30,</u>	<u>Total</u>
2011	\$ 2,943,617
2012	2,604,862
2013	2,461,808
2014	2,376,560
2015	2,044,538
2016-2017	<u>3,091,601</u>
Total	<u>\$ 15,522,986</u>

7. RESERVATION OF FUND BALANCE

Reserved fund balance represents those amounts that are not available for appropriation in future periods. At June 30, 2010, SETA has reserved \$152,760 for imprest cash, \$438,448 for prepaid expenditures, and \$32,595 reserved for CDE activities.

8. 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 of 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.

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

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. SETA employer rates of the contribution, calculated as a percentage of SETA’s covered payroll of \$25,460,310 for the year ended June 30, 2010 were:

General Members, Tier I	22.08%
General Members, Tier III	22.57%

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>
2008	\$ 4,949,182	100%
2009	\$ 5,228,358	100%
2010	\$ 5,346,134	100%

9. OTHER POST EMPLOYMENT 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 or dental insurance subsidy/offset payment during calendar year 2010. Annuitants who retire after August 31, 2007 are not entitled to any subsidy/offset payment.

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

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 2010, 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 nine employees met the eligibility requirement and received the insurance subsidy as of June 30, 2010.

The SETA currently pays for post employment health care benefits on a pay-as-you-go basis. These financial statements assume that pay-as-you-go funding will continue.

Annual OPEB Cost and Net OPEB Obligation

The 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 the SETA's annual OPEB cost for the year, the amount, if any, actually contributed to the plan, and changes in the SETA's net OPEB obligation.

Annual required contribution	\$ 55,631
Interest on net OPEB obligation	0
Adjustment to annual required contribution	0
Annual OPEB cost (expense)	55,631
Contributions made	(55,631)
Increase in net OPEB obligation	0
Net OPEB obligation – beginning of year	0
Net OPEB obligation – end of year	\$ 0

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

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, 2010 and the preceding year 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>
6/30/09	\$ 84,449	\$ 84,449	100%	\$ 0
6/30/10	55,631	55,631	100%	0

Funding Status and Progress

As of June 30, 2009, the most recent actuarial valuation date the plan was 0% funded. The actuarial accrued liability was \$610,632 and the actuarial value of assets was \$0 resulting in an unfunded actuarial accrued liability (UAAL) of \$610,632.

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.

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, 2009, actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions utilized a 4.5% discount rate and a medical trend rate of 10%, reduced by decrements of 0.5 % each year to an ultimate rate of 5%. The UAAL is being amortized as a closed level dollar amount. The remaining amortization period at June 30, 2010 was 27 years.

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Asset Value</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>
6/30/08	\$ 0	\$ 1,521,298	\$ 1,521,298	0%
6/30/09	\$ 0	\$ 610,632	\$ 610,632	0%

10. 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.

11. RELATED PARTY TRANSACTIONS

During the current year, the County of Sacramento Department of Human Assistance provided funding in the amount of \$3,700,000 for the operation of SETA's "one-stop" employment centers. Through its banking relationship with the County of Sacramento Treasury, substantially all of SETA's cash receipts and payment transactions are processed by the County. During 2010, the County charged fees of \$129,147 for these services.

12. 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 25% of the grant. During the current year, the amount of the matching funding provided is \$17,904,513 which is 28.0% of the expenditures funded by the grant.

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.

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

13. 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.

14. 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 ACTIVITIES BUDGET AND ACTUAL - GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2010

Functions/Programs	Expenditures			Variance Positive (Negative)
	Original Budget	Final Budget	Actual	
Head Start/Early Head Start	\$ 47,430,148	\$ 52,067,890	\$ 46,095,419	\$ 5,972,471
Workforce Development	28,130,763	31,944,020	24,034,609	7,909,411
Refugee Employment Social Services	869,204	869,204	1,012,624	(143,420)
Child Care Food Programs	1,600,000	1,600,000	1,651,136	(51,136)
State Department of Education	3,925,834	3,925,834	3,799,010	126,824
Community Services Block Grant	4,252,368	4,252,368	2,804,814	1,447,554
Targeted Refugee Assistance	1,323,348	1,323,348	1,167,930	155,418
CalTRANS	656,917	656,917	505,143	151,774
CalWORKS	2,117,902	4,717,902	5,125,245	(407,343)
Clean Energy			290,342	(290,342)
Youth Crime Prevention	245,900	642,503	405,831	236,672
Curriculum Development	301,731	301,731	246,406	55,325
Los Rios Projects	118,000	118,000	167,709	(49,709)
Human Trafficking	238,000	238,000	280,913	(42,913)
Other	626,813	806,813	1,966	804,847
Total Governmental Activities	\$ 91,836,928	\$ 103,464,530	\$ 87,589,097	\$ 15,875,433

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	\$ 46,095,419
In-Kind Contributions Expended	17,904,513
Head Start/Early Head Start - GAAP Basis	\$ 63,999,932

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**

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

We have audited 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, 2010, which collectively comprise SETA's basic financial statements, and have issued our report thereon dated November 8, 2010. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered SETA's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of SETA's internal control over financial reporting.

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 a 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

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs, as item 2010-1, that we consider to be a significant deficiency in internal control over financial reporting. 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.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

SETA's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit SETA's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of SETA's Governing Board, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.
Sacramento, California

November 8, 2010



**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A
DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133**

Independent Auditor's Report

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

Compliance

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, 2010. SETA's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of SETA's management. Our responsibility is to express an opinion on SETA's compliance based on our audit.

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. Our audit does not provide a legal determination on SETA's compliance with those requirements.

In our opinion, SETA complied, in all material respects, with the 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, 2010.

Internal Control Over Compliance

Management of SETA is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered SETA's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 2010-1 and 2010-2. 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.

SETA's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit SETA's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of SETA's Governing Board, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC
Sacramento, California

November 8, 2010

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE CHILDCARE AWARDS FOR THE TWELVE MONTHS ENDED JUNE 30, 2010

	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	\$ 1,655,881
Total U.S. Department of Agriculture			1,655,881
U.S. DEPARTMENT OF LABOR			
Passed-Through California Employment Development Department:			
Workforce Investment Act Cluster			
Program Name:			
ARRA 15% Green Jobs	17.258	R970557-120	503,884
ARRA Clean Energy Re-Training	17.258	K074161-125	38,218
ARRA Clean Energy Alternative Fuels	17.258	K074161-127	19,012
ARRA Clean Energy Pre-Apprenticeship	17.258	K074161-128	27,128
ARRA WIA 15% Veteran	17.258	K074161-129	31,562
ARRA WIA 15% RICO	17.258	K074161-147	2,975
WIA Title I Adult Formula	17.258	K074161-201	742,740
WIA Title I Adult Formula	17.258	K074161-202	3,270,810
WIA Title I Adult Formula	17.258	K074161-500	2,295,382
WIA 15% CDCR New Start	17.258	K074161-442	49,834
WIA 15% Talent Transfer	17.258	R865479-425	216,554
ARRA WIA 15% Talent Transfer	17.258	R970557-122	135,228
ARRA WIA Adult 15%	17.258	R970557-102	2,286,076
ARRA WIA Adult 15%	17.258	R970557-104	1,542,840
WIA Title I Adult Formula	17.258	R970557-202	21,045
WIA 15% Learning Lab	17.258	R970557-441	69,732
WIA 15% CDCR New Start	17.258	R970557-442	257,486
Total WIA Adult Programs			11,510,506
Program Name:			
ARRA WIA Youth	17.259	R970557-103	3,720,896
WIA Title I Youth Formula	17.259	K074161-301	3,294,774
Total WIA Youth Programs			7,015,670
Program Name:			
ARRA WIA RR Add'l Assist	17.260	K074161-108	175,759
WIA Rapid Response	17.260	K074161-540	89,057
WIA Rapid Response	17.260	K074161-541	257,034
WIA Title I Dislocated Worker	17.260	K760343-501	1,395,683
WIA Title I Dislocated Worker	17.260	K760343-502	158,158
ARRA WIA I Dislocated Worker	17.260	R970557-105	2,800,893
ARRA WIA Rapid Response	17.260	R970557-106	285,617
Total WIA Dislocated Worker Programs			5,162,201
Total Workforce Investment Act Cluster			23,688,377
Program Name:			
Navigator	17.261	K074161-739	33,339
WIA CalGrip	17.261	R970557-435	336,963
Total CFDA 17.261			370,302
Total U.S. Department of Labor			24,058,679

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE CHILDCARE AWARDS FOR THE TWELVE MONTHS ENDED JUNE 30, 2010

	CFDA#	Grant Number	Expenditures
U.S. DEPARTMENT OF ENERGY			
Passed-Through California Employment Development Department:			
Program Name:			
ARRA Clean Energy Re-Training	81.041	K077118-802	154,601
ARRA Clean Energy Pre-Apprenticeship	81.041	K077118-812	116,543
Total Clean Energy Programs			271,144
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed-Through California Department of Social Services:			
Program Name:			
Targeted Refugee Assistance	93.584	TAFO 0802	894,680
Targeted Refugee Assistance	93.584	TAFO 0902	268,236
Total Targeted Refugee Assistance			1,162,916
Program Name:			
Refugee Employment Social Services	93.566	RESS 0806	300,719
Refugee Employment Social Services	93.566	RESS 0906	682,274
Total Refugee Employment Social Services			982,993
Program Name:			
Older Refugee Discretionary	93.576	TARL 0806	6,205
Older Refugee Discretionary	93.576	TARL 0906	27,154
Total Older Refugee Discretionary			33,359
Total Passed-Through California Department of Social Services			2,179,268
Passed-Through Office of Refugee Resettlement:			
Program Name:			
Human Trafficking	93.598	90ZV0078	280,897
Passed-Through California Department of Community Services and Development:			
Program Name:			
Community Service Block Grant (Yr 2)	93.569	08F-4934	550,669
Community Service Block Grant (Yr 1)	93.569	10F-4035	287,272
ARRA Community Service Block Grant	93.710	09F-5135	1,912,635
ARRA Community Service Block Grant - EITC	93.710	09F-5187	45,000
Total Community Service Block Grant Cluster			2,795,576
Program Name:			
Community Service Block Grant - Discretionary	93.570	08F-4998	14,864
Total Passed-Through California Department of Community Services and Development:			2,810,440
Direct Program through Office of Human Development Services:			
Program Name:			
Head Start/Early Head Start	93.600	09CH0012/27	2,297,361
Head Start/Early Head Start	93.600	09CH0012/28	40,973,205
ARRA Head Start QI/COLA	93.708	09SE0012/01	1,881,862
ARRA Head Start Expansion	93.708	09SH0012/01	493,259
ARRA Early Head Start Expansion	93.709	09SA0012/01	500,794
Total Head Start Cluster			46,146,481
Total U.S. Department of Health and Human Services			51,417,086

The notes to financial statements are an integral part of this statement.

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE CHILDCARE AWARDS FOR THE TWELVE MONTHS ENDED JUNE 30, 2010

	CFDA#	Grant Number	Expenditures
U.S. SOCIAL SECURITY ADMINISTRATION			
Passed-Through California Employment Development Department:			
Program Name:			
Work Incentive Planning Assistance (WIPA)	96.008	R970557-765	15,711
Total U.S. Social Security Administration			15,711
U.S. DEPARTMENT OF TRANSPORTATION			
Passed-Through California Department of Transportation:			
Program Name:			
CALTRANS	20.215	88A0039	503,405
Total U.S. Department of Transportation			503,405
Total Expenditures of Federal Awards			77,921,906
CALIFORNIA STATE GENERAL FUND			
Passed-Through California Department of Education:			
Program Name:			
General Child Care	CDFS 9500	CSPP-9425	2,809,819
General Child Care	CDFS 9500	CCTR-9227	988,464
General Childcare Instructional Material	CDFS 9500	CIMS-9467	1,781
Total General Child Care			3,800,064
TOTAL OF ALL FEDERAL EXPENDITURES AND STATE CHILDCARE AWARDS			\$ 81,721,970

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE CHILDCARE AWARDS FOR THE YEAR ENDED JUNE 30, 2010

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal and State 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 \$17,904,513.

2. PASS-THROUGH AWARDS

Federal assistance provided to subrecipients is treated as an expenditure when it is paid to the subrecipient and is summarized as follows:

<u>Program</u>	<u>Federal CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
Head Start	93.600	\$ 19,674,231
ARRA Head Start	93.708, 93.709	1,310,308
Workforce Investment Act	17.258, 17.259, 17.260, 17.261	5,617,018
ARRA - Workforce Investment Act Cluster	17.258, 17.259, 17.260	8,548,269
Refugee Employment Social Services	93.566, 93.576	791,659
Targeted Refugee Assistance	93.584	1,033,267
Community Services Block Grant	93.569, 93.570	735,082
ARRA Community Services Block Grant	93.710	1,539,497
Human Trafficking	93.598	137,532
CalTrans	20.215	<u>229,082</u>
Total		<u>\$ 39,615,945</u>

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE CHILDCARE AWARDS FOR THE YEAR ENDED JUNE 30, 2010

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

Contract No. 08F-4934 (Yr.2)

	<u>1/1/09-6/30/09</u>	<u>7/1/09-12/31/09</u>	<u>Total</u>
Revenue			
Grant revenue	\$ 624,824	\$ 970,364	\$ 1,595,188
Expenditures			
Salaries and wages	242,925	128,069	370,994
Fringe benefits	107,393	56,617	164,010
Travel	1,423	750	2,173
Operating expenses & equipment	70,891	37,374	108,265
Subcontractors	506,463	267,007	773,470
Other costs	115,424	60,852	176,276
Total Expenditures	1,044,519	550,669	1,595,188
Excess (deficiency) of revenues over (under) expenditures	\$ (419,695)	\$ 419,695	\$ -

Contract No. 08F-4998

	<u>10/1/08-6/30/09</u>	<u>7/1/09-9/30/09</u>	<u>Total</u>
Revenue			
Grant revenue	\$ 4,245	\$ 20,755	\$ 25,000
Expenditures			
Salaries and wages	2,598	3,810	6,408
Fringe benefits	1,123	1,647	2,770
Operating expenses & equipment	575	844	1,419
Subcontractors	2,446	3,586	6,032
Other costs	3,394	4,977	8,371
Total Expenditures	10,136	14,864	25,000
Excess (deficiency) of revenues over (under) expenditures	\$ (5,891)	\$ 5,891	\$ -

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE CHILDCARE AWARDS FOR THE YEAR ENDED JUNE 30, 2010

Contract No. 09F-5187

	<u>10/1/09-6/30/10</u>	<u>Total</u>
Revenue		
Grant revenue	\$ 45,000	\$ 45,000
Expenditures		
Salaries and wages	33,784	33,784
Fringe benefits	11,064	11,604
Operating expenses & equipment	<u>152</u>	<u>152</u>
Total Expenditures	<u>45,000</u>	<u>45,000</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2010

A. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

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: Unqualified

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: Unqualified

Identification of major programs:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
Head Start Program	93.600, 93.708, 93.709
Workforce Investment Act Cluster	17.258, 17.259, 17.260
Community Service Block Grant	93.569, 93.710

Dollar threshold used to distinguish between Type A and Type B programs: \$2,337,657

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, 2010

B. FINANCIAL STATEMENTS FINDINGS

2010-1 SIGNIFICANT DEFICIENCY – PAYROLL CONTROLS

Condition:

During our testing over payroll internal controls, we identified two instances in which employees, funded through the WIA program, were paid an incorrect wage and consequently, were overpaid for their time. The identification of overpayments indicates a lack of internal controls over the wage increase and verification process.

Criteria:

Internal controls should be designed and operating effectively to ensure that all employees are being paid the correct wage. Personnel files should also be maintained so an employee's approved wage can be located and verified.

Cause:

There is a lack of review when employees receive raises or COLA increases to ensure that they are being paid the correct wage. Personnel files are not up-to-date and are not being maintained for new employees. Both of the identified issues are primarily due to the use of dual payroll modules consuming a large amount of time from the payroll technicians.

Effect:

Due to the lack of review and maintenance of the personnel files, two individuals were paid the incorrect wage which resulted in an overpayment of approximately \$2,800.

Recommendation:

We recommend that SETA fully implement the use of the Highline payroll system to eliminate the use of dual payroll modules. By eliminating the dual efforts more staff time will be available to ensure the appropriate pay wages are being used. We also recommend that all employee's personnel and payroll files be brought up to date so that approved wages are easily determinable.

Management Response:

SETA has taken corrective action to recover the overpayments from the two Workforce Investment employees and is conducting a comprehensive review of all employees' personnel files to ensure that all wage rates are up to date and readily determinable. Furthermore, SETA is taking steps to utilize a single payroll module so that more staff time will be available to ensure that payroll data is accurate.

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2010

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2010-2 Head Start Program – CFDA No. 93.600, 93.708, 93.709
Workforce Investment Act Cluster – CFDA No. 17.258, 17.259, 17.260
Community Service Block Grant – CFDA No. 93.569, 93.710

Significant Deficiency: The significant deficiency at Finding 2010-1 also applies to these programs.

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

**STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

D. STATUS OF PRIOR YEAR AUDIT FINDINGS

None.