

**SACRAMENTO EMPLOYMENT
AND TRAINING AGENCY**

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

FOR THE YEAR ENDED JUNE 30, 2012

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

FINANCIAL STATEMENTS AND SINGLE AUDIT REPORT FOR THE YEAR ENDED JUNE 30, 2012

TABLE OF CONTENTS

	<u>PAGE</u>
FINANCIAL SECTION	
Independent Auditor's Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	9
Statement of Activities	10
Fund Financial Statements:	
Balance Sheet – Governmental Fund	11
Reconciliation of the Governmental Fund Balance to the Statement of Net Assets	12
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Fund	13
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Fund to the Statement of Activities	14
Notes to Financial Statements	15
REQUIRED SUPPLEMENTARY INFORMATION	
Statement of Expenditures Budget and Actual – General Fund	27
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 <i>Government Auditing Standards</i>	28
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	30
Schedule of Expenditures of Federal Awards	32
Notes to Schedule of Expenditures of Federal Awards	35
Schedule of Findings and Questioned Costs	37
Status of Prior Year Findings and Questioned Costs	39

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, 2012, 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, 2012, 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 October 29, 2012, 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
Page 2

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 8 and 27 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise SETA's financial statements as a whole. 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. The 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.
Sacramento, California

October 29, 2012

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2012

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, 2012. Please read it in conjunction with the basic financial statements included in this report.

FINANCIAL HIGHLIGHTS

- As of June 30, 2012, SETA reported a combined fund balance of \$2,941,925, an increase of \$23,310 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 assets decreased and non-current liability increased by \$172,466 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 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. 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, 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, CalTRANS and CalWORKS Services. SETA does not engage in any business type activities.

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

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

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2012

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of SETA, assets exceeded liabilities by \$2,266,840 at the close of the most recent fiscal year.

Statement of Net Assets

	2012	2011
Assets:		
Other Assets	\$ 11,259,787	\$ 11,293,874
Capital Assets	1,954,938	1,914,527
Total Assets	<u>\$ 13,214,725</u>	<u>\$ 13,208,401</u>
Liabilities:		
Other Liabilities	\$ 8,336,853	\$ 8,443,556
Non-current Liabilities	2,611,032	2,325,539
Total Liabilities	<u>\$ 10,947,885</u>	<u>\$ 10,769,095</u>
Net Assets:		
Invested in capital assets	\$ 1,954,938	\$ 1,914,527
Fund balance	311,902	524,779
Total Net Assets	<u>\$ 2,266,840</u>	<u>\$ 2,439,306</u>
Liabilities and Net Assets	<u>\$ 13,214,725</u>	<u>\$ 13,208,401</u>

Of SETA's total net assets of \$2,266,840, 86.24% or \$1,954,938 reflects the investment in capital assets. There is no debt associated with these capital assets. Total net assets decreased by \$172,466 during the current fiscal year. The decrease in net assets is primarily attributable to the increase in OPEB liability recognized as a result of GASB 45.

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2012

Statement of Activities: SETA's grants and contract activities decreased net assets by \$172,466. The table below indicates the changes in net assets:

	2012	2011
Program Revenues:		
Grants and Contracts	\$ 96,023,043	\$ 100,432,337
Total Operating Grants and Contracts	96,023,043	100,432,337
General Revenues/(Loss):		
Unrestricted Investment Earnings/(Loss)	5,223	(25,060)
Total General Revenues/(Loss)	5,223	(25,060)
Total Revenue	\$ 96,028,266	\$ 100,407,277
Program Expenses:		
Head Start/Early Head Start	\$ 64,419,014	\$ 61,603,882
Workforce Development	17,903,570	21,216,560
Other Programs	13,878,148	16,627,253
Total Operating Grant Activities	\$ 96,200,732	\$ 99,447,695
Change in net assets	\$ (172,466)	\$ 959,582
Total net assets, beginning of year	2,439,306	1,479,724
Total net assets, end of year	\$ 2,266,840	\$ 2,439,306

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, 2012, SETA reported a total fund balance of \$2,941,925, which is an increase of \$23,310 compared to total fund balance of \$2,918,615 at June 30, 2011. 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, 2012

Revenue Analysis: Total revenue received for the year ended June 30, 2012, totaled \$96,028,266. The table below presents the amounts of revenue and the percent of total by source for FYE 2012 and FYE 2011.

Revenues Classified by Source Governmental Funds

Revenues by Source	FYE 2012 <u>Amount</u>	Percent <u>of Total</u>	FYE 2011 <u>Amount</u>	Percent <u>of Total</u>	Increase/ <u>(Decrease)</u>	Percent <u>Change</u>
Grant revenue	\$ 75,408,117	78.53%	\$ 83,615,079	83.28%	\$ (8,206,962)	(9.82%)
Child care food revenue	1,607,475	1.67%	1,484,294	1.48%	123,181	8.30%
Intergovernmental	5,498,456	5.73%	5,986,170	5.96%	(487,714)	(8.15%)
Investment income	11,554	0.01%	19,666	0.02%	(8,112)	(41.25%)
Miscellaneous income	246,628	0.26%	112,753	0.11%	133,875	118.73%
In-Kind contributions	13,256,036	13.80%	9,189,315	9.15%	4,066,721	44.25%
Total revenues	<u>\$ 96,028,266</u>	<u>100.0%</u>	<u>\$ 100,407,277</u>	<u>100.0%</u>	<u>\$ (4,379,011)</u>	<u>(4.36%)</u>

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

- Grant revenue decreased by \$8,206,962 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 \$4,066,721 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, 2012

Expense Analysis: Expenditures for the year ended June 30, 2012, totaled \$96,004,956. The table below presents the expenditures summarized by granting source.

Expenditures Classified by Grantor Governmental Fund

Expenditures by Grantor	FYE 2012 <u>Amount</u>	Percent <u>of Total</u>	FYE 2011 <u>Amount</u>	Percent <u>of Total</u>	<u>Increase/ (Decrease)</u>	<u>Percent Change</u>
Head Start/Early Head Start	\$ 64,508,708	67.19%	\$ 62,840,955	62.61%	\$ 1,667,753	2.65%
Workforce Development	17,688,222	18.42%	20,965,461	20.89%	(3,277,239)	(15.63%)
Refugee Employment Social Services	703,156	0.73%	762,758	0.76%	(59,602)	(7.81%)
Child Care Food Program	1,605,842	1.67%	1,482,064	1.48%	123,778	8.35%
State Department of Education	3,373,799	3.51%	3,764,658	3.75%	(390,859)	(10.38%)
Community Services Block Grant	1,524,681	1.59%	2,997,144	2.99%	(1,472,463)	(49.13%)
Targeted Refugee Assistance	307,105	0.32%	1,016,867	1.01%	(709,762)	(69.80%)
Human Trafficking	286,257	0.30%	174,906	0.17%	111,351	63.66%
CalTRANS	220,359	0.23%	-	-	220,359	100.00%
CalWORKS	5,224,552	5.45%	5,547,531	5.53%	(322,979)	(5.82%)
Youth Crime Prevention	299,108	0.31%	701,628	0.70%	(402,520)	(57.37%)
Other	263,167	0.28%	113,320	0.11%	149,847	132.23%
Total expenditures	\$ 96,004,956	100.0%	\$ 100,367,292	100.0%	\$ (4,362,336)	(4.35%)

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.
- Refugee Employment Social Services and Targeted Refugee Assistance Program costs decreased due to reduced numbers of refugee arrivals resulting in reduced formula allocations.
- State Department of Education Program costs decreased due to reduced funding.
- CalWORKS 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, 2012

The table below presents the expenditures summarized by type.

Expenditures by Type	Expenditures Classified by Type Governmental Fund			
	FYE 2012 <u>Amount</u>	Percent <u>of Total</u>	FYE 2011 <u>Amount</u>	Percent <u>of Total</u>
Salaries	\$ 25,849,515	26.93%	\$ 26,417,077	26.32%
Fringe Benefits	12,269,726	12.78%	12,555,729	12.51%
Space Costs	3,758,917	3.91%	3,973,452	3.96%
Services & Supplies	5,518,999	5.75%	5,676,236	5.66%
Fixed Assets	602,838	0.63%	1,631,155	1.63%
Subrecipient Costs	34,748,925	36.19%	40,924,328	40.77%
In Kind Match	13,256,036	13.81%	9,189,315	9.16%
Total Expenses	<u>\$ 96,004,956</u>	<u>100.0%</u>	<u>\$ 100,367,292</u>	<u>100.0%</u>

As noted above, SETA's largest expenses are subrecipient costs, staff salaries, and fringe benefits. The decreased expenditures were primarily due to the expiration of one-time funding from the American Recovery and Reinvestment Act of 2009. 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 March 26, 2012, a revision to SETA's original budget amount of \$86,695,393 increased the budget to \$89,055,604. The increase of \$2,360,211 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, 2012, amounted to \$1,954,938 (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 ASSETS JUNE 30, 2012

ASSETS

Cash and investments	\$	5,453,962
Accounts receivable		5,617,113
Prepaid expenses		188,712
Capital assets, net		<u>1,954,938</u>

Total assets		<u>13,214,725</u>
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LIABILITIES

Current liabilities:

Accounts payable		5,339,149
Accrued liabilities		1,364,269
Unearned revenue		1,614,444
Compensated absences		<u>18,991</u>

Total current liabilities		<u>8,336,853</u>
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Non-current liabilities:

Compensated absences		1,711,931
OPEB liability		<u>899,101</u>

Total non-current liabilities		<u>2,611,032</u>
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Total liabilities		<u>10,947,885</u>
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NET ASSETS

Invested in capital assets		1,954,938
Unrestricted		<u>311,902</u>

Total net assets	\$	<u><u>2,266,840</u></u>
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SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2012

Functions/Programs	Expenses	Program Revenue Operating Grants and Contracts	Net (Expense) Revenue Total Governmental Activities
Head Start/Early Head Start	\$ 64,419,014	\$ 64,523,432	\$ 104,418
Workforce Development	17,903,570	17,683,609	(219,961)
Refugee Employment Social Services	710,074	705,397	(4,677)
Child Care Food Program	1,613,465	1,607,475	(5,990)
State Department of Education	3,378,947	3,378,947	0
Community Services Block Grant	1,550,059	1,521,576	(28,483)
Targeted Refugee Assistance	314,023	309,346	(4,677)
CalTRANS	224,320	220,905	(3,415)
CalWORKS	5,227,697	5,224,552	(3,145)
Youth Crime Prevention	307,262	299,806	(7,456)
Human Trafficking	288,864	287,412	(1,452)
Other	263,437	260,586	(2,851)
Total governmental activities	\$ 96,200,732	\$ 96,023,043	(177,689)
General revenue:			
Unrestricted investment gain			5,223
Change in net assets			(172,466)
Net assets, beginning of year, as restated			2,439,306
Net assets, end of year			\$ 2,266,840

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

BALANCE SHEET GOVERNMENTAL FUND JUNE 30, 2012

ASSETS

Cash and investments	\$	5,453,962
Accounts receivable		5,617,113
Prepaid expenditures		<u>188,712</u>

Total assets	\$	<u><u>11,259,787</u></u>
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LIABILITIES AND FUND BALANCE

Liabilities:

Accounts payable	\$	5,339,149
Accrued expenditures		1,364,269
Deferred revenue		<u>1,614,444</u>

Total liabilities		<u>8,317,862</u>
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Fund balance:

Nonspendable		188,712
Assigned		1,730,922
Unassigned		<u>1,022,291</u>
Total fund balance		<u><u>2,941,925</u></u>

Total liabilities and fund balance	\$	<u><u>11,259,787</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, 2012

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

Total fund balance, governmental fund \$ 2,941,925

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 \$12,378,943, and the accumulated depreciation is \$10,424,005. 1,954,938

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	\$ 1,730,922	
OPEB liability	899,101	
Total:	<u>2,630,023</u>	<u>(2,630,023)</u>

Total net assets, governmental activities \$ 2,266,840

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE GOVERNMENTAL FUND FOR THE YEAR ENDED JUNE 30, 2012

REVENUES

Grant revenue	\$ 75,408,117
Child care food revenue	1,607,475
Intergovernmental	5,498,456
Investment income	11,554
Miscellaneous Income	246,628
In-Kind contributions	13,256,036
Total revenues	<u>96,028,266</u>

EXPENDITURES

Head Start/Early Head Start	64,508,708
Workforce Development	17,688,222
Refugee Employment Social Services	703,156
Child Care Food Program	1,605,842
State Department of Education	3,373,799
Community Services Block Grant	1,524,681
Targeted Refugee Assistance	307,105
CalTRANS	220,359
CalWORKS	5,224,552
Youth Crime Prevention	299,108
Human Trafficking	286,257
Other	263,167
Total expenditures	<u>96,004,956</u>

Net increase in fund balance	23,310
Fund balance, July 1, 2011	<u>2,918,615</u>
Fund balance, June 30, 2012	<u>\$ 2,941,925</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, 2012

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

Net increase in fund balance, governmental fund \$ 23,310

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 capital outlay (\$628,938) exceeds depreciation expense (\$588,526) in the period. 40,411

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. (18,087)

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: (218,100)

Change in net assets of governmental activities \$ (172,466)

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

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, 2012

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, 2012.

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, 2012

Compensated Absences

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

Net Assets and Fund Balance

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

Invested in Capital Assets - This category groups all capital assets into one component of net assets. 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 Assets - This category represents net assets 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, 2012, SETA has \$188,712 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, 2012, 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, 2012, SETA has \$1,730,922 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.

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

2. CASH AND INVESTMENTS

Cash and investments as of June 30, 2012 are classified in the accompanying financial statements as follows:

Cash and investments in Sacramento County Treasury	\$	5,301,460
Cash on hand		<u>152,502</u>
Total cash and investments	\$	<u>5,453,962</u>

Cash in County Treasury

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

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

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

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

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

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

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, 2012, the weighted average maturity of the investments contained in the Treasury investment pool is approximately 259 days.

Credit Risk

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

Derivative Investments

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

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

3. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following as of June 30, 2012:

	General Fund
Federal government	\$ 5,256,265
State government	82,154
Local government	257,773
Miscellaneous	20,921
Totals	\$ 5,617,113

4. CAPITAL ASSETS

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

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012
Capital assets, not being depreciated:				
Land	\$ 66,308			\$ 66,308
Capital assets, being depreciated:				
Building	297,910			297,910
Machinery and equipment	11,515,351	\$ 628,938	\$ (129,564)	12,014,725
Total capital assets, being depreciated	11,813,261	628,938	(129,564)	12,312,635
Less accumulated depreciation for:				
Building	(80,269)	(9,930)		(90,199)
Machinery and equipment	(9,884,773)	(578,597)	129,564	(10,333,806)
Total accumulated depreciation	(9,965,042)	(588,527)	129,564	(10,424,005)
Total capital assets, being depreciated, net	1,848,219	40,411		1,888,630
Governmental activities capital assets, net	\$ 1,914,527	\$ 40,411	\$	\$ 1,954,938

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

For the year ended June 30, 2012, depreciation expense was charged to functions as follows:

Governmental activities:

Head Start/Early Head Start	\$	216,325
Workforce Development		310,055
Community Services Block Grant		28,484
CalTRANS		3,415
CalWORKS		3,145
Targeted Refugee Assistance		4,677
Refugee Employment Social Services		4,677
Child Care Food Program		5,990
Youth Crime Prevention		7,456
Human Trafficking		1,452
Other		<u>2,851</u>
Total depreciation expense	\$	<u><u>588,527</u></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, 2012, was as follows:

	<u>Balance</u> <u>June 30, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2012</u>	<u>Due Within</u> <u>One Year</u>
Compensated Absences	\$ <u>1,712,835</u>	\$ <u>1,619,208</u>	\$ <u>(1,601,121)</u>	\$ <u>1,730,922</u>	\$ <u>18,991</u>

6. OPERATING LEASE OBLIGATIONS

SETA leases certain office space under noncancellable operating lease agreements. Total lease payments for the year were \$3,094,828. Future minimum lease payments are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Total</u>
2013	\$ 3,190,862
2014	3,086,152
2015	2,775,401
2016	2,558,926
2017	1,115,630
2018	<u>300</u>
Total	\$ <u><u>12,727,271</u></u>

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

7. EMPLOYEE RETIREMENT PLAN

Plan Description

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

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

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

Funding Policy

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

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

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

The SCERS is divided into three separate benefit sections of the 1937 Act. These sections are known as: General – Tier I, General – Tier II and General – Tier III. SETA's employees only qualify for General – Tier I and General – Tier III of the SCERS benefit plan. SETA employer rates of the contribution, calculated as a percentage of SETA's covered payroll of \$25,849,516, for the year ended June 30, 2012, were:

General Members, Tier I	24.45%
General Members, Tier III	24.81%

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>
2010	\$ 5,346,134	100%
2011	\$ 6,152,462	100%
2012	\$ 5,904,329	100%

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

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 2012. 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 2012, 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, 2012. 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, 2012

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	\$	305,900
Interest on net OPEB obligation		0
Adjustment to annual required contribution		0
Annual OPEB cost (expense)		305,900
Contributions made:		
Pay-as-you-go		(29,232)
Implicit Subsidy		(58,568)
Increase in net OPEB obligation		218,100
Net OPEB obligation – beginning of year		681,001
Net OPEB obligation – end of year	\$	899,101

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, 2012 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>
6/30/10	\$ 266,235	\$ 55,631	20.90%	\$ 447,976
6/30/11	266,235	33,210	12.47%	681,001
6/30/12	305,900	87,800	28.07%	899,101

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, 2012

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, 2012, was 25 years.

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/07	\$ 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 \$5,002,926 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, payment transactions, purchasing and payroll processing are processed by the County. During 2012, the County charged fees of \$168,351 for these services.

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

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, 2011 to July 31, 2012. During the current fiscal year, the amount of matching funding provided was \$13,256,036 which is 26% of the expenditures during the fiscal year. Total matching funds for the grant year will be equal to or greater than 25% of the total grant expenditures.

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.

14. RESTATEMENT OF NET ASSETS

During the year ended June 30, 2012, SETA made a correction to recognize other postemployment liabilities associated with the implicit rate subsidy. GASB 45 requires that the implicit rate subsidy be included with SETA's OPEB liability and expensed annually. As a result of this correction, beginning net assets as of July 1, 2011 were decreased and OPEB liability increased by \$681,001.

REQUIRED SUPPLEMENTARY INFORMATION

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

STATEMENT OF EXPENDITURES BUDGET AND ACTUAL - GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2012

Functions/Programs	Expenditures			Variance Positive (Negative)
	Original Budget	Final Budget	Actual	
Head Start/Early Head Start	\$ 50,403,729	\$ 50,987,585	\$ 51,252,672	\$ (265,087)
Workforce Development	19,715,269	21,497,627	17,688,222	3,809,405
Refugee Employment Social Services	741,535	707,558	703,156	4,402
Child Care Food Programs	1,500,000	1,500,000	1,605,842	(105,842)
State Department of Education	3,305,860	3,305,860	3,373,799	(67,939)
Community Services Block Grant	1,777,318	1,777,318	1,524,681	252,637
Targeted Refugee Assistance	376,045	404,019	307,105	96,914
CalTRANS	338,590	338,590	220,359	118,231
CalWORKS	6,826,635	6,826,635	5,224,552	1,602,083
Youth Crime Prevention	770,000	770,000	299,108	470,892
Human Trafficking	287,412	287,412	286,257	1,155
Other	653,000	653,000	263,167	389,833
Total governmental funds	\$ 86,695,393	\$ 89,055,604	\$ 82,748,920	\$ 6,306,684

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	\$ 51,252,672
In-Kind Contributions Expended	13,256,036
Head Start/Early Head Start - GAAP Basis	\$ 64,508,708

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, 2012, which collectively comprise SETA's basic financial statements, and have issued our report thereon dated October 29, 2012. 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

Management of SETA is responsible for establishing and maintaining effective 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 opinion 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 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.

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*.

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

October 29, 2012



**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, 2012. 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 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, 2012.

Internal Control Over Compliance

Management of SETA is responsible for establishing and maintaining effective internal control over compliance with the 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 the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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.

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.

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

October 29, 2012

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2012

	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	\$ <u>1,517,606</u>
Total U.S. Department of Agriculture			<u>1,517,606</u>
U.S. DEPARTMENT OF LABOR			
Workforce Investment Act Cluster			
Passed-Through California Employment Development Department:			
Program Name:			
WIA Title I Adult Formula	17.258	K178680-202	318,450
WIA Title I Adult Formula	17.258	K178680-500	2,269,297
WIA Title I Adult Formula	17.258	K282495-201	291,822
WIA Title I Adult Formula	17.258	K282495-202	3,519,649
WIA Title I Adult Formula	17.258	K282495-500	868,137
WIA 15% CDCR New Start	17.258	K178680-442	64,542
WIA 15% CDCR New Start	17.258	K178680-459	99,332
WIA 15% Adult CalGrip	17.258	K074161-468	102,929
WIA 30% Exemplary Performance Award	17.258	K178680-113	17,799
WIA 15% Green Job Innovation	17.258	K178680-476	<u>466,836</u>
Total WIA Adult Programs			<u>8,018,793</u>
Program Name:			
WIA Title I Youth Formula	17.259	K178680-301	860,480
WIA Title I Youth Formula	17.259	K282495-301	3,122,503
WIA 15% Youth CalGrip	17.259	K178680-471	318,824
WIA HC Youth AWD	17.259	K178680-648	<u>100,000</u>
Total WIA Youth Programs			<u>4,401,807</u>
Program Name:			
WIA Rapid Response	17.278	K282495-540	244,585
WIA Rapid Response	17.278	K282495-541	733,755
WIA Title I Dislocated Worker	17.278	K178680-502	258,513
WIA Title I Dislocated Worker	17.278	K282495-501	892,085
WIA Title I Dislocated Worker	17.278	K282495-502	857,140
ARRA National Response Emergency Grant	17.277	K074161-775	<u>74,966</u>
Total WIA Dislocated Worker Programs			<u>3,061,044</u>
Passed-Through Fresno Regional Workforce Investment Board:			
Program Name:			
PG&E Veterans Training & Employment Program	17.278	373-457	<u>143,062</u>
Passed-Through South Bay Workforce Investment Board:			
Program Name:			
NEG California Multi-Sector Workforce Partnership	17.277	11-W121	<u>492,220</u>
Total Workforce Investment Act Cluster			<u>16,116,926</u>
Passed-Through California Employment Development Department:			
National Response Emergency Grant OJT 2nd Incr	17.277	K282495-338	<u>286,201</u>

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2012

	<u>CFDA#</u>	<u>Grant Number</u>	<u>Expenditures</u>
Passed-Through California Employment Development Department:			
Program Name:			
ARRA State Energy Sector Partnership	17.275	K074161-146	721,668
Passed-Through Los Rios Community College:			
Program Name:			
ARRA Health Force Initiative	17.275	J-20085-10-60-A	<u>136,727</u>
Total CFDA #17.275			<u>858,395</u>
Passed-Through Los Rios Community College:			
Program Name:			
Green Force Initiative	17.269	CB18193	<u>70,739</u>
Total U.S. Department of Labor			<u>17,332,261</u>
U.S. DEPARTMENT OF ENERGY			
Passed-Through California Employment Development Department:			
Program Name:			
ARRA State Energy Commission OJT	81.041	K284533-156	<u>216,369</u>
Total U.S. Department of Energy			<u>216,369</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed-Through California Department of Education:			
Program Name:			
General Child Care	93.575	CSPP-1410	17,468
General Child Care	93.596	CSPP-1410	31,730
General Child Care	93.575	CCTR-1221	111,266
General Child Care	93.596	CCTR-1221	<u>202,123</u>
Total Child Care and Development Block Grant			<u>362,587</u>
Total Passed-Through California Department of Education			<u>362,587</u>
Passed-Through California Department of Social Services:			
Program Name:			
Targeted Refugee Assistance	93.584	TAFO 0903	20,854
Targeted Refugee Assistance	93.584	TAFO 1003	19,170
Targeted Refugee Assistance	93.584	TAFO 1104	<u>247,690</u>
Total Targeted Refugee Assistance			<u>287,714</u>
Program Name:			
Refugee Employment Social Services	93.566	RESS 0906	76,225
Refugee Employment Social Services	93.566	RESS 1006	117,697
Refugee Employment Social Services	93.566	RESS 1104	<u>459,589</u>
Total Refugee Employment Social Services			<u>653,511</u>
Program Name:			
Older Refugee Discretionary	93.576	TARL 1006	8,673
Older Refugee Discretionary	93.576	TARL 1106	43,213
Targeted Assistance Discretionary	93.576	TART1104	<u>21,631</u>
Total Older Refugee Discretionary			<u>73,517</u>
Total Passed-Through California Department of Social Services			<u>1,014,742</u>

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2012

	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	11F-4235	688,943
Community Service Block Grant	93.569	12F-4433	752,632
Community Service Discretionary Grant	93.569	11F-4317	80,000
Total Community Service Block Grant Cluster			1,521,575
Total Passed-Through California Department of Community Services and Development			1,521,575
Direct Program through Office of Head Start:			
Program Name:			
Head Start/Early Head Start	93.600	09CH0012/29	4,531,247
Head Start/Early Head Start	93.600	09CH0012/30	45,317,894
ARRA Head Start QI/COLA	93.708	09SE0012/01/02	74,497
ARRA Head Start Expansion	93.708	09SH0012/01/02	180,136
ARRA Early Head Start Expansion	93.709	09SA0012/01/02	983,299
ARRA Early Learning Mentor Coaches	93.708	90ST0098/01	180,321
Total Head Start Cluster			51,267,394
Total U.S. Department of Health and Human Services			54,453,710
U.S. DEPARTMENT OF TRANSPORTATION			
Passed-Through California Department of Transportation:			
Program Name:			
CalTRANS	20.215	88A0060	220,905
Total U.S. Department of Transportation			220,905
U.S. DEPARTMENT OF JUSTICE			
Passed-Through the City of Sacramento			
Program Name:			
Sacramento Safe Community Partnership	16.541	P1111001241B	36,657
Total U.S. Department of Justice			36,657
Total Expenditures of Federal Awards			\$ 73,777,508

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2012

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 \$13,256,036.

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	\$ 21,491,959
ARRA Head Start	93.708, 93.709	726,414
Workforce Investment Act	17.258, 17.259, 17.277, 17.278	7,005,118
ARRA - Workforce Investment Act Cluster	17.277	74,989
ARRA State Energy Sector	17.275	83,163
ARRA Clean Energy	81.041	93,915
Refugee Employment Social Services	93.566	594,658
Older Refugee Discretionary	93.576	21,631
Targeted Refugee Assistance	93.584	287,714
Community Services Block Grant	93.569	701,515
Human Trafficking	93.598	205,707
CalTRANS	20.215	142,835
Youth Crime Prevention	16.523	<u>13,516</u>
Total		<u>\$ 31,443,134</u>

3. CFDA NUMBER 17.277

The accompanying Schedule of Expenditures of Federal Awards of Sacramento Employment 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 2nc Incr, which has a period beginning July 1, 2011, and therefore is considered a separate program.

SACRAMENTO EMPLOYMENT AND TRAINING AGENCY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2012

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

Contract No. 11F-4235

	<u>1/1/11-6/30/11</u>	<u>7/1/11-12/31/11</u>	<u>Total</u>
Revenue			
Grant revenue	\$ <u>906,245</u>	\$ <u>688,943</u>	\$ <u>1,595,188</u>
Expenditures			
Salaries and wages	184,881	159,793	344,674
Fringe benefits	71,227	80,295	151,522
Operating expenses & equipment	25,269	33,274	58,543
Subcontractors	490,477	306,039	796,516
Other costs	<u>134,391</u>	<u>109,542</u>	<u>243,933</u>
Total Expenditures	<u>906,245</u>	<u>688,943</u>	<u>1,595,188</u>
Excess (deficiency) of revenues over (under) expenditures	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>

Contract No. 11F-4317

	<u>7/1/11-6/30/12</u>	<u>Total</u>
Revenue		
Grant revenue	\$ <u>80,000</u>	<u>80,000</u>
Expenditures		
Salaries and wages	46,123	46,123
Fringe benefits	14,702	14,702
Operating expenses & equipment	6,227	6,227
Other costs	<u>12,948</u>	<u>12,948</u>
Total Expenditures	<u>80,000</u>	<u>80,000</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, 2012

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
ARRA State Energy Sector Partnership	17.275

Dollar threshold used to distinguish between Type A and Type B programs: \$2,213,325

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, 2012

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, 2012

E. STATUS OF PRIOR YEAR AUDIT FINDINGS

None reported in prior year.