

Audited Financial Statements
Local Agency Formation Commission for the County of Los Angeles
Fiscal years ended June 30, 2011 and 2010
with Report of Independent Auditors

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**Local Agency Formation Commission for the County of Los Angeles
Table of Contents**

	<u>PAGE</u>
REPORT OF INDEPENDENT AUDITORS	1
FINANCIAL STATEMENTS	2
Statements of Net Assets	3
Statements of Revenues, Expenses and Changes in Net Assets	4
Statements of Cash Flows	5
Notes to Financial Statements	5
REQUIRED SUPPLEMENTARY INFORMATION	
Other Postemployment Benefits – Schedule of Funding Progress	12
REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	13
SCHEDULE OF FINDINGS	15



**VASQUEZ
& COMPANY LLP**

CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS CONSULTANTS

801 South Grand Avenue, Suite 400 • Los Angeles, CA 90017-4646 • Ph. (213) 629-9094 • Fax (213) 996-4242 • www.vasquezcpa.com

Report of Independent Auditors

The Commission Members

Local Agency Formation Commission for the County of Los Angeles

We have audited the accompanying statements of net assets of the Local Agency Formation Commission for the County of Los Angeles (the Commission) as of June 30, 2011 and 2010 and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Commission as of June 30, 2011 and 2010 and the results of its operations and its cash flows for the years 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 a report dated February 14, 2012 on our consideration of the Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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 and 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.

The Commission has not presented a management's discussion and analysis that accounting principles generally accepted in the United States of America require to supplement, although not to be part of, the basic financial statements.

The required supplementary information, Schedule of Funding Progress for Other Postemployment Benefits, is not a required part of the basic financial statements, but is 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.

Vasquez + Company LLP

Los Angeles, California
February 14, 2012

**Local Agency Formation Commission for the County of Los Angeles
Statements of Net Assets**

	June 30	
	2011	2010
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,204,701	\$ 1,389,186
Accounts receivable	721	720
Prepaid expense	1,794	-
Noncurrent assets		
Capital assets, net of accumulated depreciation	28,132	42,785
Total assets	1,235,348	1,432,691
LIABILITIES		
Accounts payable	28,966	24,839
OPEB obligation	133,941	66,761
Advances from East LA Residents Association	37,981	134,710
Total liabilities	200,888	226,310
NET ASSETS		
Invested in capital assets, net of related debt	28,132	42,785
Net assets, unrestricted	1,006,328	1,163,596
Total net assets \$	1,034,460	\$ 1,206,381

See notes to financial statements.

**Local Agency Formation Commission for the County of Los Angeles
Statements of Revenues, Expenses and Changes in Net Assets**

	Year ended June 30	
	2011	2010
Revenues		
Contributions received	\$ 664,145	\$ 796,681
Fees and other charges	334,343	411,259
Interest	17,544	16,801
Miscellaneous	3	192
Total revenues	1,016,035	1,224,933
Expenses		
Salaries and employee benefits	712,988	752,965
Office expense	264,155	301,003
Professional fees	194,949	55,412
Minor additions	793	4,868
Miscellaneous	15,071	7,095
Total expenses	1,187,956	1,121,343
Change in net assets	(171,921)	103,590
Net assets, beginning of year	1,206,381	1,102,791
Net assets, end of year	\$ 1,034,460	\$ 1,206,381

See notes to financial statements.

**Local Agency Formation Commission for the County of Los Angeles
Statements of Cash Flows**

	Year ended June 30	
	2011	2010
Cash flows from operating activities		
Contributions, fees and other revenues received	\$ 919,305	\$ 1,236,433
Cash paid to suppliers for goods and services	(455,364)	(136,871)
Cash paid to employees for services	(645,808)	(752,965)
Net cash provided by (used in) operating activities	(181,867)	346,597
Cash flows from capital and related financing activities		
Purchase of furniture and equipment	(2,618)	-
Net cash used in capital and related financing activities	(2,618)	-
Net increase (decrease) in cash and cash equivalents	(184,485)	346,597
Cash and cash equivalents, beginning of year	1,389,186	1,042,589
Cash and cash equivalents, end of year	<u>\$ 1,204,701</u>	<u>\$ 1,389,186</u>
Reconciliation of operating income to net cash provided by (used in) operating activities:		
Change in net assets	\$ (171,921)	\$ 103,590
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	17,271	21,679
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(1)	11,500
(Increase) decrease in prepaid expenses	(1,794)	-
Increase (decrease) in accounts payable	4,127	8,357
Increase (decrease) in OPEB obligation	67,180	66,761
Increase (decrease) in advances	(96,729)	134,710
Net cash provided by (used in) operating activities	\$ (181,867)	\$ 346,597

See notes to financial statements.

Local Agency Formation Commission for the County of Los Angeles
Notes to Financial Statements
Years ended June 30, 2011 and 2010

NOTE 1 DESCRIPTION OF THE ENTITY

The Local Agency Formation Commission for the County of Los Angeles (the Commission) was established by state law, "*Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000, Government Code Section 56000, et seq.*", to discourage urban sprawl and encourage the orderly formation and development of local government agencies. The Commission is responsible for coordinating logical and timely changes in local governmental boundaries, including annexations and detachments of territory, incorporation of cities, formation of special districts as well as consolidations, mergers, and dissolutions of districts, among others.

The Commission is governed by Commissioners composed of nine regular members: two members from the County Board of Supervisors, two city representatives, one City of Los Angeles representative, two special district representatives and two public members, one of which represents the San Fernando Valley Statistical area. Since implementation of the *Cortese-Knox-Hertzberg Local Government Reorganization Act* in 2001, the Commission has operated as a legally separate and independent entity from the local County government. This means it can incur debt, set and modify its own budget and fees, enter into contracts, and sue and be sued in its own name.

The accompanying financial statements reflect the financial activities of the Commission. The Commission has no component units.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Commission's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental agencies. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Commission's more significant accounting policies are described below.

Basis of Accounting and Measurement Focus

The Commission is considered a proprietary fund for financial reporting purposes. The accompanying financial statements have been prepared using the total economic measurement focus and the accrual basis of accounting. Under this basis of accounting and measurement focus, revenues are recognized when they are earned and expenses are recognized when they are incurred.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Government Entities That Use Proprietary Fund Accounting*, the Commission applies all GASB pronouncements currently in effect as well as Financial Accounting Standard Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989.

**Local Agency Formation Commission for the County of Los Angeles
Notes to Financial Statements
Years ended June 30, 2011 and 2010**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Commission's financial statements are presented in accordance with the provisions of Governmental Accounting Standards Board Statement No. 34 *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Statement 34 established standards for external financial reporting for all state and local governmental entities. It requires the classification of net assets into three components - invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- *Invested in capital assets, net of related debt* - This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.
- *Restricted* - This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted net assets* - This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Revenue Recognition

The Commission's major source of revenue is the contributions received from the County of Los Angeles, its 88 cities and 54 special districts pursuant to an apportionment formula set forth in *Government Code Section 56381*, as applied to its annual operating budget.

Cash Equivalents

For purposes of the statement of cash flows, the Commission considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

Estimates and Assumptions

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts in the financial statements and accompanying notes. Actual results could differ from the estimates.

Local Agency Formation Commission for the County of Los Angeles
Notes to Financial Statements
Years ended June 30, 2011 and 2010

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

Capital assets are stated at cost. The provision for depreciation is computed using the straight-line method over the estimated useful lives of the assets. When assets are sold or otherwise disposed of, related costs are removed from the accounts and any gain or loss is reported in the statement of revenues, expenses and changes in net assets. Estimated useful lives of the assets are as follows:

Office equipment	3 years
Furniture and fixtures	3-5 years
Transportation equipment	5 years

Reclassification

Reclassification has been made to prior year amounts to conform to the current year's classification.

NOTE 3 CASH DEPOSITED WITH COUNTY TREASURER

The Commission's cash balances are deposited with and pooled and invested by the Los Angeles County Treasurer for the purpose of increasing interest earnings through investment activities. Interest earned on pooled investments is deposited to participating funds based upon each fund's average daily balance during the allocation period.

Statutes authorize the County of Los Angeles to invest pooled investments in obligations of the United States Treasury, federal agencies, municipalities, commercial paper rated A-1 by Standard and Poor's Corporation and P-1 by Moody's Commercial Paper Record, banker's acceptances, negotiable certificates of deposit, floating rate notes, repurchase agreements and reverse repurchase agreements.

Funds deposited in the Los Angeles County Treasury Pool that are presented as cash and cash equivalents in the statements of net assets amounted to \$978,991 and \$1,047,308 as of June 30, 2011 and 2010, respectively.

Interest Rate Risk

Interest rate risk, as defined under Governmental Accounting Standards Board (GASB) Statement No. 40, is the risk that changes in interest rates will adversely affect the fair value of an investment. As at June 30, 2011, the Commission's funds are held as short-term deposits in the Los Angeles County Treasury Pool.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. As of June 30, 2011, the Commission had no outstanding investments.

Concentration of Credit Risk

Under GASB Statement No. 40, concentration of credit risk is the risk of loss attributable to the magnitude of the Commission's investment in a single issuer.

**Local Agency Formation Commission for the County of Los Angeles
Notes to Financial Statements
Years ended June 30, 2011 and 2010**

NOTE 3 CASH DEPOSITED WITH COUNTY TREASURER (CONTINUED)

Custodial Credit Risk

GASB Statement No. 40 defines custodial credit risk as the risk that the Commission will not be able to (a) recover deposits if the depository financial institution fails, or (b) recover the value of investments or collateral securities that are in the possession of an outside party if the counterparty to the investment or deposit transaction fails. At June 30, 2011, the Los Angeles County Treasury Pool's and the Commission's exposure to risk (credit, market or legal) is not available. As of June 30, 2011, the Commission's deposit with a financial institution of \$256,449 is fully covered by Federal deposit insurance limits.

NOTE 4 CAPITAL ASSETS

As of June 30, 2011, details of capital assets are as follows:

	2011	2010
Office equipment	\$ 77,345	\$ 74,727
Furniture and fixtures	92,277	92,277
Auto equipment	22,818	22,818
Total	192,440	189,822
Accumulated depreciation	164,308	147,037
Net capital assets	\$ 28,132	\$ 42,785

NOTE 5 ADVANCES FROM EAST LA RESIDENT ASSOCIATION

Advances from East LA Residents Association (Association) represent advances provided by the Association for the expenses to be incurred in preparation of a Comprehensive Fiscal Analysis to determine feasibility of incorporation of a new governmental entity.

NOTE 6 PENSION PLAN

The Commission's pension plan is administered by the Los Angeles County Employees Retirement Association (LACERA) which was established under the County Employee's Retirement Law of 1937. It provides benefits to employees of the County of Los Angeles as well as four other additional entities, including LAFCO, that are not part of the County's reporting entity. Benefits are authorized in accordance with the County Employee's Retirement Law, the by-laws and procedures adopted by LACERA's Boards of Retirement and Investments and Board of Supervisors' resolutions.

Local Agency Formation Commission for the County of Los Angeles
Notes to Financial Statements
Years ended June 30, 2011 and 2010

NOTE 6 PENSION PLAN (CONTINUED)

LACERA is technically a cost sharing, multi-employer defined benefit plan that provides retirement, disability, death benefits and cost of living adjustments to eligible employees. Eligibility to participate in the retirement plan is determined by having completed thirty days of credited service. As determined by LACERA, the Commission contributes 12.72% of employees' covered salary. Contributions for the fiscal years ended June 30, 2011 and 2010 were \$56,626 and \$52,800 respectively.

Refer to the 2011 Annual Report of LACERA for the funded status of the Plan.

NOTE 7 OTHER POSTEMPLOYMENT BENEFITS

Plan Description

In addition to the retirement plan described in Note 6, the Commission provides a defined benefit healthcare plan to retirees in accordance with the benefits provided by the Los Angeles County Retirement Association. Spouses are also covered throughout his or her life. The Commission pays 4% of the annual premiums for each year of service of the employee. Employees must have worked a minimum of 5 years with the Commission in order to be eligible for these benefits.

Funding Policy

As of June 30, 2011, the Commission has not established a trust account or equivalent that contains an irrevocable transfer of assets dedicated to providing benefits to retirees in accordance with the terms of the plan and that are legally protected from creditors. The Commission's contribution is currently based on a projected pay-as-you-go funding method, that is, benefits are payable when due. For the fiscal year ended June 30, 2011, those costs totaled \$5,491.

Annual OPEB Cost and Net OPEB Obligation

The annual required contribution was calculated based on the Alternative Measurement Method which is applicable to employers with fewer than 100 plan members as allowed by GASB Statement Number 45. The Annual Required Contribution (ARC) represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

Local Agency Formation Commission for the County of Los Angeles
Notes to Financial Statements
Years ended June 30, 2011 and 2010

NOTE 7 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

The following table shows the components of the Commission's annual OPEB cost for the year (based on 30-year amortization), the amount of benefits and/or insurance premiums actually paid and the Commission's Net OPEB obligation as of June 30, 2011:

Annual required contribution	\$	72,671	
Interest on net OPEB obligation		-	
Annual OPEB cost		72,671	
Pay-as-you go cost		(5,491)	
Increase in net OPEB obligation		67,180	
Net OPEB obligation - beginning of year		66,761	
Net OPEB obligation - end of year	\$	133,941	

The Commission's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for the current year is as follows:

Fiscal Year Ended	Annual OPEB Cost	% of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2011	\$ 72,761	8%	\$ 133,941
June 30, 2010	73,671	8%	66,761

Funded Status and Funding Progress

As of July 1, 2009, the date of the latest actuarial valuation, the unfunded actuarial accrued liability (UAAL) for benefits was \$680,973. Refer to the Required Supplementary Information for the Schedule of Funding Progress of the Plan.

Methods and Assumptions

The following statistics and assumptions were used in the actuarial valuation:

No. of active employees		7
Average age of active, eligible employees		38
Assumed retirement age		60
Actuarial cost method		Entry age
Amortization method		level percentage of payroll over a 30-year period
Discount rate		5%
Payroll growth rate		2%
Healthcare cost trend		3%

Local Agency Formation Commission for the County of Los Angeles
Notes to Financial Statements
Years ended June 30, 2011 and 2010

NOTE 8 COMMITMENTS

The Commission has entered into office space lease under both short-term and long-term lease agreements expiring through November 2021. Future minimum rental payments under non-cancelable leases are as follows:

<u>Year ending June 30</u>	<u>Amount</u>
2012	\$ 78,705
2013	77,032
2014	79,343
2015	81,723
2016	84,175
Thereafter	501,459
Total \$	<u>902,437</u>

Total rent expense for the years ended June 30, 2011 and 2010 amounted to \$75,341 and \$80,751, respectively.

NOTE 9 SUBSEQUENT EVENTS

The Commission has evaluated events subsequent to June 30, 2011 to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through February 14, 2012, the date the financial statements were available to be issued. Based upon this evaluation, it was determined that no subsequent events occurred that require recognition or additional disclosure in the financial statements.

**Local Agency Formation Commission for the County of Los Angeles
Required Supplementary Information
Years ended June 30, 2011 and 2010**

Other Postemployment Benefits (OPEB) – Schedule of Funding Progress

Actuarial Valuation Date	Accrued Liability (AAL) entry Age (a)	Actuarial Value of Assets (b)	Unfunded Liability (a-b)	Funded Status (b/a)	Annual Covered Payroll (c)	UAAL as a % of Payroll ((a-b)/c)
July 1, 2009	\$ 680,973	\$ -	\$ 680,973	0%	\$ 531,926	128%

Note: The Commission adopted GASB No. 45 during the fiscal year ended June 30, 2010. Information prior to this date is not available.



VASQUEZ
& COMPANY LLP

CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS CONSULTANTS

801 South Grand Avenue, Suite 400 ▪ Los Angeles, CA 90017-4646 ▪ Ph. (213) 629-9094 ▪ Fax (213) 996-4242 ▪ www.vasquezcpa.com

**Report of Independent Auditors on Compliance and on Internal Control
over Financial Reporting Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards**

The Commission Members

Local Agency Formation Commission for the County of Los Angeles

We have audited the financial statements of Local Agency Formation Commission for the County of Los Angeles (the Commission) as of and for the year ended June 30, 2011, and have issued our report thereon dated February 14, 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

In planning and performing our audit, we considered the Commission'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 Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission'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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Finding FS 11-01 to be a material weakness.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control over financial reporting that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance 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 that are required to be reported under *Government Auditing Standards*.



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

This report is intended solely for the information and use of the Commission members and management and is not intended to be and should not be used by anyone other than these specified parties.

Vergara + Company LLP

Los Angeles, California
February 14, 2012

Local Agency Formation Commission for the County of Los Angeles
Schedule of Findings
Year ended June 30, 2011

FS 11-01: Develop a year-end closing procedure

Condition and context

At present, the Commission does not perform closing procedures. This resulted to numerous adjustments proposed by the auditors.

Recommendation

We recommend that the Commission develop a year end closing procedure. Year end closing procedure should involve recording of accrual entries to properly report activity on an accrual basis. These entries should include capitalization of assets, depreciation, prepayments, payroll accruals, accounts payable, accounts receivable and other recurring charges.

The following is our recommended summary of closing procedures for your consideration:

- A. Complete all payroll processes, including –
 - Processing all payroll checks for the current payroll year through June 30.
 - Preparing, reconciling and filing payroll tax forms and reports, such as Form 1099, 1096, W-2 and W-3, where applicable.

- B. Determine that all transactions have been recorded and posted. Review the transactions for completeness by scanning the ending balances and the transactions posted to each general ledger account to detect unusual entries or unexpected ending balances.

- C. Reconcile all general ledger accounts and make necessary adjustments, including –
 - Agreeing ending general ledger cash balances to ending bank reconciliation balances
 - Agreeing ending general ledger credit card liability balances to ending credit card statement reconciliations
 - Agreeing the ending accounts payable balance to the total of the Aged Payables Report
 - Reconcile and review whether all capitalizable assets were recorded properly
 - Capitalizing and amortizing prepaid assets
 - Calculating and recording depreciation on capital assets

- D. Print and reconcile the following year-end reports in order to have a record of historical transactions for the year (they may also be useful during the audit):
 - Accounts receivable
 - Cash receipts journal
 - Aged accounts receivable trial balance

 - Accounts payable
 - Check register
 - Aged accounts payable trial balance
 - Forms 1099

Local Agency Formation Commission for the County of Los Angeles
Schedule of Findings
Year ended June 30, 2011

- Payroll
 - Payroll check register
 - Quarterly earnings report
 - Yearly earnings report
 - Payroll tax reports
 - State quarterly report forms
 - Federal forms

- General ledger
 - Trial balance
 - Adjusting journal entries
 - Reclassification entries

Management's Response

Management hired a part-time bookkeeper during the fiscal year 2010-2011. This will address the issue of closing the books and other accounting related issues. Management expects this internal control deficiency to be resolved during the fiscal year 2011-2012 upon implementation of new procedures based on recommendations by the auditor.

