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January 14, 2013

To the Chair and Members of the
Yolo County Local Agency Formation Commission
Woodland, California

We have audited the financial statements of the governmental activities and the major fund of Yolo County Local Agency Formation Commission (the LAFCO) as of and for the year ended June 30, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information to you in our engagement letter dated November 23, 2011. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the LAFCO are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2012. We noted no transactions entered into by the LAFCO during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the LAFCO's financial statements were the other postemployment benefits (OPEB) liability and compensated absences. Management's estimate of the OPEB liability was based on a separate valuation prepared by the County of Yolo actuary. We evaluated the key factors and assumptions used to develop the OPEB liability in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements are the OPEB and retirement plan disclosures in Notes D and E to the financial statements. The disclosures were based on actuarial valuations that use significant estimates and judgments about the future status of employees, cost trends and other factors that potentially may differ from those estimates and judgments.

The OPEB plan is currently not being funded by LAFCO. The liability will continue to grow without a funding plan being developed by LAFCO. Also, as we discussed in the management letter last year, the GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which requires the unfunded pension liability to be amortized over the average service life of the employees rather than a maximum 30 year period, requires the use of a lower interest rate assumption for unfunded liabilities as well as other changes in accounting. These required changes may potentially increase the actuarial liability and future contribution percentages when the standard is required to be implemented during the year ended June 30, 2015. The pension obligation is also required to be reported as a liability on the LAFCO's government-wide statement of net assets once this standard is implemented.

The financial statement disclosures are neutral, consistent and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no audit adjustments posted during the year ended June 30, 2012.

Disagreements With Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Consultations With Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the LAFCO's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the LAFCO's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Information in Documents Containing Audited Financial Statements

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Commissioners, management and member agencies and is not intended to be and should not be used by anyone other than these specified parties.

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