



# Vargas and Company

certified public accountants

February 27, 2014

To the Board of Directors of  
Santa Cruz County Animal Shelter  
Santa Cruz, California

In planning and performing our audit of the financial statements of Santa Cruz County Animal Shelter (the "Shelter") as of and for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the Shelter's internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances 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 Shelter's internal control. Accordingly, we do not express an opinion on the effectiveness of the Shelter's internal control.

However, during our audit we became aware of a deficiency in internal control other than significant deficiencies and material weaknesses and a matter that is an opportunity for strengthening internal controls and operating efficiency. We previously reported on the Shelter's internal control in our report dated February 27, 2014. This letter does not affect our report dated February 27, 2014, on the financial statements of Santa Cruz County Animal Shelter.

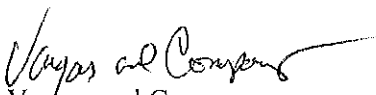
We will review the status of this comment during our next audit engagement. We have already discussed this comment and suggestion with various Shelter personnel, and we will be pleased to discuss it in further detail at your convenience, to perform any additional study of this matter, or to assist you in implementing the recommendation. Our comment and suggestion is summarized as follows:

Administrative Policies #210 and #220

The Shelter's Administrative Policies #210, Statutory Authority for Establishment; and #220, Organizational Structure, have not been updated to reflect current member agencies. This finding was reported in the prior management letter.

We recommend that the Shelter update the Administrative Policies #210 and #220, to reflect the current member agencies. We further recommend that the Shelter review all its administrative policies and make updates as needed.

Sincerely,

  
Vargas and Company  
San Jose, California

**SANTA CRUZ COUNTY  
ANIMAL SHELTER  
AUDIT REPORT  
YEAR ENDED JUNE 30, 2013**



**Vargas and Company**  
CPA's

**SANTA CRUZ COUNTY ANIMAL SHELTER**  
**June 30, 2013**

**Table of Contents**

	<u>Page(s)</u>
INDEPENDENT AUDITORS' REPORT	1-3
MANAGEMENT'S DISCUSSION AND ANALYSIS (Required Supplementary Information)	4-9
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements	
Statement of Net Position	10
Statement of Activities	11
Fund Financial Statements	
Governmental Fund	
Balance Sheet	12
Reconciliation of the Governmental Fund Balance Sheet to the Government-wide Statement of Net Position - Governmental Activities	13
Statement of Revenues, Expenditures and Changes in Fund Balances	14
Reconciliation of the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances to the Government-wide Statement of Activities - Governmental Activities	15
Notes to the Basic Financial Statements	16-28
REQUIRED SUPPLEMENTARY INFORMATION (Other than MD&A)	
Budgetary Comparison Schedule	29
Schedule of Funding Progress	30
INDEPENDENT AUDITORS' 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>	31-32
GENERAL INFORMATION	33
SCHEDULE OF INSURANCE COVERAGE	34



# **Vargas and Company**

certified public accountants

## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors of  
Santa Cruz County Animal Shelter  
Santa Cruz, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and major fund of the Santa Cruz County Animal Shelter (the "Shelter") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Shelter's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, major fund, and the aggregate remaining fund information of the Santa Cruz County Animal Shelter, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4-9 and 29 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.


### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Santa Cruz County Animal Shelter's basic financial statements. The general information and schedule of insurance coverage are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The general information and schedule of insurance coverage are the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the general information and schedule of insurance coverage are fairly stated in all material respects in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2014, on our consideration of the Santa Cruz County Animal Shelter's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Santa Cruz County Animal Shelter's internal control over financial reporting and compliance.

  
Vargas and Company  
San Jose, California  
February 27, 2014

**Management's Discussion and Analysis**  
**(Required Supplementary Information)**

**SANTA CRUZ COUNTY ANIMAL SHELTER**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2013**

This section of the Santa Cruz County Animal Shelter's (the Shelter) audit report presents a discussion and analysis of the Shelter's financial performance during the fiscal year ended June 30, 2013. Please read it in conjunction with the Shelter's basic financial statements following this section.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the Shelter's basic financial statements. The Shelter's basic financial statements are comprised of three components: (1) Government-wide financial statements, (2) Fund financial statements, and (3) Notes to the basic financial statements. Required Supplementary Information is included in addition to the basic financial statements.

**Government-wide Financial Statements**

Government-wide financial statements are designed to provide readers with a broad overview of the Shelter's finances, in a manner similar to a private-sector business.

The *Statement of Net Position* presents information on all Shelter assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether or not the financial position of the Shelter is improving or deteriorating.

The *Statement of Activities* presents information showing how the Shelter's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods, such as expenses pertaining to earned but unused vacation and sick leave.

Both of these government-wide financial statements distinguish functions of the Shelter that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The Shelter does not have any business-type activities.

**Fund Financial Statements**

The fund financial statements are designed to report information about groupings of related accounts, which are used to maintain control over resources that have been segregated for specific activities or objectives. The Shelter, like state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Shelter are classified as governmental funds.



**SANTA CRUZ COUNTY ANIMAL SHELTER**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2013**

*Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. The governmental funds financial statements focus on (1) how cash and other financial assets can readily be converted to available resources and (2) the balances left at year-end that are available for spending. Such information may be useful in determining what financial resources are available in the near future to finance the Shelter's programs.

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. By doing so, readers may better understand the long-term impact of the Shelter's near-term financing decisions. Both the governmental funds Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between the governmental funds and governmental activities.

The Shelter reports only one governmental fund, which is the general fund. The general fund is the general operating fund of the Shelter. It is used to account for all financial resources.

**Notes to the Financial Statements**

The 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.

**Required Supplementary Information (other than MD&A)**

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information concerning the Shelter's general fund budgetary comparison schedule and progress in funding its obligation to provide pension benefits to its employees and other post-employment obligations to retirees.

The Shelter adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided to demonstrate compliance with this budget.

**SANTA CRUZ COUNTY ANIMAL SHELTER**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2013**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Net Position**

	<u>Governmental Activities</u>		
	2013	2012	Variance %
Assets:			
Current and other assets	\$ 1,388,305	\$ 1,580,779	(12.18)
Accounts Receivable	19,478	21,613	(9.88)
Capital assets	36,843	64,598	(42.97)
Total assets	<u>\$ 1,444,626</u>	<u>\$ 1,666,990</u>	(13.34)
Liabilities:			
Current and other liabilities	210,910	221,704	(4.87)
Long-term liabilities	689,314	603,986	14.13
Total liabilities	<u>900,224</u>	<u>825,690</u>	9.03
Net Position:			
Net investment in capital assets	32,016	59,771	(46.44)
Unrestricted	512,386	781,529	(34.44)
Total net position	<u>544,402</u>	<u>841,300</u>	(35.29)
Total liabilities and net position	<u>\$ 1,444,626</u>	<u>\$ 1,666,990</u>	(13.34)

**Analysis of Net Position**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. For the fiscal year ended June 30, 2013, the Shelter's assets exceeded liabilities by \$544,402.

The largest portion of the Shelter's net position, \$512,386 (94%), is unrestricted and therefore may be used to meet the Shelter's ongoing obligations. The remaining net position, \$32,016 (6%), represents the Shelter's investment in capital assets (e.g., construction in process and equipment), net of any related debt used to acquire these assets that is still outstanding. The Shelter uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. It should be noted that the Shelter does not have any debt related to these assets.

**SANTA CRUZ COUNTY ANIMAL SHELTER**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2013**

**Change in Net Position**

<b>Revenues</b>	<u>Governmental Activities</u>			
	<u>2013</u>	<u>2012</u>	<u>Dollar change</u>	<u>%</u>
Program Revenues:				
Fees, fines and charges for services	\$ 3,028,986	\$ 2,941,401	\$ 87,585	2.98
Operating grants and contributions	9,400	9,000	\$ 400	4.44
General Revenues:				
Interest and investment income	6,518	8,689	\$ (2,171)	(24.99)
Miscellaneous	174,854	160,292	\$ 14,562	9.08
Total revenues	<u>3,219,758</u>	<u>3,119,382</u>	<u>\$ 100,376</u>	3.22
Expenses:				
Governmental activities	<u>3,516,656</u>	<u>3,337,971</u>	<u>\$ 178,685</u>	5.35
Total expenses	<u>3,516,656</u>	<u>3,337,971</u>	<u>\$ 178,685</u>	5.35
Change in net position	(296,898)	(218,589)	\$ (78,309)	35.82
Net position, beginning of year	<u>841,300</u>	<u>1,059,889</u>	<u>\$ (218,589)</u>	(20.62)
Net position, end of year	<u>\$ 544,402</u>	<u>\$ 841,300</u>	<u>\$ (296,898)</u>	(35.29)

**Analysis of Change in Net Position**

The Shelter's net position decreased by \$296,898 during the current fiscal year. This decrease is a result of expenditures exceeding revenues.

**FINANCIAL ANALYSIS OF THE SHELTER'S FUNDS**

As noted earlier, the Shelter uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

**Governmental Funds**

The Shelter's governmental fund financial statements provide the same type of information found in the government-wide financial statements, but in more detail.

**SANTA CRUZ COUNTY ANIMAL SHELTER**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2013**

At June 30, 2013, the Shelter's governmental fund reported an ending fund balance of \$1,198,482, a decrease of \$185,423 in comparison with the prior year. Revenues for governmental funds totaled \$3,219,758, which represents an increase of \$100,377, or 3.2%, from fiscal year 2011-2012. Expenditures for governmental functions totaling \$3,405,181 increased by \$172,591, or 5.3%, from fiscal year 2011-2012. In the fiscal year 2012-2013, expenditures for governmental functions exceeded revenues by \$185,423.

The following table presents the amount of revenues and expenditures by source as well as increases or decreases from the prior year.

**Governmental Funds**

	<u>2013</u>		<u>2012</u>		<u>Increase/(Decrease)</u>	
	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Change</u>
<u>Revenue by Source</u>						
Licenses and permits	\$ 332,929	10.34	\$ 272,448	8.73	\$ 60,481	22.20
Revenue from use of money and property	7,938	0.25	11,085	0.36	(3,147)	(28.39)
Member contributions	2,217,945	68.89	2,163,849	69.37	54,096	2.50
Charges for services	426,852	13.26	456,777	14.64	(29,925)	(6.55)
Other revenues	234,094	7.27	215,222	6.90	18,872	8.77
Total	<u>\$ 3,219,758</u>	<u>100.00</u>	<u>\$ 3,119,381</u>	<u>100.00</u>	<u>\$ 100,377</u>	<u>3.22</u>
<u>Expenditures by Source</u>						
Salaries and benefits	2,256,448	66.27	2,032,464	62.87	223,984	11.02
Services and supplies	1,041,061	30.57	1,091,295	33.76	(50,234)	(4.60)
Other charges	107,672	3.16	95,947	2.97	11,725	12.22
Fixed assets	-	-	12,884	0.40	(12,884)	(100.00)
Total	<u>\$ 3,405,181</u>	<u>100.00</u>	<u>\$ 3,232,590</u>	<u>100.00</u>	<u>\$ 172,591</u>	<u>5.34</u>

The following provides explanations in significant changes in revenues by source:

- Licenses and permits increased by \$60,481, mainly due to a higher number of dog licenses being sold during 2012-2013.
- Charges for services decreased by \$29,925, mainly due to a reduction in the number of spay/neuter surgeries performed for animal rescue agencies.

**SANTA CRUZ COUNTY ANIMAL SHELTER**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2013**

**CAPITAL ASSETS**

The Shelter's investment in capital assets for its governmental activities as of June 30, 2013, totaled \$36,843 (net of accumulated depreciation of \$243,582). These capital assets include animal control vehicles and other equipment. The decrease in the Shelter's capital assets for the 2012-2013 fiscal year was \$27,755, or 42.97%. Capital assets for the governmental activities are presented below to illustrate changes from the prior year:

	<u>Governmental Activities</u>		Increase/ (Decrease)
	2013	2012	<u>% of Change</u>
Equipment	\$ 31,965	\$ 31,965	0.00
Vehicles	248,459	273,644	(9.20)
Less accumulated depreciation	(243,581)	(241,011)	1.07
Net capital assets	<u>\$ 36,843</u>	<u>\$ 64,598</u>	(42.97)

Additional information on the Shelter's capital assets can be found in Note 4 on page 20.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The Shelter is funded by member contributions and fees paid by the general public. Member contributions totaled \$2,217,945 in fiscal year 2012-2013 and will remain the same for fiscal year 2013-2014.

Total budgetary expenditures are expected to increase in fiscal year 2013-2014 compared to the previous year, as audited, by \$169,151 which represents a 4.96% increase. The increase in expenditures is substantially the result of 1) a projected increase in salaries and benefits, and 2) a projected increase in other expenses in 2013-2014.

Anticipated budgeted revenues for fiscal year 2013-2014 of \$3,394,945 indicate an increase by 5.44% from fiscal year 2012-2013 audited revenues of \$3,219,758. The increase in revenue is primarily due to 1) a projected increase in license revenue, 2) a projected increase in charges for services, and 3) a projected increase in other revenue.

**REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the Shelter's finances for all those with an interest in the Shelter's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Santa Cruz County Animal Shelter, 2200 7<sup>th</sup> Avenue, Santa Cruz, CA 95062.

**Basic Financial Statements –  
Government-wide Financial Statements**

**SANTA CRUZ COUNTY ANIMAL SHELTER**  
**Statement of Net Position**  
**June 30, 2013**

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash	\$ 1,388,305
Accounts Receivable	19,478
Capital assets, net	<u>36,843</u>
Total Assets	<u><u>\$ 1,444,626</u></u>
<u>Liabilities</u>	
Current	
Accounts payable - Claims	\$ 35,256
Accounts payable - Payroll	41,462
Donations	130,427
Stale dated warrants	2,156
Capital lease	1,609
Long-term	
Compensated absences	173,259
Other Post-Employment Benefits	<u>516,055</u>
Total Liabilities	<u>900,224</u>
<u>Net Position</u>	
Net investment in capital assets	32,016
Unrestricted	<u>512,386</u>
Total Net Position	<u>544,402</u>
Total Liabilities and Net Position	<u><u>\$ 1,444,626</u></u>

*The accompanying notes to the basic financial statements are an integral part of this statement.*

**SANTA CRUZ COUNTY ANIMAL SHELTER**  
**Statement of Activities**  
**Year Ended June 30, 2013**

<u>Functions/Programs</u>	
Governmental activities	
† General government	\$ <u>(3,516,656)</u>
Total Governmental Activities	<u>(3,516,656)</u>
<u>Program Revenues</u>	
Fees, fines and charges for services	3,028,986
Operating grants and contributions	<u>9,400</u>
Total Program Revenues	<u>3,038,386</u>
<u>General Revenues</u>	
Interest and investment income	6,518
Miscellaneous	<u>174,854</u>
Total General Revenues	<u>181,372</u>
Change in Net Position	(296,898)
Net Position, Beginning	<u>841,300</u>
Net Position, Ending	\$ <u><u>544,402</u></u>

*The accompanying notes to the basic financial statements are an integral part of this statement.*



**Basic Financial Statements –  
Fund Financial Statements**

**SANTA CRUZ COUNTY ANIMAL SHELTER**  
**Balance Sheet - Governmental Fund**  
**June 30, 2013**

	<u>General Fund</u>
<u>Assets</u>	
Cash	\$ 1,388,305
Accounts Receivable	<u>19,478</u>
Total Assets	<u><u>\$ 1,407,783</u></u>
 <u>Liabilities and Fund Balance</u>	
Liabilities:	
Accounts payable - Claims	\$ 35,256
Accounts payable - Payroll	41,462
Donations	130,427
Stale dated warrants	<u>2,156</u>
Total Liabilities	<u>209,301</u>
 Fund Balances:	
Nonspendable:	
Imprest cash	700
Committed to:	
SB 90 State Mandated Cost Claims	470,722
Assigned to:	
B Jean Adams Trust	546,992
Eliminate projected budgetary deficit in subsequent year's budget	179,387
Reserve for encumbrances	<u>681</u>
Total Fund Balance	<u>1,198,482</u>
Total Liabilities and Fund Balance	<u><u>\$ 1,407,783</u></u>

*The accompanying notes to the basic financial statements are an integral part of this statement.*

**SANTA CRUZ COUNTY ANIMAL SHELTER**  
**Reconciliation of the Governmental Fund Balance Sheet to the**  
**Government-wide Statement of Net Position - Governmental Activities**  
**June 30, 2013**

<b>Fund Balance - Total Governmental Fund</b>		<b>\$ 1,198,482</b>
<p>Amounts to be reported for governmental activities in the Statement of Net Position are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.</p>		36,843
<p>Long-term liabilities were not due and payable in the current period. Therefore, they were not reported in the governmental funds.</p>		
<p>    Capital leases</p>	\$ (1,609)	
<p>    Compensated absences</p>	(173,259)	
<p>    OPEB Liability</p>	<u>(516,055)</u>	<u>(690,923)</u>
<b>Net Position of Governmental Activities</b>		<b>\$ <u>544,402</u></b>

*The accompanying notes to the basic financial statements are an integral part of this statement.*

**SANTA CRUZ COUNTY ANIMAL SHELTER**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**Year Ended June 30, 2013**

	General Fund
<u>Revenues</u>	
Licenses and permits	\$ 332,929
Revenue from use of money and property	7,938
Member contributions	2,217,945
Charges for services	426,852
Other	234,094
Total Revenues	3,219,758
<u>Expenditures</u>	
Salaries and benefits	2,256,448
Services and supplies	1,041,061
Other charges	107,672
Total Expenditures	3,405,181
Net Change in Fund Balance	(185,423)
Fund Balance, Beginning	1,383,905
Fund Balance, Ending	\$ 1,198,482

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

**SANTA CRUZ COUNTY ANIMAL SHELTER**  
**Reconciliation of the Governmental Fund Statement of Revenues,**  
**Expenditures and Changes in Fund Balances to the Government-wide**  
**Statement of Activities - Governmental Activities**  
**Year Ended June 30, 2013**

**Net Change in Fund Balance** \$ (185,423)

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

Governmental funds reported capital outlay as expenditures.

However, in the Statement of Activities, the cost of those assets was allocated over their estimated useful lives and reported as depreciation expense.

Expenditures for capital assets	\$ 3,217	
Less current year depreciation	<u>(27,755)</u>	(24,538)

Some 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.

Change in compensated absences	(18,937)	
Change in OPEB obligation	<u>(68,000)</u>	(86,937)

**Change in Net Position of Governmental Activities** \$ (296,898)

*The accompanying notes to the basic financial statements are an integral part of this statements.*

**Basic Financial Statements –**  
**Notes to the Basic Financial Statements**

**SANTA CRUZ COUNTY ANIMAL SHELTER**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2013**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The Santa Cruz County Animal Shelter (the Shelter), formerly known as the Animal Services Authority, was formed on June 18, 2002, by the execution of a joint powers agreement among the cities of Capitola, Santa Cruz, and Scotts Valley, and the County of Santa Cruz. The joint powers agreement was amended to allow the City of Watsonville to become a Party to the joint powers agreement effective November 15, 2004. The City of Capitola withdrew from the joint powers agreement effective July 1, 2007. The Shelter is governed by an eight member board.

**B. Basis of Presentation**

*Government-Wide Financial Statements*

The Statement of Net Position and Statement of Activities display information about the primary government. These statements include the financial activities of the overall government except for fiduciary activities. The Shelter does not have fiduciary activities. Eliminations would have been made to eliminate the double counting of internal service fund activities but the Shelter has no internal service fund activities. Governmental activities are normally supported by intergovernmental revenues.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Shelter's governmental activities. Direct expenses are those that are specifically associated with the Shelter. Program revenues include contributions from other governmental agencies that are restricted for meeting the operational or capital requirements of the Shelter. Revenues that are not classified as program revenues, including investment income, are presented instead as general revenues.

When both restricted and unrestricted resources are available for use, it is the Shelter's policy to use restricted resources first, then unrestricted resources as they are needed.

*Governmental Fund Financial Statements*

Fund financial statements are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures. Funds are organized into three major categories: governmental, proprietary, and fiduciary. Separate statements for each fund category would normally be presented, if applicable.

**SANTA CRUZ COUNTY ANIMAL SHELTER**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2013**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

*Governmental Fund Financial Statements - Continued*

The emphasis of fund financial statements is on major governmental and enterprise funds rather than reporting funds by type. Each major fund is presented in a separate column. The internal service fund is presented in a single column in the proprietary fund financial statements. The Shelter has no proprietary or fiduciary funds, only governmental funds. Therefore, only one statement is prepared.

The Shelter reports one governmental fund, the General Fund:

General Fund – The general fund is a general operating fund of the Shelter and is funded by member contributions from the parties of the Joint Powers Authority and user fees collected. It is used for the purpose of preserving the well being of animals and providing education, adoption, and humane law enforcement services to the community.

**C. Measurement Focus and Basis of Accounting**

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

The government-wide, proprietary, and fiduciary financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between government-wide statements and the statements for governmental funds. The Shelter has no proprietary or fiduciary funds.

The accounting objectives of the economic resources measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Fund equity is classified as net position.

Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred or economic assets used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.



**SANTA CRUZ COUNTY ANIMAL SHELTER**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2013**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**C. Measurement Focus and Basis of Accounting – Continued**

The governmental fund financial statements are prepared using the current financial resources measurement focus and the modified accrual basis of accounting.

In the current financial resources measurement focus, only current financial assets and liabilities are generally included on the balance sheets. The operating statements present sources and uses of funds available for financial resources during a given period. The fund balance is used as the measure of available financial resources at the end of the period.

Under the modified accrual basis of accounting, revenues are recognized when measurable and available. Measurable means knowing or being able to reasonably estimate the amount. Available means having been earned and collectible within the current period. Expenditures (including capital outlay) are recorded when the related liability is incurred, except for debt service expenditures (principal and interest), as well as expenditures related to compensated absences which are reported when due.

**D. Capital Assets and Depreciation**

Capital assets purchased or acquired with an original cost of \$5,000 or more 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 the straight-line basis over the following estimated useful lives:

Equipment and vehicles	4-15 years
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**E. Fund Balance Classification Policies and Procedures**

The Shelter's governmental fund balance is classified in the following categories:

Nonspendable – Includes amounts that are not in a spendable form or are required to be maintained intact.

Restricted – Includes amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally, or through enabling legislation.

**SANTA CRUZ COUNTY ANIMAL SHELTER**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2013**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**E. Fund Balance Classification Policies and Procedures - Continued**

Committed – The Shelter Board, as the Shelter’s highest level of decision-making authority, may commit fund balance for specific purposes pursuant to constraints imposed by formal actions taken, such as a majority vote or resolution. These committed amounts cannot be used for any other purpose unless the Shelter Board removes or changes the specific use. The Board action to commit fund balance needs to occur within the fiscal reporting period, no later than June 30<sup>th</sup>. However, the amount can be determined subsequent to the release of the financial statements.

Assigned – Includes amounts that are constrained by the Shelter’s intent to be used for specific purposes, but are neither restricted nor committed, are reported as assigned fund balance. The Shelter Board delegated the authority to assign amounts to be used for specific purposes to the Shelter General Manager, not to exceed \$10,000 per purpose. Any funds set aside as assigned fund balance greater than \$10,000 must be reported to the Shelter Board for approval at their next regular meeting and recorded in the minutes. The Shelter Board has the authority to remove or change the assignment of the funds with a simple majority vote.

Unassigned – Includes amounts that are technically available for any purpose, and includes all amounts not contained in other classifications.

When both restricted and unrestricted resources are available for use, it is the Shelter’s policy to use restricted resources first, then unrestricted resources as they are needed.

When committed, assigned, and unassigned funds are available for use, it is the Shelter’s policy to use committed funds first, assigned funds second, and unassigned funds last.

**SANTA CRUZ COUNTY ANIMAL SHELTER**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2013**

**NOTE 2. POOLED CASH AND INVESTMENTS**

Cash balances of the Shelter's funds are deposited with the County of Santa Cruz where the available balances beyond immediate needs are invested in various securities by the County Treasurer. Pooled balances are restricted to legally stipulated investments consistent with state statutes and the County's Investment Policy. In accordance with GASB Statement No. 31, the County calculated the fair value of all investments included in the pooled investments based on quoted market prices. Any material unrealized gains or losses are reported along with investment income (interest). At June 30, 2013, the unrealized losses applicable to the Shelter are considered to be immaterial and, therefore, no adjustments have been made to the financial statements.

**NOTE 3. COMPENSATED ABSENCES PAYABLE**

Compensated absences are those absences for which employees will be paid, such as vacation, sick, and administrative leave. A liability for compensated absences that are attributable for services already rendered that are not contingent on a special event that is outside the control of the government and its employees is accrued as employees earn the rights to the benefits. On June 30, 2013, the liability for compensated absences included \$163,367 of vacation pay, \$3,517 of vested sick leave, and \$6,375 of administrative pay for a total of \$173,259.

**NOTE 4. CAPITAL ASSETS**

The following is a summary of capital assets activity for the Shelter for the fiscal year ended June 30, 2013:

	Balance 6/30/12	Additions	Deletions/ Transfers	Balance 6/30/13
Capital assets, being depreciated				
Equipment	\$ 305,609	\$ -	\$ 25,185	\$ 280,424
Less accumulated depreciation for				
Equipment	(241,011)	(27,755)	(25,185)	(243,581)
Total capital assets, being depreciated, net	64,598	(27,755)	-	36,843
Capital assets, not being depreciated	-	-	-	-
Total capital assets, net	<u>\$ 64,598</u>	<u>\$ (27,755)</u>	<u>\$ -</u>	<u>\$ 36,843</u>

**SANTA CRUZ COUNTY ANIMAL SHELTER**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2013**

**NOTE 5. LONG TERM DEBT**

The following is a summary of long-term debt transactions for the Shelter for the fiscal year ended June 30, 2013:

	Balance 6/30/12	Additions/ (Deletions)	Balance 6/30/13	Current Portion	Long-Term Portion
Compensated absences	\$ 154,322	\$ 18,937	\$ 173,259	\$ -	\$ 173,259
Capital leases	4,827	(3,218)	1,609	1,609	-
Totals	<u>\$ 159,149</u>	<u>\$ 15,719</u>	<u>\$ 174,868</u>	<u>\$ 1,609</u>	<u>\$ 173,259</u>

**NOTE 6. OPERATING LEASES**

Lease with the County of Santa Cruz

On October 28, 2008, the Shelter executed an agreement as *lessee* to lease property from the County of Santa Cruz for \$197,669 per year, for a period of 30 years. At the end of this period, the Shelter will have the option to extend the lease for an additional 30 years.

The Shelter's future minimum rental commitments for this facility lease, accounted for as an operating lease at June 30, 2013, are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2014	\$ 197,669
2015	197,669
2016	197,669
2017	197,669
2018	197,669
2019-2023	988,345
2024-2028	988,345
2029-2033	988,345
2034-2038	<u>988,345</u>
Total	<u>\$ 4,941,725</u>

**SANTA CRUZ COUNTY ANIMAL SHELTER**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2013**

**NOTE 7. CAPITAL LEASES**

The Shelter has entered into a capital lease agreement under which the related equipment become the property of the Shelter. The leased assets are presented as components of capital assets and the lease liabilities are presented as capital leases payable.

	June 30, 2013
Two copy machines	\$ 1,609
Total capital lease obligations	\$ 1,609

Equipment under capital lease is as follows:

Equipment	\$ 12,872
Less: accumulated depreciation	(12,872)
Net	\$ -

As of June 30, 2013, capital lease amortization is as follows:

Year Ending June 30, 2014	\$ 2,365
Less interest and maintenance	756
Present value of remaining payments	\$ 1,609

**NOTE 8. RELATED PARTY TRANSACTIONS**

During the normal course of business, the Shelter is charged for data processing services, telecommunications services, duplicating services, postage, janitorial services, facilities maintenance services, service center charges, supplies, accounting and auditing services, and equipment and structure lease and rent, by various departments of the County of Santa Cruz.

**SANTA CRUZ COUNTY ANIMAL SHELTER**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2013**

**NOTE 8. RELATED PARTY TRANSACTIONS - Continued**

The County of Santa Cruz Information Services Department provides the Shelter with data processing services, telecommunications services, duplicating services, postage, and equipment rental. The charges for performing those functions for the year ended June 30, 2013, are summarized below:

Data processing services	\$ 49,960
Telecommunications services	24,810
Duplicating services	1,275
Postage	<u>473</u>
 Department total	 <u><u>\$ 76,518</u></u>

The County of Santa Cruz General Services Department provides the Shelter with janitorial services, facilities maintenance services, and service center items. The charges for performing those functions for the year ended June 30, 2013, are summarized below:

Janitorial services	\$ 8,736
Facilities maintenance services	29,234
Service center charges	<u>40,957</u>
 Department total	 <u><u>\$ 78,927</u></u>

The County of Santa Cruz Auditor-Controller's Office provides the Shelter with accounting and auditing services. The charges for performing those functions for the year ended June 30, 2013, were \$17,664.

The County of Santa Cruz Department of Public Works leases the facility to the Shelter, the details of which are described in Note 6. The lease charges for the year ended June 30, 2013, were \$197,669.

The Shelter is one of a number of agencies and departments within the County of Santa Cruz. General expenses such as purchasing, accounting, budgeting, data processing, and personnel administration represent services provided to the Shelter by departments within the County of Santa Cruz. Such expenses, based on an allocation plan and charged to the Shelter during the year ended June 30, 2013, amounted to \$107,672.

**SANTA CRUZ COUNTY ANIMAL SHELTER**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2013**

**NOTE 9. DEFINED BENEFIT PENSION PLAN**

Plan Description

The Shelter (through the County of Santa Cruz) contributes to the California Public Employees' Retirement System (CalPERS), an agent multiple-employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by State statute and County ordinance. Copies of CalPERS' annual financial report may be obtained from their Executive Office located at 400 P Street, Sacramento, California 95814.

Funding Policy

Active plan members are required by State statute to contribute 7% of annual covered salary. The Shelter makes the contributions required of Shelter employees on their behalf and for their account for Service Employees International Union employees only; other employees pay their own contributions. The Shelter was required to contribute for fiscal year 2012-2013 at an actuarially determined rate of 14.253%. Benefit provisions and all other requirements are established by State statute and County contracts with employee bargaining groups. The contribution requirements of plan members and the County are established by CalPERS.

Annual Pension Costs

The Shelter's annual pension cost for the current and previous two years were \$252,133, \$228,387 and \$194,753, respectively. These were equal to the Shelter's required and actual contributions. The 2012-2013 required contribution was determined as part of the June 30, 2010, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included: (a) 7.75% investment rate of return (net of administrative expenses), (b) projected salary increases of 3.55% to 14.45% depending on age, service, and type of employment, and (c) 3.25% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.00%. The actuarial value of CalPERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a fifteen-year period. CalPERS unfunded actuarial accrued liabilities (or surplus) is being amortized as a level percentage of projected payroll on a closed basis. All gains and losses are tracked and amortized over a rolling 30 year period with the exception of special gains and losses in fiscal years 2008-2009, 2009-2010, and 2010-2011. Each of these years' gains and losses will be isolated and amortized over fixed and declining 30 year periods (as opposed to the current rolling 30 year amortization).

**SANTA CRUZ COUNTY ANIMAL SHELTER**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2013**

**NOTE 9. DEFINED BENEFIT PENSION PLAN - Continued**

Three-year trend information for CalPERS:

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/2011	\$ 194,753	100%	\$ -
6/30/2012	228,387	100%	-
6/30/2013	252,133	100%	-

Funded Status and Funding Progress

The following is the funded status information as of June 30, 2011, the most recent actuarial valuation date:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Entry Age Actuarial Accrued Liability</u>	<u>Unfunded (Overfunded) Actuarial Accrued Liability</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Unfunded (Overfunded) Liability as a Percentage of Covered Payroll</u>
2011	\$ 721,534,770	\$ 875,808,856	\$ 154,274,086	82.4%	\$ 139,029,180	111.0%

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**NOTE 10. POST-RETIREMENT HEALTH CARE BENEFITS**

**Plan Description.** Employees of the Shelter who retire through CalPERS, their spouse, and eligible dependents may receive health plan coverage through the Public Employees' Medical & Hospital Care Program Plan (Plan). The Plan is a defined benefit plan which provides the retirees a monthly medical contribution that is not to exceed the cost of the plan selected. The cost of the Plan to the Shelter will be determined through CalPERS' regulations and requirements. The Shelter contributions are based on longevity schedules with fixed dollar scaling that varies by bargaining unit. The Plan does not issue a financial report.

**Eligibility.** All of the Shelter's employees became participants in accordance with the Memorandum of Understanding (MOU) as negotiated by each group or bargaining unit. In order to receive benefits, eligible employees must meet the minimum requirements defined in their MOU.





**SANTA CRUZ COUNTY ANIMAL SHELTER**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2013**

**NOTE 10. POST-RETIREMENT HEALTH CARE BENEFITS - Continued**

The Shelter's annual OPEB costs, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2013 is as follows:

<b>Fiscal Year Ended</b>	<b>Annual OPEB Cost</b>	<b>Annual Contribution</b>	<b>% of Annual OPEB Cost Contributed</b>	<b>Net OPEB Obligation</b>
6/30/2011	206,055	-	0%	385,055
6/30/2012	63,000	-	0%	448,055
6/30/2013	68,000	-	0%	516,055

**Funded Status and Funding Progress.** As of January 1, 2012, the most recent actuarial valuation date, the Plan was zero percent funded. The Actuarial Accrued Liability for benefits was \$275,000 and the actuarial value of assets was \$0, resulting in an Unfunded Actuarial Accrued Liability (UAAL) of \$275,000. The covered payroll (annual payroll of active employees covered by the plan) was \$1,310,000 and the ratio of UAAL to the covered payroll was 21.0%.

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 about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the Actuarial Accrued Liabilities for benefits.

**Actuarial Methods and Assumptions.** Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of 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. Actuarial assumptions involve estimates and assumptions that extend far into the future. These assumptions are subject to future revisions as new facts become known.

**SANTA CRUZ COUNTY ANIMAL SHELTER**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2013**

**NOTE 10. POST-RETIREMENT HEALTH CARE BENEFITS– Continued**

In the January 1, 2012, actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions include a 4.5% investment rate of return which is based on the expected return on funds invested in County investments, and an annual healthcare cost trend of actual premiums initially and reduced to an ultimate rate of 5% thereafter. The actuarial assumption for inflation was 3%, and the aggregate payroll increases were 3.25%. The Unfunded Actuarial Accrued Liability (UAAL) is being amortized as level percentage of projected payroll on a closed basis. The remaining amortization as of 6/30/2013 was 27 years.

The table below shows the analysis of the actuarial value of assets as a percentage of the actuarial accrual liability and the unfunded actuarial accrued liability as a percentage of the annual covered payroll as of June 30, 2013. The schedule of funding progress presented as RSI following the notes to the financial statements presents multiyear trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Valuation Date	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability	Unfunded (Overfunded) Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded (Overfunded) Liability as a Percentage of Covered Payroll
1/1/2009	\$ -	\$ 314,000	\$ 314,000	0.0%	\$1,325,000	23.7%
1/1/2012	-	275,000	275,000	0.0%	1,310,000	21.0%

**NOTE 11. DEFERRED COMPENSATION PLAN**

The Shelter offers all of its full-time employees a deferred compensation plan (Plan) created in accordance with Section 457 of the Internal Revenue Code. The Plan permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or emergency. Employees direct the investment of Plan assets into certificates of deposit and various mutual funds. The County has insignificant administrative duties.

As of June 30, 2013, the County's Plan assets of \$120,664,891 are not recorded in the Shelter's financial statements as they are deposited with a third party administrator independent of the County and the Shelter.

**Required Supplementary Information**  
**(Other than MD&A)**

**SANTA CRUZ COUNTY ANIMAL SHELTER**  
**Budgetary Comparison Schedule - General Fund**  
**Year Ended June 30, 2013**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	Variance with Final Budget Positive (Negative)
<b>Budgetary Balances, Beginning</b>	\$ 1,383,905	\$ 1,383,905	\$ 1,383,905	\$ -
<b>Resources (Inflows)</b>				
Licenses and permits	338,462	338,462	332,929	(5,533)
Use of money	5,500	5,500	7,938	2,438
Member contributions	2,217,945	2,217,945	2,217,945	-
Charges for services	474,707	474,707	426,852	(47,855)
Other	<u>335,000</u>	<u>335,000</u>	<u>234,094</u>	<u>(100,906)</u>
Amounts Available for Appropriation	<u>3,371,614</u>	<u>3,371,614</u>	<u>3,219,758</u>	<u>(151,856)</u>
<b>Charges to Appropriations (Outflows)</b>				
Salaries and employee benefits	2,251,933	2,251,933	2,256,448	(4,515)
Services and supplies	1,042,721	1,042,721	1,041,061	1,660
Other charges	107,672	107,672	107,672	-
Appropriations for contingencies	<u>130,099</u>	<u>130,099</u>	<u>-</u>	<u>130,099</u>
Total Charges to Appropriations	<u>3,532,425</u>	<u>3,532,425</u>	<u>3,405,181</u>	<u>127,244</u>
<b>Budgetary Balances, Ending</b>	<u>\$ 1,223,094</u>	<u>\$ 1,223,094</u>	<u>\$ 1,198,482</u>	<u>\$ (24,612)</u>

**SANTA CRUZ COUNTY ANIMAL SHELTER**  
**Schedule of Funding Progress - Public Employees' Retirement System**  
**(CalPERS) and Other Post Employment Obligations**  
**Year Ended June 30, 2013**

**PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CalPERS)**

The table below shows a three-year analysis of the actuarial value of assets as a percentage of the actuarial accrual liability and the unfunded actuarial accrued liability for the County of Santa Cruz (which includes the Shelter) as a percentage of the annual covered payroll as of June 30 of each year indicated:

	(A)	(B)	(C)	(D)	(E)	(F)
Actuarial Valuation Date*	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability	Unfunded (Overfunded) Actuarial Accrued Liability [(B)-(A)]	Funded Ratio [(A)/(B)]	Covered Payroll	Unfunded (Overfunded) Liability as a Percentage of Covered Payroll [(C)/(E)]
2009	\$ 646,907,355	\$ 722,139,864	\$ 75,232,509	89.6%	\$ 143,916,625	52.3%
2010	682,810,383	823,338,155	140,527,772	82.9%	143,904,032	97.7%
2011	721,534,770	875,808,856	154,274,086	82.4%	139,029,180	111.0%

\* Most recent information available

**OTHER POSTEMPLOYMENT OBLIGATIONS**

The table below shows a two-year analysis of the actuarial value of assets as a percentage of the actuarial accrual liability and the unfunded actuarial accrued liability as a percentage of the annual covered payroll as of June 30, 2013.

Actuarial Valuation Date*	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability	Unfunded (Overfunded) Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded (Overfunded) Liability as a Percentage of Covered Payroll
1/1/2009	\$ -	\$ 314,000	\$ 314,000	0.0%	\$ 1,325,000	23.7%
1/1/2012	-	275,000	275,000	0.0%	1,310,000	21.0% *

Most recent information available

**Independent Auditors' 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**



# Vargas and Company

certified public accountants

## INDEPENDENT AUDITORS' 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

To the Board of Directors of  
Santa Cruz County Animal Shelter  
Santa Cruz, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, major fund, and the aggregate remaining fund information of the Santa Cruz County Animal Shelter (the "Shelter") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Shelter's basic financial statements, and have issued our report thereon dated February 27, 2014.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Shelter's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Shelter's internal control. Accordingly, we do not express an opinion on the effectiveness of the Shelter's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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




## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Shelter's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Shelter in a separate letter dated February 27, 2014.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

  
Vargas and Company  
San Jose, California  
February 27, 2014

## **General Information**

**SANTA CRUZ COUNTY ANIMAL SHELTER**  
**General Information**  
**Year Ended June 30, 2013**

Organization

The Shelter was formed by the execution of a joint powers agreement to establish, operate and maintain an animal control and care Shelter for the Cities of Santa Cruz, Scotts Valley, Watsonville, and the County of Santa Cruz.

Directors and Officials

The Shelter shall be governed by a Board of Directors. Each entity, which is a Party to the Joint Powers Authority agreement, shall have representation on the Board. The following were in office at June 30, 2013:

Tina Shull, City of Santa Cruz, Chair  
John Weiss, City of Scotts Valley, Vice Chair  
Jeff Marsh, County of Santa Cruz, Secretary  
Steve Clark, City of Santa Cruz  
Joe Phares, County of Santa Cruz  
Susan A. Mauriello, County of Santa Cruz  
Mario Maldonado, City of Watsonville  
Michael Ridgeway, City of Watsonville

Other officials at June 30, 2013, were:

Melanie Sobel, General Manager  
Rosanne Mayclin, Administrative Assistant

Accounts and Records

The official accounting records are maintained in the office of the County Auditor-Controller. Supporting documents are maintained by the Shelter.

Minute Book

Minutes were recorded for meetings and contained approval for disbursements in accordance with prescribed procedures.

Budgetary Procedures

The Shelter prepared fiscal year budgets in accordance with applicable laws and regulations.

## **Schedule of Insurance Coverage**

**SANTA CRUZ COUNTY ANIMAL SHELTER**  
**Schedule of Insurance Coverage**  
**Year Ended June 30, 2013**

At June 30, 2013, the Shelter's insurance coverage was as follows:

<u><b>COVERAGE</b></u>	<u><b>INSURER</b></u>	<u><b>LIMITS</b></u>
Property Coverage	SDRMA	\$1,000,000,000 per occurrence. Replacement cost for scheduled property
Boiler & Machinery	SDRMA	\$100,000,000 per occurrence. Replacement cost for scheduled property
Personal Injury and Property Damage Liability Coverage – General	SDRMA	\$5,000,000 per occurrence.
Personal Injury and Property Damage Coverage – Auto Liability	SDRMA	\$5,000,000 per occurrence.
Uninsured/Underinsured Motorists	SDRMA	\$750,000 each accident.
Public Officials and Employees Errors	SDRMA	\$5,000,000 per occurrence/general aggregate.
Employment Practices Liability	SDRMA	\$5,000,000 per occurrence/general aggregate.
Employee Benefits Liability	SDRMA	\$5,000,000 per occurrence/general aggregate.
Employee Dishonesty Coverage	SDRMA	\$400,000 per occurrence.
Personal Liability Coverage for Board Members	SDRMA	\$500,000 per occurrence/general aggregate per Board Member.