



*City Of San Jose
Office Of The City Auditor
800 N. First Street
San Jose, CA 95112
(408) 277-4601*

**SANTA CLARA COUNTY CITIES ASSOCIATION
AUDITED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 1996, 1997, AND 1998**

By

Gerald A. Silva, CPA

City Auditor

December 7, 1998



CITY OF SAN JOSÉ, CALIFORNIA

800 N. First Street • San Jose, California 95112 • Tel: (408) 277-4601

GERALD A. SILVA
City Auditor

December 7, 1998

Ms. Martha Clevenger,
Executive Director
Santa Clara County Cities Association
505 West Olive Avenue, Suite 630
Sunnyvale, California 94086

Dear Ms. Clevenger:

Transmitted herewith is a copy of our audit of the general fund balance sheets of the Santa Clara County Cities Association (SCCCA) as of June 30, 1996, 1997, and 1998, and the related statements of revenues, expenditures, and changes in fund balances, and statement of cash flows for the years ended June 30, 1996, 1997, 1998. These financial statements are the responsibility of the SCCCA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

I will present this report to the SCCCA Board on January 14, 1999.

Sincerely,

Gerald A. Silva
City Auditor

GS:bh

Encl.

cc: Patricia Dando
Joanne Benjamin
Jeanette Watson
Henry Manayan
Ralph Faravelli



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City Auditor

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
Santa Clara County Cities Association

We have audited the accompanying balance sheets of the *Santa Clara County Cities Association* (SCCCA) as of June 30, 1996, 1997, and 1998, and the related statements of revenues and expenditures, and changes in fund balances and cash flows, for the years ended June 30, 1996, 1997, and 1998. These financial statements are the responsibility of the SCCCA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SCCCA as of June 30, 1996, 1997, and 1998, and the results of its operations for the years then ended in conformity with generally accepted accounting principles.

Gerald A. Silva, CPA
City Auditor

December 7, 1998



SANTA CLARA COUNTY CITIES ASSOCIATION
Balance Sheet
June 30, 1996, 1997, And 1998

	<u>1996</u>	<u>1997</u>	<u>1998</u>
Assets			
Cash (see note 2c)	\$74,713	\$74,107	\$4,620
Interest receivable	1,042	1,060	1,300
Accounts Receivable	--	--	112
Merchandise	760	--	--
Prepaid rent	620	620	620
Other Current Assets-LAIF Funds	<u>--</u>	<u>--</u>	<u>76,717</u>
Total Current Assets	\$77,135	\$75,787	\$83,369
Fixed Assets			
Office Equipment	\$8,457	\$8,457	\$8,457
Less Accumulated Depreciation	<u><5,471></u>	<u><6,180></u>	<u><6,888></u>
Total Fixed Assets	\$2,986	\$2,277	\$1,569
TOTAL ASSETS	<u>\$80,121</u>	<u>\$78,064</u>	<u>\$84,938</u>
Liabilities and Fund Balance			
Accrued liability	<u>\$10,642</u>	<u>\$1,884</u>	<u>\$1,959</u>
Fund balance			
Reserved for Operations	--	--	45,000
Reserved for Equipment Replacement	--	--	10,000
Reserved for Technology Advances	--	--	5,000
Reserved for Education/Speakers	--	--	17,000
Unreserved	<u>69,479</u>	<u>76,180</u>	<u>5,979</u>
Fund Balance	<u>69,479</u>	<u>76,180</u>	<u>82,979</u>
Total Liabilities and Fund Balance	<u>\$80,121</u>	<u>\$78,064</u>	<u>\$84,938</u>

See accompanying notes to the financial statements.

SANTA CLARA COUNTY CITIES ASSOCIATION
Statement Of Revenues, Expenditures, And Changes In Fund Balances
For The Years Ended June 30, 1996, 1997, And 1998

	<u>1996</u>	<u>1997</u>	<u>1998</u>
Revenue			
Contributions from			
Santa Clara County cities	\$40,005	\$40,005	\$40,005
Interest income	3,782	4,577	5,127
Other sources	<u>2,457</u>	<u>3,173</u>	<u>3,262</u>
Total revenues	<u>\$46,244</u>	<u>\$47,755</u>	<u>\$48,394</u>
Expenses			
Office staff	\$20,064	\$20,735	\$21,494
Other professional services	10,330	1,886	1,395
Payroll taxes	1,778	1,841	1,911
Payroll processing expenses	460	541	542
Bank service charges	0	0	11
Book sale expenses	824	380	--
Conference/Director's expenses	1,001	619	826
Depreciation	1,111	708	708
Directory production	594	754	1,000
Dues and subscriptions	122	59	122
Equipment leasing	0	0	282
General membership dinner	2,435	4,284	4,878
Hospitality	659	499	650
Internet services	600	600	202
Insurance	230	244	246
Maintenance and repairs	507	461	87
Office supplies	1,193	888	831
Postage	1,402	1,023	1,122
Printing	657	645	488
Recognition	248	262	194
Rent	3,730	3,710	3,720
Telephone	557	514	587
Travel	<u>466</u>	<u>401</u>	<u>299</u>
Total expenses	<u>\$48,968</u>	<u>\$41,054</u>	<u>\$41,595</u>
Operating Income <Loss>	<\$2,724>	\$6,701	\$6,799
Fund balance at beginning of period	71,648	69,479	\$76,180
Adjustment to fund balance (Note 6)	<u>555</u>	<u>0</u>	<u>0</u>
Fund balance at end of period	<u>\$69,479</u>	<u>\$76,180</u>	<u>\$82,979</u>

See accompanying notes to the financial statements.

SANTA CLARA COUNTY CITIES ASSOCIATION
Statement Of Cash Flows
For The Years Ended June 30, 1996, 1997, And 1998

	<u>1996</u>	<u>1997</u>	<u>1998</u>
Cash flows from operating activities			
Excess of revenues over expenses	\$ (2,724)	\$ 6,701	\$6,799
Adjustments to reconcile operating income (loss) to net cash provided (used in) operating activities			
Depreciation	1,111	708	708
Changes in:			
Interest Receivable	(433)	(18)	(240)
Accounts Receivable	--	--	(112)
Merchandise	(760)	760	--
LAIF Funds (see note 2c)	--	--	(76,717)
Office Equipment	(3,542)	--	--
Accounts Payable	(774)	--	--
Accrued Liability	<u>8,865</u>	<u>(8,757)</u>	<u>75</u>
Net cash provided by (used in) operating activities	<u>1,743</u>	<u>(606)</u>	<u>(69,487)</u>
CASH - BEGINNING OF PERIOD	72,970	74,713	74,107
CASH - END OF PERIOD	<u>\$74,713</u>	<u>\$74,107</u>	<u>\$4,620</u>

SANTA CLARA COUNTY CITIES ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS

1. History and Organization

The Santa Clara County Cities Association (SCCCA), an unincorporated association, was established in February 1990 by the cities of Santa Clara County, California. SCCCA is a joint powers agreement among the member cities and is not a public entity separate from the parties to the agreement. The purposes and functions of SCCCA are (a) to review, study, develop consensus positions, and recommend on issues of interest to Santa Clara County cities; (b) to develop a common agenda for Santa Clara County cities; (c) to serve as a unified voice for Santa Clara County cities in relationship to other agencies, organizations, and levels of government, including the Peninsula Division of the League of California Cities; (d) to serve as the City Selection Committee pursuant to Government Code, Section 50270 et seq., and make appointments to regional and local bodies as provided by law; (e) to assist in development of statewide legislative policy through the structure of the League of California Cities; (f) to serve as a source of education, information and networking for officials from all cities in Santa Clara County; and (g) to provide a forum for non-city individuals, groups and organizations, and the private sector to address items of interest to Santa Clara County cities.

2. Summary of Significant Accounting Policies

- a. The SCCCA's financial statements are prepared using the modified accrual method of accounting. Expenditures are recorded when the liability is incurred. Revenues are recognized when they become both measurable and available.
- b. Revenues for the operation of SCCCA are primarily provided by the contributions of the member cities.
- c. LAIF Funds were reclassified in 1998 to "Other Current Assets." For the years ending June 30, 1996 and 1997, the LAIF Funds were included in the cash balance.

3. Related Organizations

SCCCA was formed through a joint powers agreement among the cities of Santa Clara County and was not intended to be a separate public entity. Based on the agreement, SCCCA does not have the authority to incur any liability binding upon its members or levy any assessment against its members other than the normal dues established pursuant to the agreement.

4. **Lease Commitments**

SCCCA occupies office space at the Sunnyvale Office Center at 505 West Olive Avenue, Suite 630, Sunnyvale, California, and pays \$310 in monthly rent under a month-to-month rental agreement. In December 1990, SCCCA paid \$620 for security deposit and prepaid rental.

5. **Fixed Assets**

Purchases of furniture and equipment exceeding \$500 are recorded as Fixed Assets. SCCCA uses the straight line method of depreciation.

6. **Adjustment to Fund Balance**

For the 1994-95 and 1995-96 financial statements, Fixed Assets were reported under a Statement of General Fixed Assets. Beginning in 1996-97, SCCCA management has decided to report general fixed assets, along with related accumulated depreciation, in the Balance Sheet. Consequently, an adjustment to beginning fund balance is needed in order to combine investment in general fixed assets with the fund balance, as follows:

Investment in General Fixed Assets	\$7,392
Less Accumulated Depreciation	(6,837)
Net Adjustment	\$ 555

7. **Change In The General Administrators**

The SCCCA was created by the cities in Santa Clara County in 1990 to provide a forum for cities to discuss issues of common interest. All fifteen Santa Clara County cities agreed to be dues paying members of the Association with representatives who meet once a month. The original Agreements provided for the Treasurer of the Association to be the General Administrator, providing accounting and other administrative functions. Since inception, the City of San Jose's Finance Department has been the General Administrator. However, on June 6, 1995, the San Jose City Council approved a revision to the Santa Clara County Cities Association's Agreements designating the Cities Association as the General Administrator. Thus, after June 30, 1995, the Cities Association became the General Administrator for its funds.

8. **Investment In The Local Agency Investment Fund**

On October 12, 1995, the Board of Directors of the SCCCA passed and adopted a resolution authorizing the investment of monies in the Local Agency Investment Fund in the State Treasury. The SCCCA made an initial investment of \$90,000 in the Local Agency Investment Fund (LAIF) in October, 1995.

9. **Fund Balance Reserves**

In September 1997, the SCCCA adopted a policy to set up certain reserves insofar as income and expenses permit. The SCCCA assigned the following reserve amounts to be effective June 30, 1998:

- A. An operating reserve equal to one year's projected expenses (\$45,000);
- B. A reserve for equipment replacement equal to the replacement value of existing equipment (\$10,000);
- C. A reserve to purchase new equipment to keep abreast of technology advances (\$5,000);
and
- D. A reserve fund to take advantage of available speakers for educational forums (\$17,000).



CITY OF SAN JOSÉ, CALIFORNIA

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GERALD A. SILVA
City Auditor

December 7, 1998

Board of Directors
Santa Clara County Cities Association
505 West Olive Avenue, Suite 630
Sunnyvale, California

Ladies and Gentlemen:

We have audited the financial statements of the Santa Clara County Cities Association (SCCCA) for the years ended June 30, 1996, 1997, and 1998, and have issued our report thereon dated December 7, 1998. In planning and performing our audit of SCCCA's financial statements, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure. We have not considered the internal control structure since the date of our report.

During our audit, we noted a certain matter involving an internal control procedure that is presented for your consideration. These comments and recommendation, which have been discussed with SCCCA's executive director, are intended to improve the internal control structure or result in other operational efficiencies and are presented in Exhibit A.

Our audit procedures are designed primarily to enable us to form an opinion on the SCCCA's financial statements and therefore may not bring to light all weaknesses in policies or procedures that may exist.

This letter is intended solely for the information and use of the Board of Directors and SCCCA management.

Gerald A. Silva, CPA
City Auditor



SANTA CLARA COUNTY CITIES ASSOCIATION
EXHIBIT A
Comments and Recommendation

Retention of Voided Checks

During our review of cash disbursements, we noted certain check numbers pertaining to voided checks. According to the Executive Director, the voided checks were not retained. To complete the documentation of cash disbursements, all voided checks should be retained as evidence of proper disposition and voiding.

Recommendation # 1:

We recommend that SCCCA implement a procedure requiring the retention of voided checks.

FOLLOW-UP OF PRIOR AUDIT RECOMMENDATIONS

Recommendation # 1:

To reduce its cash, we recommend that the Board assess the SCCCA's funding requirements and consider either refunding any excess funds to member cities or suspending or reducing their annual contributions.

Follow-up comments

After considering the recommendation, the Board has formally decided to use the excess funds to create the following reserves:

- A. An operating reserve equal to one year's projected expenses;
- B. A reserve for equipment replacement equal to the replacement value of existing equipment;
- C. A reserve to purchase new equipment to keep abreast of technology advances; and
- D. A reserve fund to take advantage of available speakers for educational forums.

Recommendation # 2:

We recommend that the Executive Administrator complete and document a monthly bank reconciliation of the SCCCA's checking account and submit the reconciliation to the SCCCA Treasurer for review and approval.

Follow-up comments

We verified that this recommendation has been implemented.