



SONOMA COUNTY OPEN SPACE FISCAL OVERSIGHT COMMISSION

COMMISSIONERS

Michael J. Sangiacomo (District 1)
Todd Mendoza (District 2)
Jean Kapolchok (District 3)

Bob Anderson (District 4)
Eric Koenigshofer (District 5)
Jeff Owen (Alternate)

April 23, 2013

Board of Directors
Sonoma County Open Space
Fiscal Oversight Commission
575 Administration Drive
Santa Rosa, CA 95403

Re: 2012-2013 Annual Report;

Dear Board Members:

This letter constitutes the Commission's second annual report as required by Board of Supervisors Resolution No. 10-0832 dated December 7, 2010. The Report covers the period from February 4, 2012 to date.

Background

Following the voters approval of Measure F in 2006, the Board of Supervisors reorganized the Sonoma County Open Space Authority into the current Commission effective April 1, 2011. As part of that reorganization the Commission is required to perform certain fiscal oversight duties with respect to the use of funds held in the County's Open Space Special Tax Account and to review and comment on the District's annual audit all as set forth in Resolution No. 10-0832.

Commission's Second Annual Report

1. *Transfer of Funds from the Open Space Special Tax Account to the County's General Fund.* To date the Commission has no information of any such transfer of funds other than for the reasonable value of goods and services provided by the County to the District. In that regard, the Commission has made substantial progress in determining whether all County departments that provide services to the District are doing so pursuant to contracts requiring informative billing with respect to both direct and indirect costs.

2. *Operations and Maintenance Expenditures.* The Commission is required to review District operations and maintenance expenditures for compliance with the 2006 Expenditure Plan and the District's implementing policies. The Commission has been proceeding with this task on

a case by case basis by reviewing the District's matching grant and fee transfer transactions. The Commission anticipates completing this task in time for its next annual report.

3. *Procurement Practices.* The completion of a review of the District's procurement practices is pending. The Commission is pleased to report that, based on a Commission recommendation, the District is using a competitive bid process for maintenance work on the District's recreational lands.

4. *Respond to Requests of the Board of Directors for Advice.* To date there have been no requests for advice from the District Board.

5. *Preview District Borrowing Transactions.* To date no preview has been necessary because no borrowing transactions have closed, are pending or are anticipated.

6. *District's Annual Audit.* The Commission has reviewed the Maze & Associates audit of the District for fiscal year 2011-2012 and has the following comments:

A. At pages 5 and 7 the auditor has shown the District's net assets as of the close of the fiscal year to be \$383,995,417 almost all of which are attributed to the District's fee interest properties and conservation easements. The Commission is concerned that the use of this figure without an adequate explanation will be confusing to the public because it leaves the reader with the impression that the current market value of the District's conservation easements are approximately equal to their acquisition costs. Given that almost all of the District's conservation easements are dedicated, they have no current market value, although they do have a public interest value.

B. Previously the District's staff had met with the County Auditor's staff and reached an agreement on ways and means of including the Commission's comments on the District's annual audit with the presentation of the audit to the District's Board of Directors. Unfortunately due to a miscommunication that process was not followed for the 2011-12 audit and so the Commission is submitting its comments to the Board at this time.

7. *Annual Financial Report.* Additionally, it has been brought to the Commission's attention that the County Auditor's Comprehensive Annual Financial Report (commonly referred to as "the CAFR") for fiscal year 2011-12, as well as past annual financial reports, treats the District as a "component unit" of the County and "blends" the District's assets and liabilities with the assets and liabilities of the County and other special districts governed *ex officio* by the Board of Supervisors. The Commission recommended in its first annual report that the Auditor consider whether this approach is consistent with applicable Government Accounting Standards Board Statements (GASB).

The Commission is advised that the Auditor has reviewed these matters and has concluded that the District should continue to be shown in the County's annual financial statement as a "component unit" of the County but that the issue of the "blending" of the District's assets with the County's assets should be reviewed by an independent auditor.

By letter dated January 10, 2013 the Commission advised the Auditor of its concern with his “component unit” decision and posed three questions to him concerning the *consequences* of that decision. Copies of that letter, the Auditor’s February 25, 2013 response and a subsequent letter from the Commission to the Auditor are attached and marked as Attachments 1 through 3.

In his February 25th letter to the Commission the Auditor stated that GASB requires that the District be shown as a “component unit” of the County because, quoting GASB, the County “has the ability to impose its will on [the District] if it can significantly influence the programs, projects, activities, or level of services performed or provided by the [District].” The Auditor states the County has those abilities because the Board of Supervisors approves the District’s budget, can set District rates and fees and can hire the District’s management. The Commission has been advised by counsel that none of these conclusions by the Auditor’s are legally correct.¹

The alternative GASB requirement for “component unit” status, that the County has the continuing ability to impose specific benefits or burdens on the District, was not addressed by the Auditor.

The Commission has been informed that the County Counsel has this matter under advisement. Accordingly the Commission will suspend any further consideration of this matter pending receipt of the County Counsel’s opinion.

The 2011-12 County financial statement at page 108 under the heading “Agricultural Preservation and Open Space District” states that the Measure F quarter-cent sales tax “is administered by the Sonoma County Auditor, Controller, Treasurer and Tax Collector.” This statement is incorrect. The tax is administered by the California State Board of Equalization pursuant to a contract with the County in the same manner as are all California sales and use taxes.

8. *Appraisal Review.* From February 4, 2012 to date the Commission has reviewed six District real property appraisals and, when appropriate, has reported its comments to the District’s General Manager for consideration by the Board of Directors.

9. *Compliance with Measure F.* To date, no information has come to the attention of the Commission showing non-compliance with Measure F.

10. *District’s Administration of the Stewardship Fund.* This matter has been deferred to

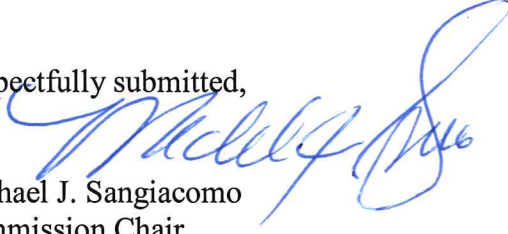
¹ Counsel’s advice can be summarized as follows. The Board of Supervisors serves *ex officio* as the Board of Directors of the District (see California Public Resources Code §5506.8) and as such the members of the Board of Supervisors hold District offices that are separate and distinct from their County offices (see California Government Code §1220). The District’s Board of Directors, not the Board of Supervisors, controls the District’s programs, projects, activities and levels of service (see California Public Resources Code §§5527 and 5537). Additionally the District’s Board of Directors, not the Board of Supervisors, adopts the District’s annual budget, sets District rates and fees and hires the District’s General Manager who hires all subordinate employees (see California Public Resources Code §§5549(6), 5527, 5537, 5538, 5556 and 5593).

the next annual report but the Commission commends the General Manager and the Board for their prudence in increasing the annual contribution to this fund from \$500,000 to \$600,000.

11. *Review of the Auditor's Annual Report on the Activities of the District (Government Code §50075.3).* As of the date of this report, the Commission's understanding is that the Auditor has yet to make this report.

12. *Approval.* This Report was approved by the Commission at its regular meeting held on April 23, 2013 by Minute Order no. 8.

Respectfully submitted,



Michael J. Sangiacomo
Commission Chair

cc: General Manager, CAO, Auditor and County Counsel.



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Michael J. Sangiacomo (District 1)
Todd Mendoza (District 2)
Jean Kapolchok (District 3)

Bob Anderson (District 4)
Vacant (District 5)
Jeff Owen (Alternate)

January 10, 2013

The Honorable David Sundstrom
Sonoma County Auditor-Controller/Treasurer-Tax Collector
585 Fiscal Drive
Santa Rosa, CA 95403

Re: Annual Report

Dear Mr. Sundstrom:

I am writing to request information from you that would help in the Commission's preparation of its Annual Report for 2013.

So that you can better understand the role of the Commission, I have enclosed a copy of Board of Supervisors Resolution No. 10-0832, dated December 7, 2010, setting forth the duties of the Commission and a copy of the contract between the District and the County for the administration of Measure F, which was approved by the voters in 2006.

As you can see from these documents, the Commission is required to produce an annual report on matters having to do with the fiscal oversight of the District. Last year the Commission's Annual Report stated in part:

"Annual Financial Report. Additionally, it has been brought to the Commission's attention that the County Auditor's Comprehensive Annual Financial Report for fiscal year 2010-11 as well as past Reports treat the District as a "component unit" of the County. The Commission recommends that the Auditor consider whether this approach is consistent with applicable Government Accounting Standards Board Statements. The Commission has been advised that the Auditor is currently considering this issue in the light of a new accounting standard, Governmental Accounting Standards Board Statement 61 that will take effect on June 15, 2012. The Commission will continue to review this matter and report to the Board after it has considered the Auditor's decision with respect to the new accounting standard."

We would appreciate your helping the Commission understand the consequences of your decision to include the Sonoma County Agricultural Preservation and Open Space District as

The Honorable David Sundstrom
January 10, 2013
Page 2

a "component unit" of the County in the most recent County of Sonoma Comprehensive Annual Financial Report and to "blend" the assets and liabilities of the District with those of the County. Based on your prior written and oral communications with District staff, we understand that your "component unit" and "blending" decisions are a result of your interpretation of certain government accounting rules adopted by the Government Accounting Standards Board.

Given your decisions with respect to the District, we would be interested in your responses to these questions:

1. The Sonoma County CAFR explains that the criteria for making an entity a "component unit" is the County's ability to appoint "... a voting majority of the component unit's board, and either (i) the County's ability to impose its will on the organization or (ii) the potential for the organization to provide a financial benefit to the County or to impose a financial burden on the County." This being the case, in what way could the Board of Supervisors, as the governing body of the County, could "impose its will" on the District and in what way could the District provide "a financial benefit to the County or impose a financial burden on the County?"
2. What is your understanding of the phrase "continuous appropriation" as it is used in Paragraph 1 of the contract between the District and the County?
3. We understand that it is the practice of the County when it is issuing debt to attach the latest CAFR to the required official statement. Could this be confusing to the public and potential investors given that the District's assets are "blended" with the County's?

We understand that you have a very busy schedule but the Commission is faced with a mid-March deadline for producing the required annual report and transmitting it to the District's Board of Directors so that it can accompany the annual District audit on the Board's agenda. As such, we would appreciate having your response to this letter by March 1st.

Very truly yours,

Bob Anderson, Chair
Fiscal Oversight Commission

c: Jean Kapolchok
Todd Mendoza
Jeff Owen
Michael J. Sangiacomo

DAVID E. SUNDSTROM, CPA
AUDITOR-CONTROLLER
TREASURER -TAX COLLECTOR

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DONNA DUNK, CPA
ASSISTANT
AUDITOR-CONTROLLER

JONATHAN KADLEC
ASSISTANT
TREASURER-TAX COLLECTOR

February 25, 2013

Bob Anderson, Chair
Sonoma County Open Space Fiscal Oversight Commission
747 Mendocino Ave., Suite 100
Santa Rosa, CA 95401

Re: Annual Report -- Response to letter dated January 10, 2013

Dear Mr. Anderson,

This letter is in response to your letter dated January 10, 2013, regarding the Sonoma County Agricultural Preservation and Open Space District (the District) as a "component unit" of the County of Sonoma (County) in the County's Comprehensive Annual Financial Statements (CAFR). In your letter you ask questions about how the County determined that the District is a component unit of the County for financial reporting purposes. In response, I would like to provide the following information.

Per Governmental Accounting Standards Board (GASB) pronouncements #14 and #61, the primary government is financially accountable if it appoints the voting majority of the potential component unit's (PCU) governing body [or in which a voting majority of the PCU's governing body consists of the primary government's officials *serving as required by law*] and (1) it is able to impose its will on that PCU or (2) there is a potential for the PCU to provide specific financial benefits to, or impose specific financial burdens on, the primary government. Because the Board of Supervisors serves as the District's Board of Directors, the District is considered a component unit of the primary government if the primary government is "able to impose its will on" the District. Paragraphs 25 and 26 address this "imposition of will" issue. Paragraph 25 notes that as a practical matter the ability to influence may be circumscribed "based on the provisions of law or contract," even where the same board governs the two organizations. However, Paragraph 26 says that a primary government "has the ability to impose its will on an organization if it can significantly influence the programs, projects, activities, or level of services performed or provided by the organization." It also says that the existence of *any one* of several conditions will "clearly indicate that a primary government has the ability to impose its will on an organization." Because several of these conditions exist with respect to the Board of Supervisors and the District (ability to approve budget, ability to approve rates and fees, ability to hire management), it is highly likely that the District should be considered a component unit of the County.

Received by CJ

On 2-27-13

Copied to BK/SJ/CM/1' cu/ JB

Original Bob Anderson

GASB #61 adds criteria for the determination of the **type** of component unit, blended or discretely presented. Under GASB #61, in addition to having the same governing board, other criteria must be met before a component unit's finances are blended with the primary government. Specifically, GASB now provides that blending is appropriate only if the governing board is the same **and** "there is a financial benefit or burden relationship between the primary government and the component unit" *or* "management of the primary government has operational responsibility for the component unit"; that is "it manages the activities of the component unit in essentially the same manner in which it manages its own programs, departments, or agencies." The County will be working with its new auditors, Vavrinek, Trine, Day, & Company LLP, to determine if the District meets the criteria of a "blended" component unit, or a "discretely presented" component unit for its 6-30-13 CAFR. As the implementation of this new accounting standard could cause a variance from current practice, it's prudent to obtain the advice of our external auditors prior to making a determination. Once we make the determination we will provide it to you. If I can be of any further assistance to you, please do not hesitate to contact me.

Very truly yours,

A handwritten signature in black ink, appearing to read 'David Sundstrom', written over a horizontal line.

David Sundstrom
Auditor-Controller-Treasurer-Tax Collector



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March 20, 2013

The Honorable David Sundstrom
Sonoma County Auditor-Controller/Treasurer-Tax Collector
585 Fiscal Drive
Santa Rosa, CA 95403

Re: Annual Report: your letter of February 25, 2013.

Dear Mr. Sundstrom:

I have your response to my letter of January 10, 2013 and after reviewing it would like to redirect your attention to the three questions posed on the letter's second page.

Our interest was not so much in understanding your reasoning for categorizing the District as "component unit" of the County and "blending" the District's assets and liabilities with those of the County in the CAFR but rather to understand the *consequences* of those decisions. For your convenience I have set out the Commission's questions together with my comments on your responses:

1. The Sonoma County CAFR explains the result of making an entity a "component unit" is the County's ability to appoint "... a voting majority of the component unit's board, and either (i) the County's ability to impose its will on the organization or (ii) the potential for the organization to provide a financial benefit to the County or to impose a financial burden on the County." This being the case, we need to know in what way the Board of Supervisors, as the governing body of the County, can "exercise its will and control" over the District and in what way could the District provide a financial benefit to the County or impose a financial burden on the County?"

With respect to the "will and control" issue your response is the ability of the County to approve the District's budget, the ability to approve [the District's] rates and fees and the ability to hire [the District's] management. Have you requested or received any advice from the County Counsel on these issues? Unfortunately there is no response to the second part of the question relating to financial benefit or burden.

2. What is your understanding of the phrase "continuous appropriation?" (See ¶1 of the contract between the District and the County.)

There is no response to this question in your letter.

The Honorable David Sundstrom

March 20, 2013

Page 2

3. We understand that it is the practice of the County when it is issuing debt to attach the latest CAFR to the Official Statement. Does this confuse the public and, in particular, investors given that the District's assets are "blended" with the County's?

There is no response to this question in your letter.

The Commission would greatly appreciate a timely and complete response to the questions posed in my letter of January 10.

Very truly yours,

A handwritten signature in blue ink, appearing to read "Bob Anderson", is written over the typed name.

Bob Anderson, Chair

Fiscal Oversight Commission

c: Jean Kapolchok

Eric Koenigshofer

Todd Mendoza

Jeff Owen

Michael J. Sangiacomo