



November 16, 2010

The Honorable City Council of  
The City of Agoura Hills

We were engaged to audit the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City of Agoura Hills (the City) for the year ended June 30, 2010, and have issued our reports thereon dated as indicated below:

**Reporting Entity**

Comprehensive Annual Financial Report (CAFR)  
Redevelopment Agency

**Audit Report Date**

November 16, 2010  
November 16, 2010

Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated August 12, 2010, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grants, 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. Also in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the City's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on the City's compliance with those requirements. While our audit will provide a reasonable basis for our opinion, it will not provide a legal determination on the City's compliance with those requirements.

## Planned Scope and Timing of the Audit

As described in our engagement letter:

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit involved judgment about the number of transactions examined and the areas tested.

Our audit included obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity.

## Significant Audit Findings

### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. As described in Note 1C to the financial statements, the City adopted the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* as of July 1, 2009. Also, as described in Note 5, the City restated beginning equity to record loans receivable and net OPEB obligation in the amounts of \$27,700 and \$66,022, respectively. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the financial statements was:

- The depreciation of assets for which useful lives are estimated.
- The other post-employment benefit actuarial accrued liability, net OPEB liability and annual required contributions, prepared by the City's actuary.
- The fair market values of investments.

We evaluated the key factors and assumptions used to develop the above estimates in determining that it is reasonable in relation to the financial statements taken as a whole.

### *Difficulties Encountered in Performing the Audit*

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

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following material misstatements detected as a result of audit procedures were corrected by management:

Management adjusted deferred loans and loans receivable in the amount of \$224,625 and \$199,500, respectively.

*Disagreements with Management*

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

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated November 16, 2010.

*Management Consultations with Other Independent Accountants*

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

*Other Audit Findings or Issues*

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

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

*Varrinich, Train, Day & Co., LLP*

Rancho Cucamonga, California  
November 16, 2010



**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**

The Honorable City Council of  
the City of Agoura Hills, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Agoura Hills, California (City) as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 16, 2010. Our report was modified to include an explanatory paragraph for the issuance of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions*, effective July 1, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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, detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as described above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as 2010-1, 2010-2, and 2010-3 that we consider to be significant deficiencies in internal control over financial reporting. 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.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether City's financial statements are free of 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*.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and, accordingly, we express no opinion on it.

We noted certain matters that we reported to management of City in a separate letter dated November 16, 2010.

This report is intended solely for the information and use of the City's management, City Council, Federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Rancho Cucamonga, California  
November 16, 2010

**CITY OF AGOURA HILLS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**JUNE 30, 2010**

The following findings and recommendations represent significant deficiencies, material weaknesses, and/or instances of noncompliance related to the basic financial statements that are required to be reported in accordance with *Government Audit Standards*.

**Finding 2010-1**

**OTHER POST-EMPLOYMENT BENEFITS**

**Criteria**

The City was required to implement GASB No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* during fiscal year 2008-2009.

**Condition**

During our examination of the City's pension and other postemployment benefit plans (OPEB) it was noted that the City was required to implement GASB 45 effective July 1, 2008. The City did not implement GASB 45 effective July 1, 2008.

**Context**

The condition noted above was identified during our examination of the City's pension and OPEB plans.

**Effect**

The City did not implement GASB 45 as required by the effective date.

**Cause**

The City's policies and procedures did not ensure that new accounting pronouncements were analyzed, evaluated and implemented in accordance with the effective date of the accounting standard.

**Recommendation**

We recommend that the City implement procedures to ensure that new accounting pronouncements are properly analyzed, evaluated and implemented as necessary on a timely basis.

**Views of Responsible Officials and Planned Corrective Actions**

GASB No. 45 was implemented over a three year period throughout the nation based on implementation of GASB No. 34. The City prepared an actuarial valuation report in October 2008 and was instructed that we were a Phase 3 City, required to implement in 2009/2010. However, our current auditors determined that the city was a Phase 2 City and was required to implement in 2008/2009. We recognize the importance of staying abreast of the various pronouncements and have made every effort to stay abreast by attending more webinars, trainings and conferences. We will incorporate into our financial accounting procedure a review of accounting pronouncements effective for that year.

**CITY OF AGOURA HILLS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**JUNE 30, 2010**

**Finding 2010-2**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**Criteria**

In accordance with the U.S. Office of Management and Budget (OMB) Circular A-133 Subpart C-Auditees, §\_\_\_.310(b), the City shall prepare a schedule of expenditures of Federal awards (SEFA) for the period covered by the City's financial statements.

**Condition**

During our examination of the City's grant activity it was noted that the City did not maintain formal policies and procedures to track Federal, state or local grants.

**Context**

The condition noted above was identified during our examination of the City's grant activity and assessment of federal reporting requirements per OMB Circular A-133.

**Effect**

There is an increased risk of misstatement for the City's SEFA.

**Cause**

The City did not maintain formal policies and procedures in place to ensure that grant activity is tracked, reconciled and reported.

**Recommendation**

We recommend that the City implement procedures to ensure that grant activity is tracked, reconciled and properly reported in accordance with OMB Circular A-133.

**Views of Responsible Officials and Planned Corrective Actions**

The procedures for tracking Federal, state or local grants reside within the department that has prepared and administered the grant. Each grant secured contains guidelines that must be adhered to and are followed by the department. Each department is responsible for updating Executive Management (City Manager's Department) on the status of grant administration and activity. As the City has limited staff resources, with many duties assigned, grant administration is shared. Currently the City Manager's Office acts as a clearinghouse for grant tracking/administration and works with other departments on various grants. The City intends to implement policies, procedures and guidelines so that all grants, whether administered by the City Manager's Office or not will be reviewed by the Assistant to the City Manager and a centralized listing of the grants will be maintained.

**CITY OF AGOURA HILLS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**JUNE 30, 2010**

**Finding 2010-3**

**DEFERRED LOANS**

**Criteria**

The City should ensure that deferred loan balances are reconciled and reviewed.

**Condition**

During our examination of deferred loan balances it was noted that the City had not reconciled the balances. Upon further examination of the balances, an adjustment to beginning fund balance/net assets was identified and recorded.

**Context**

The condition noted above was identified during our examination of the City's deferred loan balances.

**Effect**

The City's deferred loan balances required adjustments.

**Cause**

The City's procedures did not ensure that the deferred loan balances were reconciled.

**Recommendation**

We recommend that the City strengthen its procedures to ensure that deferred loan balances are reconciled.

**Views of Responsible Officials and Planned Corrective Actions**

The City maintained a listing of deferred loan balances in both the Community Development and Finance Department. The Community Development grant listing was the most up-to-date and was the one used by our consultant to track outstanding loan amounts. This listing has since been reconciled to the General Ledger. Staff will work closely together to ensure that the loans are reconciled to the General Ledger.



**CITY OF AGOURA HILLS,  
CALIFORNIA**

**MANAGEMENT LETTER**

**JUNE 30, 2010**



**Vavrinek, Trine, Day & Co., LLP**

Certified Public Accountants

VALUE THE DIFFERENCE

November 16, 2010

To the City Council of  
The City of Agoura Hills, California

We have audited the basic financial statements of the City of Agoura Hills (the City) for the year ended June 30, 2010 and have issued our report thereon dated November 16, 2010. In planning and performing our audit of the basic financial statements of the City, we considered internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control. We have not considered internal control since the date of our report.

During our audit we noted certain matters involving internal control and other operational matters that are presented for your consideration. These observations and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized as follows:

#### **STATUS OF PRIOR YEAR MANAGEMENT LETTER COMMENTS**

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#### **YEAR-END CLOSING PROCEDURES**

##### **RECOMMENDATION:**

The City should develop a formal year-end closing schedule that assigns responsibilities and timing requirements for all the major tasks required at the end of each fiscal year in connection with preparation for the annual audit.

##### **STATUS AS OF JUNE 30, 2010:**

Implemented.

**STATUS OF PRIOR YEAR MANAGEMENT LETTER COMMENTS, Continued**

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**CREDIT CARDS**

**RECOMMENDATION:**

The City should limit the use of credit cards to certain key employees in order to minimize the risk of potential fraud or misuse of City funds.

**STATUS AS OF JUNE 30, 2010:**

Implemented.

**RISK ASSESSMENT AND MONITORING OVER FINANCIAL REPORTING**

**RECOMMENDATION:**

The City should continue to build on its initial assessment and evaluate the risks of the City's operating environment and develop a written contingency plan relating to the City's Information Technologies (IT) processes. In the event of loss of City staff or ability to process IT normally, the City should have written plan to ensure that IT functions are not interrupted.

**STATUS AS OF JUNE 30, 2010:**

Partially implemented and in progress.

**MANAGEMENT'S RESPONSE:**

While the City has maintained back-up tapes as a part of our contingency plan, we are migrating to a virtual back-up system. The City anticipates that this system, approved by Council in June 2010, will be implemented by January 2011. The virtual back up will allow for an easier restoration of IT in the event of a disaster. When the system is in place, the City will then proceed to provide a written plan to ensure that IT plans are not interrupted.

**NEW FINANCIAL REPORTING AND AUDITING STANDARD EFFECTIVE FOR FISCAL YEAR  
2010-2011**

**INFORMATIONAL ONLY**

**GOVERNMENTAL ACCOUNTING STANDARD No. 54**

In March 2009, The GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2010.

**GOVERNMENTAL ACCOUNTING STANDARD No. 57**

In December 2009, The GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. This Statement addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans. This Statement also amends Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* and Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2011.

**GOVERNMENTAL ACCOUNTING STANDARD No. 59**

In June 2010, The GASB issued Statement No. 59, *Financial Instruments Omnibus*. This Statement updates and improves existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2010.

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Our audit procedures are designed primarily to enable us to form an opinion on the financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the City gained during our work to make comments and suggestions that we hope will be useful to you.

We would be pleased to discuss these comments and recommendations with you at any time.

This report is intended solely for the information and use of the City Council, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

*Vavrich, Train, Day & Co, LLP*

Rancho Cucamonga, California  
November 16, 2010



**INDEPENDENT ACCOUNTANTS' REPORT ON AGREED-UPON PROCEDURES  
APPLIED TO APPROPRIATIONS LIMIT CALCULATION**

The Honorable City Council  
of the City of Agoura Hills  
Agoura Hills, California

We have applied the procedures enumerated below to the Appropriations Limit calculation of the City of Agoura Hills, California prepared during the year ended June 30, 2010. These procedures, which were agreed to by the City of Agoura Hills, California were performed solely to assist the City of Agoura Hills, California in meeting the requirements of Section 1.5 of Article XIII B of the California Constitution. The City of Agoura Hills's management is responsible for the Appropriations Limit calculation. This agreed upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants.

The sufficiency of the procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures performed and our findings were as follows:

1. We obtained completed worksheets and compared the 2009-2010 limit and annual adjustment factors included in those worksheets to the limit and annual adjustment factors that were adopted by resolution of the City Council. We also compared the population and inflation options included in the aforementioned worksheets to those that were selected by a recorded vote of the City Council.

Findings: No exceptions were noted as a result of our procedures.

2. We added last year's limit to the total adjustments and compared the resulting amount to this year's limit.

Findings: No exceptions were noted as a result of our procedures.

3. We compared the current year information to the worksheets described in No. 1 above.

Finding: No exceptions were noted as result of our procedures.

4. We compared the prior year appropriations limit to the prior year appropriations limit adopted by the City Council for the prior year.

Finding: No exceptions were noted as a result of our procedures.

We were not engaged to, and did not perform an examination, the objective of which would be the expression of an opinion on the Appropriations Limit worksheet. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. No procedures have been performed with respect to the determination of the appropriation limit for the base year, as defined by Article XIII-B of the California Constitution.

This report is intended solely for the use of the City Council and management of the City of Agoura Hills, California and is not intended to be and should not be used by anyone other than these specified parties.

*Varrinich, Tria, Dng & Co., LLP*

Rancho Cucamonga, California  
November 16, 2010