

**EL DORADO LOCAL AGENCY
FORMATION COMMISSION**

Placerville, California

**REPORT TO THE
COMMISSIONERS**

June 30, 2009



matson and isom

Founded in 1962 by
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and W. Howard Isom

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To the Commissioners
El Dorado Local Agency Formation Commission
Placerville, California

We have audited the financial statements of El Dorado Local Agency Formation Commission (LAFCo) for the year ended June 30, 2009, and have issued our report thereon dated December 15, 2009. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and Government Auditing Standards as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our planning letter dated October 27, 2009. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibility Under Generally Accepted Auditing Standards and Government Auditing Standards

Our engagement letter dated October 27, 2009, states that our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable assurance, and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal control of LAFCo. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Qualitative Aspects of Accounting Practices

Management has the responsibility for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used are described in note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year.

There were no transactions that did not have authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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 can be 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. There were no sensitive estimates made by management in preparing the financial statements.

Difficulties Encountered in Performing the Audit

We encountered no difficulties 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. We proposed one adjustment to record the annual depreciation expense. The net effect of the adjustments was to decrease net income by \$427.

Disagreements With Management

Professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' 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 letter dated December 15, 2009.

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 financial statements, or a determination of the type of auditors' 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 Commission'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 the Commissioners and management of El Dorado Local Agency Formation Commission and should not be used for any other purpose. Should you have any questions or comments regarding any of the foregoing matters, or if we can be of assistance to you in any other way, please do not hesitate to contact us.

We would like to take this opportunity to express our appreciation for the cooperation and assistance provided to us during the audit by your staff. We look forward to a continued relationship with you.

Matson and Isom

December 15, 2009

**EL DORADO LOCAL AGENCY
FORMATION COMMISSION**

Placerville, California

**FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORTS**

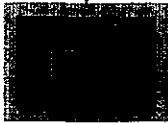
June 30, 2009

TABLE OF CONTENTS

June 30, 2009

*El Dorado Local Agency**Formation Commission*

	Page Number
Independent Auditors' Report	1
 FINANCIAL SECTION	
Statement of Net Assets	3
Statement of Revenues, Expenses, and Changes in Net Assets	4
Budgetary Comparison Schedule	5
Statement of Cash Flows	7
Notes to the Financial Statements	8
 OTHER REPORT SECTION	
<i>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></i>	13



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INDEPENDENT AUDITORS' REPORT

To the Commissioners
El Dorado Local Agency Formation Commission
Placerville, California

We have audited the accompanying statement of net assets of El Dorado Local Agency Formation Commission (LAFCo), as of June 30, 2009, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of LAFCo's management. Our responsibility is to express an opinion 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 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 LAFCo as of June 30, 2009, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 15, 2009, on our consideration of LAFCo's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

LAFCo has not presented management's discussion and analysis (MD&A) that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements. The budgetary comparison schedule listed in the table of contents is not a required part of the basic financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Matson and Isom

December 15, 2009

FINANCIAL SECTION

STATEMENT OF NET ASSETS*El Dorado Local Agency
Formation Commission**June 30, 2009***ASSETS****CURRENT ASSETS**

Cash and cash equivalents \$ 147,306

Prepaid expenses 4,994

Total Current Assets 152,300**CAPITAL ASSETS - NET** 3,225**Total Assets** \$ 155,525**LIABILITIES AND NET ASSETS****CURRENT LIABILITIES**

Accounts payable \$ 12,309

Accrued expenses 12,628

Total Current Liabilities 24,937**NET ASSETS (FUND BALANCES)**

Invested in capital assets 3,225

Unrestricted 127,363

Total Net Assets (Fund Balance) 130,588**Total Liabilities and Net Assets** \$ 155,525*The accompanying notes are an integral part of these financial statements.*

**STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS**

*El Dorado Local Agency
Formation Commission*

Year Ended June 30, 2009

REVENUE	
Agency funding	\$ 335,749
Filing fees and other	12,061
Total Revenue	347,810
EXPENSES	
Cellular and telephone services	3,214
Depreciation	427
Publications and subscriptions	386
Information services	8,093
Insurance	30,998
Memberships	725
Office expenses	4,495
Professional services	30,846
Rents and leases	19,890
Salaries and benefits	225,401
Staff development	4,876
Transportation and travel	4,841
Total Expenses	334,192
Operating Income	13,618
OTHER REVENUES	
Interest earned	949
Excess Revenues Over Expenses	14,567
Net Assets - Fund Balance 2007-08	116,021
Net Assets - Fund Balance 2008-09	\$ 130,588

The accompanying notes are an integral part of these financial statements.

BUDGETARY COMPARISON SCHEDULE

*El Dorado Local Agency
Formation Commission*
Page 1 of 2

Year Ended June 30, 2009	Final Budget Amounts	Actual Amounts	Variance Over (Under) Budget
REVENUE			
Budgetary fund balance	\$ 81,127	\$ -	\$ (81,127)
Agency funding	335,749	335,749	-
Filing fees and other	4,844	12,061	7,217
Total Revenue	421,720	347,810	(73,910)
EXPENSES			
Cellular and telephone services	3,500	3,214	(286)
Depreciation	-	427	427
Publications and subscriptions	670	386	(284)
Information services	5,600	8,093	2,493
Insurance	9,100	30,998	21,898
Memberships	2,950	725	(2,225)
Office expenses	7,667	4,495	(3,172)
Operating contingency	10,110	-	(10,110)
Professional services	38,400	30,846	(7,554)
Rents and leases	21,370	19,890	(1,480)
Salaries and benefits	313,010	225,401	(87,609)
Staff development	6,043	4,876	(1,167)
Transportation and travel	5,800	4,841	(959)
Total	424,220	334,192	(90,028)
Operating Income (Loss)	(2,500)	13,618	16,118
Interest earned	2,500	949	(1,551)
Excess Revenues Over Expenses	\$ -	14,567	\$ 14,567
Net Assets - Fund Balance 2007-08		116,021	
Net Assets - Fund Balance 2008-09		\$ 130,588	

The accompanying notes are an integral part of these financial statements.

BUDGETARY COMPARISON SCHEDULE

June 30, 2009

*El Dorado Local Agency**Formation Commission*

Page 2 of 2

BUDGET-TO-ACTUAL RECONCILIATION

An explanation of the differences between the budgetary inflows and outflows and the revenues and expenses determined in accordance with generally accepted accounting principles (GAAP) follows:

SOURCES/INFLOWS OF RESOURCES	
Budgeted revenue	\$ 421,720
DIFFERENCES - BUDGET TO GAAP	
Budgetary fund balance that is a resource, but not current-year revenue for GAAP	(81,127)
Filing fees earned that were more than budgeted	7,217
Total Revenues Reported for GAAP	\$ 347,810
USES/OUTFLOWS OF RESOURCES	
Budgeted expenses	\$ 424,220
DIFFERENCES - BUDGET TO GAAP	
Depreciation expense recognized for GAAP, but not a budgetary outflow	427
Actual expenses that were less than budgeted amounts	(90,455)
Total Expenses Reported for GAAP	\$ 334,192

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CASH FLOWS*El Dorado Local Agency
Formation Commission*

Year Ended June 30, 2009

CASH FLOWS FROM OPERATING ACTIVITIES

Charges for services	\$ 347,810
Payments to employees	(227,501)
Payments to suppliers	(107,962)
Net Cash Provided by Operating Activities	<u>12,347</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received	<u>949</u>
Net Cash Provided by Investing Activities	<u>949</u>
Net Increase in Cash	13,296
Cash - Beginning of Year	<u>134,010</u>
Cash - End of Year	<u>\$ 147,306</u>

**RECONCILIATION OF OPERATING INCOME
TO NET CASH PROVIDED BY OPERATING ACTIVITIES**

Operating income	\$ 13,618
Adjustments to reconcile operating income to net cash provided:	
Depreciation expense	427
Changes in assets and liabilities:	
Prepaid expenses	(535)
Accounts payable	937
Accrued expenses	(2,100)
Net Cash Provided by Operating Activities	<u>\$ 12,347</u>

Cash consists of:	
Petty cash	\$ 250
General cash account	25,362
Money market account	<u>121,694</u>
Total Cash	<u>\$ 147,306</u>

The accompanying notes are an integral part of these financial statements.

1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities The El Dorado Local Agency Formation Commission (LAFCo) was formed in 1963. LAFCo is charged with the orderly formation of local government agencies. LAFCo is an independent agency of the State of California pursuant to the requirements of the Cortese-Knox-Hertzberg Act.

Agency funding is provided by the local governments over which LAFCo has jurisdiction, which include the County of El Dorado, the Cities of Placerville and South Lake Tahoe, 49 independent special districts, and 6 dependent special districts located within the boundaries of El Dorado County.

LAFCo also charges fees for various proceedings such as annexations, special district formations, and mergers or dissolutions.

Basis of Accounting LAFCo has adopted the provisions of Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, of the Governmental Accounting Standards Board (GASB), but has elected to not present management’s discussion and analysis (MD&A) that GASB has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

LAFCo applies Financial Accounting Standards Board (FASB) pronouncements issued through November 30, 1989, only to the extent that they have not been superseded by GASB pronouncements issued after GASB 1. The financial statements are prepared using the economic measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when incurred.

Cash and Cash Equivalents Cash and cash equivalents are defined as cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Capital Assets Capital assets are stated at cost, or if acquired by gift, are recorded at estimated market value at the date of acquisition. Maintenance and repair costs are expensed as incurred unless they extend the useful life of the asset. Assets capitalized have an original cost or value of \$3,000 or more and over one year of life.

Depreciation is computed using the straight-line method over the estimated useful life of the assets. The estimated lives range from 5 to 15 years.

Net Assets Net assets (fund balances) are classified into two categories: 1) invested in capital assets; and 2) unrestricted, which is the remaining equity. Net assets restricted for specific purposes are required to be separately classified. There were no restricted net assets at June 30, 2009.

Operating Income and Expenses The statement of revenues, expenses, and changes in net assets distinguishes between operating and non-operating income and expenses. Operating revenues include all revenues received in order to provide services. These revenues are received from other governmental agencies and from the public. Interest earned on cash deposits are recorded as non-operating revenues. Operating expenses are all expenses incurred to provide operating income.

Use of Estimates The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Budgetary Control LAFCo's fiscal year is the 12-month period beginning July 1. The general budget policy is that LAFCo submit to the El Dorado County Auditor a Commission-approved budget estimating revenues and expenditures for the subsequent fiscal year. The final budget is legally enacted by resolution on or before June 15 after any necessary adjustments have been made. Within certain legal restrictions, adjustments to final budget amounts may be made by the Commission during the year to account for unanticipated occurrences.

2. OPERATING LEASE AGREEMENT

LAFCo leases office space under an operating lease that expires on October 31, 2010. Rent expense amounted to \$17,835 for the year ended June 30, 2009. Minimum future rental payments under the non-cancelable operating lease are as follows:

Year Ending June 30		
2010	\$	18,500
2011 (Four months)	\$	6,123

3. CAPITAL ASSETS

Capital asset activity was as follows:

	Balance June 30, 2008	Additions	Balance June 30, 2009
Office equipment	\$ 5,863	\$ -	\$ 5,863
Leasehold improvements	6,400	-	6,400
Less: Accumulated depreciation	(8,611)	(427)	(9,038)
Capital Assets - Net	\$ 3,652	\$ (427)	\$ 3,225

4. RETIREMENT PLAN

LAFCo participates in the California Public Employees Retirement System (CalPERS), an agent multiple-employer contributory public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California. CalPERS provides retirement, disability benefits, and death benefits to plan members and beneficiaries. Benefit provisions and all other requirements are established by State statute, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS' annual financial report may be obtained from their executive office at 400 Q Street, Sacramento, California 95811.

Funding Policy

The LAFCo Employee Policies and Guidelines state that employees pay 7% of the CalPERS contribution rates towards their retirement. After one year of service, LAFCo pays 3.5% of the employees' shares, and after two years of service LAFCo pays the entire share. All employees had between two to three years of service to the agency as of June 30, 2009, so LAFCo contributed 3.5% to 7% of each employee's share into CalPERS, respectively. LAFCo has changed the policy so that employees hired after January 1, 2009, will pay their 7%. The employer also is required to contribute at an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the 2008-09 fiscal year was 13.05%. *The contribution requirements of the plan members are established by State statute.* For the year ended June 30, 2009, \$30,828 was contributed and equaled 100% of the required contribution.

5. RISK MANAGEMENT

The County has been responsible for damages caused by the acts of LAFCo, its officers, and employees. El Dorado County Risk Management has provided the insurance coverage and risk management service consistent with county policies. LAFCo obtained coverage with the Special District Risk Management Authority (SDRMA) effective July 1, 2009. SDRMA is organized as a joint powers authority, which is a pooled insurance fund. Workers' compensation insurance coverage is provided by SDRMA.

Condensed financial information of SDRMA for the year ended June 30, 2008, is as follows:

Total assets	\$ 71,125,296
Total liabilities	48,802,348
Net Assets	\$ 22,322,948
Total revenues	\$ 30,608,121
Total expenses	30,076,451
Operating Income	531,670
Nonoperating income	4,311,379
Net Income	\$ 4,843,049

OTHER REPORT SECTION

**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***

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To the Commissioners
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Placerville, California

We have audited the financial statements of El Dorado Local Agency Formation Commission (LAFCo) as of and for the year ended June 30, 2009, and have issued our report thereon dated December 15, 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 LAFCo'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 LAFCo's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of LAFCo's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects LAFCo's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of LAFCo's financial statements that is more than inconsequential will not be prevented or detected by LAFCo's internal controls.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by LAFCo's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be a material weakness as defined above.

**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***

Continued

Compliance and Other Matters

As part of obtaining reasonable assurance about whether LAFCo'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*.

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

Matson and Isom

December 15, 2009