



MATSON
& ISOM

EL DORADO LOCAL AGENCY
FORMATION COMMISSION

Placerville, California

FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORT

June 30, 2013 and 2012



MATSON
& ISOM

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of El Dorado Local Agency Formation Commission (LAFCo), an independent agency of the State of California, as of June 30, 2013 and 2012, and for the years then ended, and the related notes to the financial statements, which collectively comprise LAFCo's basic financial statements.

Management's Responsibility for the Financial Statements

LAFCo's 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.

Auditors' Responsibility

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. 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 auditors' 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 LAFCo'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 LAFCo'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 opinion.

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, 2013 and 2012, and the changes in its financial position and its cash flows and budgetary comparisons for the years then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT

Continued

Other Matter - Required Supplementary Information

LAFCo has omitted management's discussion and analysis (MD&A) that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Matson and Isom

January 7, 2014
Chico, California

STATEMENTS OF NET POSITION*El Dorado Local Agency
Formation Commission*

June 30	2013	2012
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 201,590	\$ 253,155
Accounts receivable	5,000	5,000
Prepaid expenses	9,733	9,003
Total Current Assets	216,323	267,158
CAPITAL ASSETS - NET	3,473	5,945
Total Assets	219,796	273,103
CURRENT LIABILITIES		
Accounts payable	5,310	2,359
Accrued expenses	35,644	51,707
Total Current Liabilities	40,954	54,066
NET POSITION - FUND BALANCES		
Net investment in capital assets	3,473	5,945
Unrestricted	175,369	213,092
Total Net Position - Fund Balances	\$ 178,842	\$ 219,037

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

**STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION**

*El Dorado Local Agency
Formation Commission*

Years Ended June 30	2013	2012
REVENUE		
Agency funding	\$ 318,396	\$ 315,103
Filing fees and other	41,055	28,110
Total Revenue	359,451	343,213
EXPENSES		
Cellular and telephone services	3,414	3,803
Depreciation	4,429	4,429
Publications and subscriptions	413	413
Information services	7,861	7,057
Insurance	14,083	13,770
Memberships	3,333	3,230
Office expenses	3,084	4,212
Operating contingency	58	1,113
Professional services	53,959	28,338
Rents and leases	21,403	21,401
Salaries and benefits	278,983	262,159
Staff development	5,668	6,285
Transportation and travel	3,139	3,520
Total Expenses	399,827	359,730
Operating Loss	(40,376)	(16,517)
OTHER REVENUES		
Interest earned	181	488
Excess Expenses	(40,195)	(16,029)
Net Position - Fund Balance 2011-12	219,037	235,066
Net Position - Fund Balance 2012-13	\$ 178,842	\$ 219,037

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

STATEMENTS OF CASH FLOWS

*El Dorado Local Agency
Formation Commission*

Years Ended June 30	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Agency funding	\$ 318,396	\$ 315,103
Charges for services	41,055	23,110
Payments to employees	(295,046)	(231,882)
Payments to suppliers	(114,194)	(94,576)
Net Cash Provided (Used) by Operating Activities	(49,789)	11,755
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	181	488
Aquisition of equipment	(1,957)	-
Net Cash Provided (Used) by Investing Activities	(1,776)	488
Net Increase (Decrease) in Cash	(51,565)	12,243
Cash - Beginning of Year	253,155	240,912
Cash - End of Year	\$ 201,590	\$ 253,155
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating loss	\$ (40,376)	\$ (16,517)
Adjustments to reconcile operating income (loss) to net cash provided:		
Depreciation expense	4,429	4,429
Changes in assets and liabilities:		
Accounts receivable	-	(5,000)
Prepaid expenses	(730)	(374)
Accounts payable and accrued expenses	(13,112)	29,217
Net Cash Provided (Used) by Operating Activities	\$ (49,789)	\$ 11,755
Cash consists of:		
General cash account	\$ 46,727	\$ 59,006
Money market account	154,863	194,149
Total Cash	\$ 201,590	\$ 253,155

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

BUDGETARY COMPARISON SCHEDULES

*El Dorado Local Agency
Formation Commission*

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Year Ended June 30, 2013	Final Budget Amounts	Actual Amounts	Variance Over (Under) Budget
Budgetary Fund Balance	\$ 143,000	\$ -	\$ (143,000)
Revenues (Inflows)			
Agency funding	\$ 318,397	\$ 318,396	\$ (1)
Filing fees and other	18,450	41,055	22,605
Total Revenue	336,847	359,451	22,604
Expenses (Outflows)			
Cellular and telephone services	3,720	3,414	(306)
Depreciation	-	4,429	4,429
Publications and subscriptions	414	413	(1)
Information services	8,237	7,861	(376)
Insurance	15,744	14,083	(1,661)
Memberships	3,330	3,333	3
Office expenses	5,610	3,084	(2,526)
Operating contingency	9,893	58	(9,835)
Professional services	52,100	53,959	1,859
Rents and leases	21,980	21,403	(577)
Salaries and benefits	348,274	278,983	(69,291)
Staff development	6,351	5,668	(683)
Transportation and travel	4,902	3,139	(1,763)
Total Expenses	480,555	399,827	(80,728)
Operating Loss	(143,708)	(40,376)	103,332
Interest earned	708	181	(527)
Excess Inflows (Outflows)	\$ (143,000)	(40,195)	\$ 102,805
Net Position - Fund Balance 2011-12		219,037	
Net Position - Fund Balance 2012-13		\$ 178,842	

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

BUDGETARY COMPARISON SCHEDULES

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:

Year Ended June 30, 2013

SOURCES/INFLOWS OF RESOURCES	
Budgeted revenue	\$ 336,847
DIFFERENCES - BUDGET TO GAAP	
Agency funding received less than budgeted	(1)
Filing fees received more than budgeted	22,605
Total Revenues Reported for GAAP	\$ 359,451
USES/OUTFLOWS OF RESOURCES	
Budgeted expenses	\$ 480,555
DIFFERENCES - BUDGET TO GAAP	
Depreciation expense recognized for GAAP, but not a budgetary outflow	4,429
Expenses less than budgeted amounts	(85,157)
Total Expenses Reported for GAAP	\$ 399,827

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

BUDGETARY COMPARISON SCHEDULES

*El Dorado Local Agency
Formation Commission*

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Year Ended June 30, 2012	Final Budget Amounts	Actual Amounts	Variance Over (Under) Budget
Budgetary Fund Balance	\$ 155,500	\$ -	\$ (155,500)
Revenues (Inflows)			
Agency funding	\$ 315,103	\$ 315,103	\$ -
Filing fees and other	12,650	28,110	15,460
Total Revenue	327,753	343,213	15,460
Expenses (Outflows)			
Cellular and telephone services	5,160	3,803	(1,357)
Depreciation	-	4,429	4,429
Publications and subscriptions	420	413	(7)
Information services	7,400	7,057	(343)
Insurance	14,940	13,770	(1,170)
Memberships	3,360	3,230	(130)
Office expenses	5,168	4,212	(956)
Operating contingency	10,612	1,113	(9,499)
Professional services	36,480	28,338	(8,142)
Rents and leases	21,621	21,401	(220)
Salaries and benefits	367,122	262,159	(104,963)
Staff development	6,820	6,285	(535)
Transportation and travel	4,750	3,520	(1,230)
Total Expenses	483,853	359,730	(124,123)
Operating Income (Loss)	(156,100)	(16,517)	139,583
Interest earned	600	488	(112)
Excess Inflows (Outflows)	\$ (155,500)	(16,029)	\$ 139,471
Net Position - Fund Balance 2010-11		235,066	
Net Position - Fund Balance 2011-12		\$ 219,037	

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

BUDGETARY COMPARISON SCHEDULES

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:

Year Ended June 30, 2012

SOURCES/INFLOWS OF RESOURCES	
Budgeted revenue	\$ 327,753
DIFFERENCES - BUDGET TO GAAP	
Filing fees received more than budgeted	15,460
Total Revenues Reported for GAAP	\$ 343,213
USES/OUTFLOWS OF RESOURCES	
Budgeted expenses	\$ 483,853
DIFFERENCES - BUDGET TO GAAP	
Depreciation expense recognized for GAAP, but not a budgetary outflow	4,429
Expenses less than budgeted amounts	(128,552)
Total Expenses Reported for GAAP	\$ 359,730

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 has four missions: 1) the orderly formation of local governments; 2) the efficient provision of government services; 3) the preservation of agricultural and open space resources; and 4) the prevention of urban sprawl. LAFCo is an independent agency of the State of California pursuant to the requirements of the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000.

The County of El Dorado, the Cities of Placerville and South Lake Tahoe, and 49 independent special districts located within the boundaries of El Dorado County provide funding for LAFCo.

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

Basis of Accounting LAFCo applies the provisions of the Government Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The statement incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with GASB pronouncement: 1) FASB Statements and Interpretations; 2) Accounting Principles Board (APB) Opinions; and 3) Accounting Research Bulletins (ARB) of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

LAFCo also applies GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*; and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. These statements establish standards for reporting deferred outflows of resources, deferred inflows of resources, and net position for all state and local governments.

LAFCo has adopted the financial reporting provisions of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments* 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.

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 more than 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 Position Net position - fund balances is classified into two categories: 1) net investment in capital assets; and 2) unrestricted, which is the remaining balance. Net position restricted for specific purposes, if any, is required to be separately classified. No restricted net position was required at June 30, 2013 and 2012.

Operating Income and Expenses The statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating 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. Operating expenses are all expenses incurred to provide services. Interest earned on cash deposits are recorded as nonoperating revenues.

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. In accordance with the provisions of Section 56381 of the Government Code of the State of California, commonly known as the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (CKH), LAFCo adopts a proposed budget by May 1 and a final budget by June 15 of each fiscal year. The budget is prepared on the modified accrual basis of accounting except that the budgetary fund balances from the prior year are considered as an inflow of amounts available, and encumbrances outstanding at year-end, if any, are considered as budgetary outflows. All changes to the budget during the year are reflected in these financial statements and require the approval of the Commissioners.

Impact of Recently Issued Accounting Standards In March 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, with required implementation during the 2013-14 fiscal year. The statement improves accounting and financial reporting for a governmental reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements: Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements*. Management does not expect the implementation of GASB No. 66 to have a material effect on LAFCo's financial statements.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2013 and 2012

*El Dorado Local Agency
Formation Commission***2. OPERATING LEASE AGREEMENT**

LAFCo leases office space under an operating lease that expires on October 31, 2014. Rent expenses amounted to \$18,970 for both the years ended June 30, 2013 and 2012. Minimum future rental payments under the noncancelable operating lease are as follows:

Year Ending June 30	
2014	\$ 19,869
2015	\$ 5,004

3. CAPITAL ASSETS

Capital asset activity was as follows:

	Balance June 30, 2012	Additions	Balance June 30, 2013
Office equipment	\$ 5,862	\$ 1,957	\$ 7,819
Computers	12,006	-	12,006
Leasehold improvements	6,400	-	6,400
Less: Accumulated depreciation	(18,323)	(4,429)	(22,752)
Capital Assets - Net	\$ 5,945	\$ (2,472)	\$ 3,473

	Balance June 30, 2011	Additions	Balance June 30, 2012
Office equipment	\$ 5,862	\$ -	\$ 5,862
Computers	12,006	-	12,006
Leasehold improvements	6,400	-	6,400
Less: Accumulated depreciation	(13,894)	(4,429)	(18,323)
Capital Assets - Net	\$ 10,374	\$ (4,429)	\$ 5,945

4. RETIREMENT PLAN

LAFCo participates in the California Public Employees Retirement System (CalPERS), a cost-sharing, 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 five plus years of service to the agency as of June 30, 2013; therefore, LAFCo is required to contribute 7% of each employee's share into CalPERS. 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 2012-13 fiscal year was 15.661%. The contribution requirements of the plan members are established by State statute.

In the fall of 2011, CalPERS implemented a new reporting system called myCalPERS. LAFCo had been making their contributions to CalPERS using an office code pursuant to an agreement with the County of El Dorado. The new reporting system did not recognize the office code and has required LAFCo to enter into a new contract with CalPERS. LAFCo and CalPERS both agreed that until the new contract was approved, the required contributions were to be held by LAFCo. In June 2013, CalPERS allowed the LAFCo employees to be reported under the County's contract to bridge the service credit gap from 2011 through June 2013. The contributions were made using the County's 2012-13 employer rate of 14.606% and the statutorily-defined employee rate of 7%. In October 2013, a new LAFCo CalPERS contract became effective and contributions on a go-forward basis have resumed. The prior existing retirement funds along with the current and future contributions will be held in LAFCo's own account, separate from the County of El Dorado contract. The total contributions held by LAFCo and included in accrued expenses was \$1,553 and \$29,746 as of June 30, 2013 and 2012, respectively.

For the years ended June 30, 2013 and 2012, contributions of \$38,933 and \$37,943, respectively, were contributed and equaled 100% of the required contribution.

5. OTHER POSTEMPLOYMENT BENEFITS

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, requires all other postemployment benefits (OPEB) that are in addition to pension benefits be recorded as an expense and a liability by the employer. LAFCo has not granted any OPEB to employees.

6. RISK MANAGEMENT

LAFCo obtained general liability, auto liability, auto physical damage, public officials' errors and omissions, elected officials' personal liability, employment practices and benefits, fidelity blanket bond, property coverage, boiler and machinery, and workers' compensation coverage from the Special District Risk Management Authority (SDRMA). SDRMA is organized as a joint powers authority, which is a pooled insurance fund. SDRMA provides coverage to certain maximum limits applied annually, per occurrence or per year. Separately issued financial statements can be requested from SDRMA.

LAFCo has also chosen to purchase additional general liability insurance coverage from Great American Insurance Company through Alliant Insurance Services.