

El Dorado Local Agency Formation Commission

Placerville, California

FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORT

June 30, 2014 and 2013



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El Dorado Local Agency Formation Commission

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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, 2014 and 2013, and for the years then ended; and the related notes to the financial statements, which collectively comprise LAFCo's basic financial statements as listed in the table of contents.

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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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.

INDEPENDENT AUDITORS' REPORT

(Continued)

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, 2014 and 2013, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter - Required Supplementary Information

LAFCo has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such 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.

KCoe Jam, LLP

February 6, 2015
Chico, California

FINANCIAL SECTION

El Dorado Local Agency Formation Commission

STATEMENTS OF NET POSITION

June 30	2014	2013
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 176,891	\$ 201,590
Accounts receivable	39,660	5,000
Prepaid expenses	18,172	9,733
Total Current Assets	234,723	216,323
Capital Assets - Net	4,221	3,473
TOTAL ASSETS	238,944	219,796
CURRENT LIABILITIES		
Accounts payable	6,667	5,310
Accrued expenses	33,413	35,644
TOTAL CURRENT LIABILITIES	40,080	40,954
NET POSITION - FUND BALANCES		
Net investment in capital assets	4,221	3,473
Unrestricted:		
Assigned	32,575	23,296
Unassigned	162,068	152,073
TOTAL NET POSITION - FUND BALANCES	\$ 198,864	\$ 178,842

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

El Dorado Local Agency Formation Commission

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Years Ended June 30	2014	2013
Revenue		
Agency funding	\$ 335,110	\$ 318,396
Filing fees and other	59,660	41,055
Total Revenue	394,770	359,451
Expenses		
Cellular and telephone services	3,727	3,414
Depreciation	1,209	4,429
Publications and subscriptions	415	413
Information services	7,062	7,861
Insurance	14,181	14,083
Memberships	3,370	3,333
Office expenses	2,146	3,084
Operating contingency	3,198	58
Professional services	44,070	53,959
Rents and leases	23,088	21,403
Salaries and benefits	261,305	278,983
Staff development	7,845	5,668
Transportation and travel	3,244	3,139
Total Expenses	374,860	399,827
Operating Income (Loss)	19,910	(40,376)
Other Revenues		
Interest earned	112	181
Excess Revenues (Expenses)	20,022	(40,195)
Net Position - Fund Balance 2012-13	178,842	219,037
Net Position - Fund Balance 2013-14	\$ 198,864	\$ 178,842

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

El Dorado Local Agency Formation Commission

STATEMENTS OF CASH FLOWS

Years Ended June 30	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Agency funding	\$ 335,110	\$ 318,396
Charges for services	25,000	41,055
Payments to employees	(263,536)	(295,046)
Payments to suppliers	(119,428)	(114,194)
NET CASH USED BY OPERATING ACTIVITIES	(22,854)	(49,789)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	112	181
Acquisition of equipment	(1,957)	(1,957)
NET CASH USED BY INVESTING ACTIVITIES	(1,845)	(1,776)
Net Decrease in Cash	(24,699)	(51,565)
Cash - Beginning of Year	201,590	253,155
Cash - End of Year	\$ 176,891	\$ 201,590
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	\$ 19,910	\$ (40,376)
Adjustments to reconcile operating income (loss) to net cash provided:		
Depreciation expense	1,209	4,429
Changes in assets and liabilities:		
Accounts receivable	(34,660)	-
Prepaid expenses	(8,439)	(730)
Accounts payable and accrued expenses	(874)	(13,112)
NET CASH USED BY OPERATING ACTIVITIES	\$ (22,854)	\$ (49,789)
Cash consists of:		
General cash account	\$ 44,994	\$ 46,727
Money market account	131,897	154,863
Total Cash	\$ 176,891	\$ 201,590

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

El Dorado Local Agency Formation Commission

BUDGETARY COMPARISON SCHEDULES

Year Ended June 30, 2014	Final Budget Amounts		Actual Amounts		Variance Over (Under) Budget
Budgetary Fund Balance	\$	151,324	\$	-	\$ (151,324)
Revenues (Inflows)					
Agency funding	\$	335,110	\$	335,110	\$ -
Filing fees and other		6,286		59,660	53,374
Total Revenue		341,396		394,770	53,374
Expenses (Outflows)					
Cellular and telephone services		3,720		3,727	7
Depreciation		-		1,209	1,209
Publications and subscriptions		417		415	(2)
Information services		8,030		7,062	(968)
Insurance		14,725		14,181	(544)
Memberships		3,395		3,370	(25)
Office expenses		4,133		2,146	(1,987)
Operating contingency		10,469		3,198	(7,271)
Professional services		33,534		44,070	10,536
Rents and leases		22,566		23,088	522
Salaries and benefits		377,961		261,305	(116,656)
Staff development		9,160		7,845	(1,315)
Transportation and travel		5,010		3,244	(1,766)
Total Expenses		493,120		374,860	(118,260)
Operating Loss		(151,724)		19,910	171,634
Interest earned		400		112	(288)
Excess Inflows (Outflows)	\$	(151,324)		20,022	\$ 171,346
Net Position - Fund Balance 2012-13				178,842	
Net Position - Fund Balance 2013-14			\$	198,864	

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

El Dorado Local Agency Formation Commission

BUDGETARY COMPARISON SCHEDULES

(Continued)

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, 2014

Sources/Inflows of Resources	
Budgeted revenue	\$ 341,396
Differences - Budget to GAAP	
Filing fees received more than budgeted	53,374
Total Revenues Reported for GAAP	\$ 394,770
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Uses/Outflows of Resources	
Budgeted expenses	\$ 493,120
Differences - Budget to GAAP	
Depreciation expense recognized for GAAP, but not a budgetary outflow	1,209
Expenses less than budgeted amounts	(119,469)
Total Expenses Reported for GAAP	\$ 374,860

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

El Dorado Local Agency Formation Commission

BUDGETARY COMPARISON SCHEDULES

(Continued)

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 Income (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.

El Dorado Local Agency Formation Commission

BUDGETARY COMPARISON SCHEDULES

(Continued)

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	
Filing fees received more than budgeted	(1)
Agency funding was less than budget	22,605
Total Revenues Reported for GAAP	\$ 359,451
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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.

El Dorado Local Agency Formation Commission

NOTES TO THE 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 48 independent special districts located within the boundaries of El Dorado County provide funding for LAFCo. LAFCo 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 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 the GASB pronouncement: 1) Financial Accounting Standards Board (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 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.

Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

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.

El Dorado Local Agency Formation Commission

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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 the following categories: 1) net investment in capital assets; 2) spendable: assigned, which represents balances assigned by LAFCo for specific purpose and can be spent without formal action; and 3) spendable: unassigned, which represents the remaining balance. The spendable assigned balance consists of amounts sufficient to cover compensated absences, operating contingencies, and an emergency expense fund. Net position restricted for specific purposes, if any, is required to be separately classified. Restricted net position was not required at June 30, 2014 and 2013.

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 June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, with required implementation during the 2014-15 fiscal year. The statement establishes standards that will improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities.

LAFCo has not yet determined the effect this statement will have on its financial statements.

El Dorado Local Agency Formation Commission

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

2. OPERATING LEASE AGREEMENT

LAFCo leases office space under an operating lease that expires on October 31, 2016. Rent expense related to the office lease amounted to \$18,970 and \$20,664 for years ended June 30, 2014 and 2013, respectively. Minimum future rental payments under the noncancelable operating lease are as follows:

Year Ending June 30

2015	\$	20,267
2016	\$	20,875
2017	\$	5,257

3. CAPITAL ASSETS

Capital asset activity was as follows:

June 30	Balance 2012	Additions	Balance 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

June 30	Balance 2013	Additions	Balance 2014
Office equipment	\$ 7,819	\$ 1,957	\$ 9,776
Computers	12,006	-	12,006
Leasehold improvements	6,400	-	6,400
Less: Accumulated depreciation	(22,752)	(1,209)	(23,961)
Capital Assets - Net	\$ 3,473	\$ 748	\$ 4,221

El Dorado Local Agency Formation Commission

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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 toward 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, 2014 and 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 was 9.4331% and 15.661% for the 2013-14 and 2012-13 fiscal years, respectively. 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 \$-0- and \$1,553 as of June 30, 2014 and 2013, respectively.

For the years ended June 30, 2014 and 2013, contributions of \$27,814 and \$38,933, respectively, were contributed and equaled 100% of the required contributions.

El Dorado Local Agency Formation Commission

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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.