

**EL DORADO LOCAL AGENCY
FORMATION COMMISSION**

Placerville, California

**FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORTS**

June 30, 2008

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June 30, 2008

*El Dorado Local Agency
Formation Commission*

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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, 2008, 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, 2008, 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 June 17, 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

June 17, 2009

FINANCIAL SECTION

STATEMENT OF NET ASSETS*El Dorado Local Agency
Formation Commission*

June 30, 2008

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 134,010
Prepaid expenses	4,459

Total Current Assets

138,469

CAPITAL ASSETS - NET

3,652

Total Assets

\$ 142,121

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 11,372
Accrued expenses	14,728

Total Current Liabilities

26,100

NET ASSETS (FUND BALANCES)

Invested in capital assets	3,652
Unrestricted	112,369

Total Net Assets (Fund Balance)

116,021

Total Liabilities and Net Assets

\$ 142,121

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, 2008

REVENUE	
Agency funding	\$ 382,078
Filing fees and other	2,122
Total Revenue	<u>384,200</u>
EXPENSES	
Cellular and telephone services	2,822
Depreciation	1,040
Dues and subscriptions	505
Information services	1,765
Insurance	1,814
Memberships	4,875
Office expenses	8,566
Operating contingency	5,333
Professional services	178,252
Rents and leases	20,685
Salaries and benefits	250,610
Staff development	5,000
Stipends	3,600
Transportation and travel	5,563
Total Expenses	<u>490,430</u>
Operating Loss	(106,230)
OTHER REVENUES	
Interest earned	1,522
Excess Expenses over Revenues	(104,708)
Net Assets - Fund Balance 2006-07	<u>220,729</u>
Net Assets - Fund Balance 2007-08	<u>\$ 116,021</u>

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

BUDGETARY COMPARISON SCHEDULE

*El Dorado Local Agency
Formation Commission*

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Year Ended June 30, 2008	Final Budget Amounts	Actual Amounts	Variance Over (Under) Budget
REVENUE			
Budgetary fund balance	\$ 70,988	\$ -	\$ (70,988)
Agency funding	382,078	382,078	-
Filing fees and other	11,741	2,122	(9,619)
Total Revenue	464,807	384,200	(80,607)
EXPENSES			
Cellular and telephone services	3,210	2,822	(388)
Depreciation	-	1,040	1,040
Dues and subscriptions	756	505	(251)
Information services	7,420	1,765	(5,655)
Insurance	19,264	1,814	(17,450)
Memberships	2,655	4,875	2,220
Office expenses	8,741	8,566	(175)
Operating contingency	15,704	5,333	(10,371)
Professional services	78,800	178,252	99,452
Rents and leases	20,263	20,685	422
Salaries and benefits	294,459	250,610	(43,849)
Staff development	6,800	5,000	(1,800)
Stipends	3,850	3,600	(250)
Transportation and travel	5,285	5,563	278
Total	467,207	490,430	23,223
Operating Loss	(2,400)	(106,230)	(103,830)
Interest earned	2,400	1,522	(878)
Excess Expenses over Revenues	\$ -	(104,708)	\$ (104,708)
Net Assets - Fund Balance 2006-07		220,729	
Net Assets - Fund Balance 2007-08		\$ 116,021	

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

BUDGETARY COMPARISON SCHEDULE

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:

<hr/> <hr/>	
SOURCES/INFLOWS OF RESOURCES	
Budgeted revenue	\$ 464,807
DIFFERENCES - BUDGET TO GAAP	
Budgetary fund balance that is a resource, but not current-year revenue for GAAP	(70,988)
Filing fees earned were less than budgeted	(9,619)
Total Revenues Reported for GAAP	<hr/> \$ 384,200 <hr/>
USES/OUTFLOWS OF RESOURCES	
Budgeted expenses	\$ 467,207
DIFFERENCES - BUDGET TO GAAP	
Depreciation expense recognized for GAAP, but not a budgetary outflow	1,040
Actual expenses that were more than budgeted amounts	22,183
Total Expenses Reported for GAAP	<hr/> \$ 490,430 <hr/>

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, 2008

CASH FLOWS FROM OPERATING ACTIVITIES

Charges for services	\$ 391,935
Payments to employees	(258,869)
Payments to suppliers	(231,886)
Net Cash Used by Operating Activities	(98,820)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received	1,522
Net Cash Provided by Investing Activities	1,522
Net Decrease in Cash	(97,298)
Cash - Beginning of Year	231,308
Cash - End of Year	\$ 134,010

**RECONCILIATION OF OPERATING INCOME (LOSS)
TO NET CASH USED BY OPERATING ACTIVITIES**

Operating loss	\$ (106,230)
Adjustments to reconcile operating loss to net cash:	
Depreciation expense	1,040
Changes in assets and liabilities:	
Prepaid expenses	655
Accounts receivable	7,735
Accounts payable	(4,175)
Accrued expenses	2,155
Net Cash Used by Operating Activities	\$ (98,820)

Cash consists of:

Petty cash	\$ 250
General cash account	13,358
Money market account	120,402
Total Cash	\$ 134,010

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, 2008.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2008

*El Dorado Local Agency
Formation Commission*

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 \$18,490 for the year ended June 30, 2008. Minimum future rental payments under the non-cancelable operating lease are as follows:

Year Ending June 30	
2009	\$ 18,236
2010 (Four months)	\$ 6,123

3. CAPITAL ASSETS

Capital asset activity was as follows:

	Balance June 30, 2007	Additions	Balance June 30, 2008
Office equipment	\$ 5,863	\$ -	\$ 5,863
Leasehold improvements	6,400	-	6,400
Less: Accumulated depreciation	(7,571)	(1,040)	(8,611)
Capital Assets - Net	\$ 4,692	\$ (1,040)	\$ 3,652

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 during fiscal year 2007-08, so LAFCo contributed 3.5% to 7% of each employee's share into CalPERS, respectively. 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 2007-08 fiscal year was 12.369%. The contribution requirements of the plan members are established by State statute. For the year ended June 30, 2008, \$32,257 was contributed and equaled 100% of the required contribution.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2008

*El Dorado Local Agency
Formation Commission***5. RISK MANAGEMENT**

The County is responsible for damages caused by the acts of LAFCo, its officers, and employees. El Dorado County Risk Management provides the insurance coverage and risk management service consistent with county policies.

LAFCo has workers' compensation insurance coverage with Special District Risk Management Authority (SDRMA). SDRMA is organized as a joint powers authority, which is a pooled insurance fund.

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



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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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) as of and for the year ended June 30, 2008, and have issued our report thereon dated June 17, 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 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

June 17, 2009