

**EL DORADO LOCAL AGENCY
FORMATION COMMISSION**

Placerville, California

**REPORT TO THE
COMMISSIONERS**

June 30, 2011



matson and 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, 2011, and have issued our report thereon dated December 14, 2011. 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 letter to you dated June 3, 2011. Professional standards also require that we communicate to you the following information related to our audit.

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 LAFCo 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 2011. We noted no transactions entered into during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

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. All identified adjustments have been recorded.

Disagreements With Management

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 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 representation letter dated December 14, 2011.

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 LAFCo’s 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 LAFCo’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 LAFCo 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 14, 2011

**EL DORADO LOCAL AGENCY
FORMATION COMMISSION**

Placerville, California

**FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORTS**

June 30, 2011 and 2010

INDEPENDENT AUDITORS' REPORT



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

We have audited the accompanying statements of net assets of El Dorado Local Agency Formation Commission (LAFCo), as of June 30, 2011 and 2010, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years 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 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 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 audits provide 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, 2011 and 2010, and the changes in financial position, cash flows, and the budgetary comparison schedules for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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, although not required to be part of 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

December 14, 2011

STATEMENTS OF NET ASSETS

| June 30 | 2011 | 2010 |
|---|-------------|-------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 240,912 | \$ 222,309 |
| Prepaid expenses | 8,629 | 9,219 |
| Total Current Assets | 249,541 | 231,528 |
| CAPITAL ASSETS - NET | | |
| | 10,374 | 2,798 |
| Total Assets | \$ 259,915 | \$ 234,326 |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 3,419 | \$ 2,710 |
| Accrued expenses | 21,430 | 17,470 |
| Total Current Liabilities | 24,849 | 20,180 |
| NET ASSETS (FUND BALANCES) | | |
| Invested in capital assets | 10,374 | 2,798 |
| Unrestricted | 224,692 | 211,348 |
| Total Net Assets (Fund Balances) | 235,066 | 214,146 |
| Total Liabilities and Net Assets | \$ 259,915 | \$ 234,326 |

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

STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS

| Years Ended June 30 | 2011 | 2010 |
|--|-------------------|-------------------|
| REVENUE | | |
| Agency funding | \$ 350,512 | \$ 362,423 |
| Filing fees and other | 18,664 | 134,507 |
| Total Revenue | 369,176 | 496,930 |
| EXPENSES | | |
| Cellular and telephone services | 3,151 | 3,567 |
| Depreciation | 4,429 | 427 |
| Publications and subscriptions | 692 | 646 |
| Information services | 5,802 | 7,854 |
| Insurance | 14,413 | 13,469 |
| Memberships | 3,206 | 3,136 |
| Office expenses | 3,930 | 4,459 |
| Operating contingency | 14,807 | 3,975 |
| Professional services | 24,499 | 131,507 |
| Rents and leases | 20,793 | 20,004 |
| Salaries and benefits | 242,516 | 218,233 |
| Staff development | 6,965 | 4,153 |
| Transportation and travel | 4,331 | 3,091 |
| Total Expenses | 349,534 | 414,521 |
| Operating Income | 19,642 | 82,409 |
| OTHER REVENUES | | |
| Interest earned | 1,278 | 1,149 |
| Excess Revenues Over Expenses | 20,920 | 83,558 |
| Net Assets - Fund Balance 2009-10 | 214,146 | 130,588 |
| Net Assets - Fund Balance 2010-11 | \$ 235,066 | \$ 214,146 |

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

BUDGETARY COMPARISON SCHEDULES

| Year Ended June 30, 2011 | Final Budget Amounts | Actual Amounts | Variance Over (Under) Budget |
|--|-------------------------|-------------------|------------------------------------|
| REVENUE | | | |
| Budgetary fund balance | \$ 155,000 | \$ - | \$ (155,000) |
| Agency funding | 350,512 | 350,512 | - |
| Filing fees and other | 8,456 | 18,664 | 10,208 |
| Total Revenue | 513,968 | 369,176 | (144,792) |
| EXPENSES | | | |
| Cellular and telephone services | 4,560 | 3,151 | (1,409) |
| Depreciation | - | 4,429 | 4,429 |
| Publications and subscriptions | 658 | 692 | 34 |
| Information services | 8,300 | 5,802 | (2,498) |
| Insurance | 12,175 | 14,413 | 2,238 |
| Memberships | 3,240 | 3,206 | (34) |
| Office expenses | 5,020 | 3,930 | (1,090) |
| Operating contingency | 81,861 | 14,807 | (67,054) |
| Professional services | 35,762 | 24,499 | (11,263) |
| Rents and leases | 21,721 | 20,793 | (928) |
| Salaries and benefits | 328,688 | 242,516 | (86,172) |
| Staff development | 5,703 | 6,965 | 1,262 |
| Transportation and travel | 6,280 | 4,331 | (1,949) |
| Total Expenses | 513,968 | 349,534 | (164,434) |
| Operating Income | - | 19,642 | 19,642 |
| Interest earned | 600 | 1,278 | 678 |
| Excess Revenues Over Expenses | \$ 600 | 20,920 | \$ 20,320 |
| Net Assets - Fund Balance 2009-10 | | 214,146 | |
| Net Assets - Fund Balance 2010-11 | | \$ 235,066 | |

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

BUDGETARY COMPARISON SCHEDULES

June 30, 2011 and 2010

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 | \$ 513,968 |
| DIFFERENCES - BUDGET TO GAAP | |
| Budgetary fund balance that is a resource, but not current-year revenue for GAAP. | (155,000) |
| Filing fees received were more than budgeted. | 10,208 |
| | <hr/> |
| Total Revenues Reported for GAAP | \$ 369,176 |
| <hr/> <hr/> | |
| USES/OUTFLOWS OF RESOURCES | |
| Budgeted expenses | \$ 513,968 |
| DIFFERENCES - BUDGET TO GAAP | |
| Depreciation expense recognized for GAAP, but not a budgetary outflow. | 4,429 |
| Expenses were less than budgeted amounts. | (168,863) |
| | <hr/> |
| Total Expenses Reported for GAAP | \$ 349,534 |
| <hr/> <hr/> | |

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

BUDGETARY COMPARISON SCHEDULES

June 30, 2011 and 2010

| Year Ended June 30, 2010 | Final Budget Amounts | Actual Amounts | Variance Over (Under) Budget |
|--|---------------------------------|---------------------------|---|
| REVENUE | | | |
| Budgetary fund balance | \$ 78,408 | \$ - | \$ (78,408) |
| Agency funding | 362,187 | 362,423 | 236 |
| Filing fees and other | 8,281 | 134,507 | 126,226 |
| Total Revenue | 448,876 | 496,930 | 48,054 |
| EXPENSES | | | |
| Cellular and telephone services | 3,500 | 3,567 | 67 |
| Depreciation | - | 427 | 427 |
| Publications and subscriptions | 1,080 | 646 | (434) |
| Information services | 8,120 | 7,854 | (266) |
| Insurance | 32,500 | 13,469 | (19,031) |
| Memberships | 3,060 | 3,136 | 76 |
| Office expenses | 6,585 | 4,459 | (2,126) |
| Operating contingency | 12,343 | 3,975 | (8,368) |
| Professional services | 36,500 | 131,507 | 95,007 |
| Rents and leases | 22,021 | 20,004 | (2,017) |
| Salaries and benefits | 313,707 | 218,233 | (95,474) |
| Staff development | 4,720 | 4,153 | (567) |
| Transportation and travel | 5,340 | 3,091 | (2,249) |
| Total Expenses | 449,476 | 414,521 | (34,955) |
| Operating Income (Loss) | (600) | 82,409 | 83,009 |
| Interest earned | 600 | 1,149 | 549 |
| Excess Revenues Over Expenses | \$ - | 83,558 | \$ 83,558 |
| Net Assets - Fund Balance 2008-09 | | 130,588 | |
| Net Assets - Fund Balance 2009-10 | | \$ 214,146 | |

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

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 | \$ 448,876 |
| DIFFERENCES - BUDGET TO GAAP | |
| Budgetary fund balance that is a resource, but not current-year revenue for GAAP. | (78,408) |
| Filing fees received were more than budgeted and fees received for a special project were not included in the budget. | 126,226 |
| Total Revenues Reported for GAAP | \$ 496,930 |
| USES/OUTFLOWS OF RESOURCES | |
| Budgeted expenses | \$ 449,476 |
| DIFFERENCES - BUDGET TO GAAP | |
| Depreciation expense recognized for GAAP, but not a budgetary outflow. | 427 |
| Expenses were less than budgeted amounts, and professional services paid for a special project were not included in the budget. | (35,382) |
| Total Expenses Reported for GAAP | \$ 414,521 |

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

STATEMENTS OF CASH FLOWS

| Years Ended June 30 | 2011 | 2010 |
|--|-------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Agency funding | \$ 350,512 | \$ 362,423 |
| Charges for services | 18,664 | 134,507 |
| Payments to employees | (242,516) | (218,233) |
| Payments to suppliers | (97,330) | (204,843) |
| Net Cash Provided by Operating Activities | 29,330 | 73,854 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest received | 1,278 | 1,149 |
| Aquisition of equipment | (12,005) | |
| Net Cash Provided (Used) by Investing Activities | (10,727) | 1,149 |
| Net Increase in Cash | 18,603 | 75,003 |
| Cash - Beginning of Year | 222,309 | 147,306 |
| Cash - End of Year | \$ 240,912 | \$ 222,309 |
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES | | |
| Operating income | \$ 19,642 | \$ 82,409 |
| Adjustments to reconcile operating income to net cash provided: | | |
| Depreciation expense | 4,429 | 427 |
| Changes in assets and liabilities: | | |
| Prepaid expenses | 590 | (4,225) |
| Accounts payable and accrued expenses | 4,669 | (4,757) |
| Net Cash Provided by Operating Activities | \$ 29,330 | \$ 73,854 |
| Cash consists of: | | |
| Petty cash | \$ - | \$ 250 |
| General cash account | 33,931 | 28,358 |
| Money market account | 206,979 | 193,701 |
| Total Cash | \$ 240,912 | \$ 222,309 |

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

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011 and 2010

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, 49 independent special districts, and 6 dependent 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 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, 2011 and 2010.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011 and 2010

Operating Income and Expenses The statement of revenues, expenses, and changes in net assets 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. Interest earned on cash deposits are recorded as nonoperating 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. 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 encumbrances outstanding at year-end are considered expenditures. All changes to the budget during the year are reflected in these financial statements and require the approval of the Commissioners.

2. OPERATING LEASE AGREEMENT

LAFCo leases office space under an operating lease that expires on October 31, 2012, with an option to extend to October 31, 2014. Rent expenses amounted to \$18,592 and \$17,835 for the years ended June 30, 2011 and 2010, respectively. Minimum future rental payments under the noncancelable operating lease are as follows:

| Year Ending June 30 | | |
|---------------------|----|--------|
| 2012 | \$ | 18,500 |
| 2013 | \$ | 6,123 |

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011 and 2010

3. CAPITAL ASSETS

Capital asset activity was as follows:

| | Balance June 30, 2010 | Additions | Balance June 30, 2011 |
|--------------------------------|--|------------------|--|
| Office equipment | \$ 5,863 | \$ 12,005 | \$ 17,868 |
| Leasehold improvements | 6,400 | - | 6,400 |
| Less: Accumulated depreciation | (9,465) | (4,429) | (13,894) |
| Capital Assets - Net | \$ 2,798 | \$ 7,576 | \$ 10,374 |

| | Balance June 30, 2009 | Additions | Balance June 30, 2010 |
|--------------------------------|--|------------------|--|
| Office equipment | \$ 5,863 | \$ - | \$ 5,863 |
| Leasehold improvements | 6,400 | - | 6,400 |
| Less: Accumulated depreciation | (9,038) | (427) | (9,465) |
| Capital Assets - Net | \$ 3,225 | \$ (427) | \$ 2,798 |

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, 2011; therefore, 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 2010-11 fiscal year was 14.358%. The contribution requirements of the plan members are established by State statute. For the years ended June 30, 2011, 2010, and 2009, contributions of \$31,192, \$29,029, and \$30,828, respectively, were contributed and equaled 100% of the required contribution.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011 and 2010

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) effective July 1, 2009. 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.

Condensed financial information of SDRMA for the year ended June 30, 2010, is as follows:

| | |
|-----------------------------|----------------------|
| Total assets | \$ 93,151,195 |
| Total liabilities | 48,064,871 |
| Net Assets | \$ 45,086,324 |
| Total revenues | \$ 35,824,887 |
| Total expenses | 27,232,663 |
| Net Operating Income | 8,592,224 |
| Nonoperating income | 3,647,904 |
| Net Income | \$ 12,240,128 |

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