RICHARDSON & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS

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Board of Directors and Management
El Dorado Local Agency Formation Commission
Placerville, California

In planning and performing our audit of the financial statements of the El Dorado Local Agency Formation Commission (the LAFCo) as of and for the year ended June 30, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the LAFCo's internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the LAFCo's internal control. Accordingly, we do not express an opinion on the effectiveness of the LAFCo's internal control.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The following information has been presented for your consideration:

As we reported last year, the LAFCo has limited opportunity for separation of duties due to the small number of staff employed. Although LAFCO has appropriate controls to safeguard assets, we have the following recommendations that we believe will enhance separation of duties or improve documentation of those controls:

> Documentation of Controls: Although we noted the documentation of controls performed has been enhanced during the year, we recommend that the staff cutting checks initial the invoice along with the Executive Officer to provide evidence that separation of duties over disbursements exists.
>
> Posting Audit Adjustments: We noted differences existed between the LAFCo's fund balance and the prior year financial statements due to audit adjustments not being posted. We worked with LAFCo staff after the current year audit to post adjustments, so this recommendation was implemented after the audit was complete.
>
> Pension Reconciliations: We recommend the Executive Officer review the contributions available on MyCalPERS for consistency with final payroll records to ensure CalPERS is using appropriate census data to compute the LAFCo's share of the Miscellaneous Plan assets and liabilities and keep evidence of this review.

To the Board of Directors
El Dorado Local Agency Transportation Commission

* * * * *

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

Richardson & Company, LLP

May 11, 2017

EL DORADO LOCAL AGENCY FORMATION COMMISSION

Audited Financial Statements and
Compliance Report

June 30, 2016

EL DORADO LOCAL AGENCY FORMATION COMMISSION

Audited Financial Statements and
Compliance Report

June 30, 2016

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INDEPENDENT AUDITOR'S 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 the governmental activities and the major fund of the El Dorado Local Agency Formation Commission (the LAFCo), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the LAFCo's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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.

Auditor's Responsibility

Our responsibility is to express opinions 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 the entity'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 the entity'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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the major fund of the El Dorado Local Agency Formation Commission as of June 30, 2016, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the schedule of proportionate share of the net pension liability and schedule of contributions to the pension plan, as listed in the accompanying table of contents, be presented to supplement the basic financial statements. Such information, although not 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The 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 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards,* we have also issued our report dated May 11, 2017 on our consideration of the LAFCo's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the LAFCo's internal control over financial reporting and compliance.

Richardson & Company, LLP

May 11, 2017

EL DORADO LOCAL AGENCY FORMATION COMMISSION

STATEMENT OF NET POSITION AND
GOVERNMENTAL FUND BALANCE SHEET

June 30, 2016

	General Fund	Adjustments (Note J)	Statement of Net Position
ASSETS			
Current Assets			
Cash and investments	$ 159,032		$ 159,032
Accounts receivable	215		215
Prepaid expenses	10,966		10,966
Total Current Assets	170,213		170,213
Capital assets depreciated, net		$ 4,884	4,884
TOTAL ASSETS	$ 170,213	4,884	175,097
DEFERRED OUTFLOWS OF RESOURCES			
Pension plan		53,847	53,847
LIABILITIES			
Current Liabilities			
Accounts payable	$ 3,187		3,187
Salaries and benefits payable	9,758		9,758
Compensated absences		11,917	11,917
Total Current Liabilities	12,945	11,917	24,862
Noncurrent Liabilities			
Net pension liability		26,691	26,691
TOTAL LIABILITIES	12,945	38,608	51,553
DEFERRED INFLOWS OF RESOURCES			
Pension plan		26,160	26,160
TOTAL DEFERRED INFLOWS OF RESOURCES		26,160	26,160
FUND BALANCE/NET POSITION			
Fund balance:			
Nonspendable	10,966	(10,966)	
Assigned	2,661	(2,661)	
Unassigned	143,641	(143,641)	
TOTAL FUND BALANCE	157,268	(157,268)	
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	$ 170,213		
NET POSITION			
Investment in capital assets		4,884	4,884
Unrestricted		146,347	146,347
TOTAL NET POSITION		$ 151,231	$ 151,231

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

EL DORADO LOCAL AGENCY FORMATION COMMISSION

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

For the Year Ended June 30, 2016

	General Fund	Adjustments (Note J)	Statement of Activities
REVENUES			
Agency funding	$ 365,075		$ 365,075
Filing fees and other	5,638	$ (5,000)	638
TOTAL REVENUE	370,713	(5,000)	365,713
EXPENDITURES/EXPENSES			
Salaries and benefits	315,031	(41,524)	273,507
Professional services	46,700		46,700
Rents and leases	23,432		23,432
Insurance	14,021		14,021
Information services	10,909		10,909
Staff development	7,711		7,711
Cellular and telephone services	3,896		3,896
Memberships	3,697		3,697
Transportation and travel	3,195		3,195
Office expenses	2,593		2,593
Publications and subscriptions	370		370
Operating contingency	204		204
Depreciation		1,738	1,738
TOTAL EXPENDITURES/PROGRAM EXPENSES	431,759	(39,786)	391,973
EXCESS OF REVENUES OVER EXPENDITURES	(61,046)		
NET PROGRAM REVENUES/(EXPENSES)		34,786	(26,260)
GENERAL REVENUES			
Interest earned	716		716
NET CHANGE IN FUND BALANCE	(60,330)	60,330	
CHANGE IN NET POSITION		(25,544)	(25,544)
Fund balance/net position, beginning of year	217,598	(40,823)	176,775
FUND BALANCE/NET POSITION AT END OF YEAR	$ 157,268	$ (6,037)	$ 151,231

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

EL DORADO LOCAL AGENCY FORMATION COMMISSION

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND

For the Year Ended June 30, 2016

	2016			
	Budgeted Amounts		Actual	Variance With Final Budget Positive
	Original	Final	Amounts	(Negative)
REVENUES				
Agency funding	$ 365,075	$ 365,075	$ 365,075	
Filing fees and other	6,777	6,777	5,638	$ (1,139)
TOTAL REVENUE	371,852	371,852	370,713	(1,139)
EXPENSES				
Salaries and benefits	318,681	318,681	315,031	3,650
Professional services	33,475	33,475	46,700	(13,225)
Rents and leases	23,703	23,703	23,432	271
Insurance	14,800	14,800	14,021	779
Information services	11,014	11,014	10,909	105
Staff development	7,520	7,520	7,711	(191)
Cellular and telephone services	3,840	3,840	3,896	(56)
Memberships	3,729	3,729	3,697	32
Transportation and travel	6,844	6,844	3,195	3,649
Office expenses	4,515	4,515	2,593	1,922
Publications and subscriptions	425	425	370	55
Operating contingency	10,987	10,987	204	10,783
TOTAL EXPENSES	439,533	439,533	431,759	7,774
EXCESS OF REVENUES OVER EXPENDITURES	(67,681)	(67,681)	(61,046)	6,635
Interest earned	200	200	716	516
NET CHANGE IN FUND BALANCE	$ (67,481)	$ (67,481)	(60,330)	$ 7,151
Fund balance, beginning of year			217,598	
FUND BALANCE AT END OF YEAR			$ 157,268	

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the El Dorado Local Agency Formation Commission (the LAFCo) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The most significant accounting policies of the LAFCo are described below.

Nature of Activities: The 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 47 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 Presentation – Government-wide Financial Statements: The government-wide statement of net position and statement of activities display information about the non-fiduciary activities of the primary government (the LAFCo). These statements include the financial activities of the LAFCo.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. Nonexchange transactions in which the LAFCo gives (or receives) value without directly receiving (or giving) equal value in exchange, including agency funding from member districts, are recognized when all eligibility requirements are met.

The statement of activities presents a comparison between direct expenses and program revenues for the LAFCo's governmental activities. Direct expenses are those that are specifically associated with the LAFCo. Program revenues include contributions that are restricted to meeting the operational requirements of the LAFCo. Revenues that are not classified as program revenues, including interest income, are presented as general revenues.

Measurement Focus, Basis of Accounting and Financial Statement Presentation: The accounts of the LAFCo are organized on the basis of funds. A fund is a separate accounting entity with a self-balancing set of accounts. The governmental fund was established for the purpose of accounting for specific activities in accordance with applicable regulations, restrictions or limitations. Major individual funds are reported as separate columns in the fund financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the LAFCo considers revenues to be available if they are collected within 90 days of the end of the current fiscal period. Grant funds and exchange revenue earned but not received are recorded as a receivable. Grant funds and exchange revenue received before the revenue recognition criteria have been met are reported as deferred inflows or unearned revenues, respectively.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, long-term liabilities, as well as expenditures related to claims and judgments, are recorded only when payment is due. General capital assets are reported as capital outlay expenditures in governmental funds.

When both restricted and unrestricted resources are available, it is the LAFCo's policy to use restricted resources first, then unrestricted resources as they are needed.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The LAFCo's only major governmental fund is the General Fund. The General Fund is the general operating fund of the LAFCo and accounts for revenues collected to provide services and finance the fundamental operations of the LAFCo. The fund is charged with all costs of operations.

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. Capital assets include furniture and fixtures with a useful life of five years and a value of $1,500 or more and equipment with an estimated useful life of five years and a value of $1,500. At June 30, 2016, office equipment, computers and leasehold improvements were depreciated using the straight-line method over 5 to 7, 3 and 15 years, respectively.

Deferred Outflows and Inflows of Resources: In addition to assets and liabilities, the balance sheet will sometimes report separate sections for deferred outflows and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position by the government that is applicable to a future reporting period. Deferred inflows of resources represent an acquisition of net position that is applicable to a future reporting period. These amounts will not be recognized as an outflow of resources (expense) or an inflow of resources (revenue) until the earnings process is complete. Deferred outflows and inflows of resources include amounts deferred related to the LAFCo's pension plan under GASB 68 as described in Note E. Unavailable revenue in governmental funds arises when a potential revenue source does not meet both the "measurable" and "available" criteria for recognition in the current period. LAFCo had no unavailable revenue at June 30, 2016.

Compensated Absences: The LAFCO accrues unpaid vacation, sick leave, floating holidays and management leave that is payable when employees separate from employment as compensated absences. Unused vacation may be accumulated up to a specified maximum and is paid at the time of termination from employment. Upon retirement, unused sick leave may either be reported to CalPERS to earn additional retirement service credit or may be paid to the employee at specified percentages based on years of service at the discretion of the employee (not to exceed 500 hours at the employee's hourly pay rate). LAFCO assumed the sick leave would be paid at separation for purposes of the compensated absences liability at year-end. The cost of compensated absences is recorded in the period earned by employees in the government-wide statements. A liability is reported in the General Fund only if the liability has matured, for example, as a result of employee resignations or retirements. Compensated absences activity for the year ended June 30, 2016 was as follows:

	July 1, 2015	Additions	Retirements	June 30, 2016	Due Within One Year
Compensated absences	$ 18,296	$ 23,897	$ (30,276)	$ 11,917	$ 11,917

Fund Balance: Governmental funds report nonspendable, restricted, committed, assigned and unassigned balances.

Nonspendable Funds – Fund balance should be reported as nonspendable when the amounts cannot be spent because they are either not in spendable form, or are legally or contractually required to be maintained intact. Nonspendable balances are not expected to be converted to cash within the next operating cycle, which include prepaid expenses and long-term receivables. LAFCo's nonspendable fund balance is for prepaid expenses.

Restricted Funds – Fund balance should be reported as restricted when constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Committed Funds – Fund balance should be reported as committed when the amounts can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, which is a Resolution of the Commissioners. These amounts cannot be used for any other purpose unless the governing body modifies or removes the fund commitment. The Commission has no committed fund balance. The Commission has a 10% operating contingency and 5% emergency expense reserve approved in the Commission's fund balance policy that are not reported as committed fund balance because the terms for use are not sufficiently detailed to meet the definition of committed under GASB Statement No. 54.

Assigned Funds – Fund balance should be reported as assigned when the amounts are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. The LAFCo had $2,661 assigned at June 30, 2016 for payment to CalPERS to reduce its pension liability. See the subsequent events footnote for the amount paid subsequent to year-end.

Unassigned Funds – Unassigned fund balance is the residual classification of the LAFCo's funds and includes all spendable amounts that have not been restricted, committed, or assigned to specific purposes.

Net Position: The government-wide financial statements present net position. Net position is categorized as the investment in capital assets, restricted and unrestricted.

Investment in Capital Assets – This category groups all capital assets into one component of net position. Accumulated depreciation reduces the balance in this category.

Restricted Net Position – This category presents external restrictions imposed by creditors, grantors, contributors, laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position – This category represents net position of the LAFCo that is not restricted for any project or other purpose.

The LAFCo has only unrestricted net position.

Budget: 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.

Pension: For the purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the LAFCo's California Public Employees' Retirement System (CalPERS) plan (Plan) and addition to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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, deferred outflows of resources, liabilities and deferred inflows of resources and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

NOTE B – CASH AND INVESTMENTS

The following is a summary of cash and investments at June 30, 2016:

Deposits with financial institutions	$ 135,321
Total cash	135,321
Investments in Investment Trust of California (CalTRUST)	23,711
Total investments	23,711
Total cash and investments	$ 159,032

Investments: The LAFCo's investment policy at June 30, 2016 allowed, in addition to bank deposits, investments in certificates of deposit, the Local Agency Investment Fund (LAIF) of the State Treasury, Investment Trust of California (CalTRUST) and the El Dorado County Treasury.

Interest rate risk: Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Information about the sensitivity of the fair values of the Commission's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the Commission's investments by maturity:

		Remaining Maturity	
	Total	13-24 Months	25-60 Months
CalTRUST money market funds	$ 23,711	$ 10,000	$ 13,711

Credit Risk: Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. CalTRUST is not rated by a nationally recognized statistical rating organization.

Concentration of Credit Risk: The investment policy of the Commission limits the amount that can be invested in any one issuer to the California Government Code. There are no investments in any one issuer (other than external investment pools) that represent 5% or more of total Commission investments.

Custodial Credit Risk: Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of a failure of the counter party (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure public agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. Custodial credit risk does not apply to a local government's indirect deposits or investment in securities through the use of governmental investment pools (such as the County's cash and investments pool).

At June 30, 2016, the carrying amount of the Commission's deposits was $135,321 and the balance in financial institutions was $135,758, all of which was covered by federal depository insurance.

NOTE B – CASH AND INVESTMENTS (Continued)

Investment in Investment Trust of California (CalTRUST): The Commission is also a voluntary participant in the Investment Trust of California (CalTRUST) which is a Joint Powers Authority governed by a Board of Trustees made up of local treasurers and investment officers. The Board of Trustees sets overall policy for CalTRUST, and selects and supervises the activities of the Investment Manager and other agents. As of June 30, 2016, the Commission's investment in CalTRUST is $23,711, of which $10,000 was invested in the short-term pool with an average maturity of 1.12 years and $13,711 in the medium-term pool with an average maturity of 2.03 years at June 30, 2016. Amounts that may be withdrawn from the short-term and medium-term pools are based on the net asset value per share and the number of shares held by participants in each pool.

NOTE C – OPERATING LEASE AGREEMENT

LAFCo leases office space under an operating lease that currently expires on October 31, 2018. Rent expense related to the office lease amounted to $20,946 for the year ended June 30, 2016. Minimum future rental payments under the noncancelable operating lease were as follows at year-end:

Year Ending June 30	
2017	$ 21,365
2018	21,574
2019	7,191
	$ 50,130

NOTE D – CAPITAL ASSETS

Capital asset activity was as follows for the year ended June 30:

	Balance June 30, 2015	Additions	Disposals	Balance June 30, 2016
Capital assets being depreciated:				
Office equipment	$ 7,611			$ 7,611
Computers	12,006			12,006
Leasehold improvements	6,400			6,400
Total Capital assets being depreciated:	26,017			26,017
Less: Accumulated depreciation:				
Office equipment	(1,653)	$ (1,311)		(2,964)
Computers	(12,006)			(12,006)
Leasehold improvements	(5,736)	(427)		(6,163)
Total accumulated depreciation	(19,395)	(1,738)		(21,133)
Capital Assets, net	$ 6,622	$ (1,738)	$ -	$ 4,884

NOTE E –PENSION PLAN

A. General Information about the Pension Plan

Plan Description: All qualified permanent and probationary employees are eligible to participate in the LAFCo's Miscellaneous cost-sharing multiple employer defined benefit pension plan (the Plan) administered by the California Public Employees' Retirement System (CalPERS).

Benefit provisions under the Plan are established by State statute and Commission resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website at www.calpers.ca.gov.

Benefits Provided: CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the 1959 Survivor Benefit level 4, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plan's provisions and benefits in effect at June 30, 2016, are summarized as follows:

	Miscellaneous Plan	PEPRA Miscellaneous Plan
Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula (at full retirement)	2.0% @ 55	2.0% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50-63	52 - 67
Monthly benefits, as a % of eligible compensation	1.426% to 2.418%	1.0% to 2.5%
Required employee contribution rates	7.000%	6.250%
Required employer contribution rates	8.512%	6.237%

The Miscellaneous Plan is closed to new participants that were not CalPERS participants prior to January 1, 2013 under the Public Employees' Pension Reform Act of 2013 (PEPRA). Any new participants that were not previously CalPERS participants would be required to join the PEPRA Miscellaneous Plan. No LAFCo employees are currently required to participate in the PEPRA Miscellaneous Plan.

Contributions: Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The LAFCo is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

NOTE E – PENSION PLAN (Continued)

For the year ended June 30, 2016, the employer contributions recognized as part of pension expense for the Plan were the $18,188 required contributions plus a $34,587 discretionary contribution towards the unfunded liability, for total contributions of $52,775.

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2016, the LAFCo reported a net pension liability for its proportionate share of the net pension liability of the Miscellaneous Plan as follows:

	Proportionate Share of Net Pension Liability
Total Net Pension Liability	$ 26,691

The LAFCo's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2015, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. The LAFCo's proportion of the net pension liability was based on a projection of the LAFCo's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The LAFCo's proportionate share of the net pension liability for the Plan as of the June 30, 2014 and 2015 measurement dates were as follows:

	Miscellaneous
Proportion - June 30, 2014	0.001230%
Proportion - June 30, 2015	0.000973%
Change - Increase (Decrease)	-0.000257%

For the year ended June 30, 2016, the LAFCo recognized pension expense of $17,630 for the Plan. At June 30, 2016, the LAFCo reported deferred outflows of resources and deferred inflows of resources related to the Plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 52,775	
Differences between actual and expected experience	1,072	
Changes in assumptions		$ (10,143)
Differences between the employer's contributions and the employer's proportionate share of contributions		(3,194)
Change in employer's proportion		(7,738)
Net differences between projected and actual earnings on plan investments		(5,085)
Total	$ 53,847	$ (26,160)

NOTE E – PENSION PLAN (Continued)

The $52,775 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30	
2016	$ (11,733)
2017	(11,326)
2018	(8,529)
2019	6,500
	$ (25,088)

Actuarial Assumptions: The total pension liability in the June 30, 2016 actuarial valuations for the Plan was determined using the following actuarial assumptions:

Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	3.0%
Projected Salary Increase	3.3% - 14.2% (1)
Investment Rate of Return	7.65% (2)
Mortality	

(1) Depending on age, service and type of employment
(2) Net of pension plan investment expenses, including inflation

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2014 valuation were based on the results of a June 2012 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website.

Discount Rate: The discount rate used to measure the total pension liability was 7.65% for the June 30, 2015 measurement date and 7.50% for the June 30, 2014 measurement date. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the 7.65 percent discount rate used was adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in the June 30, 2013 valuation was net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

NOTE E – PENSION PLAN (Continued)

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as they have changed the methodology.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class for the Plan. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	20.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	1.0%	-0.55%	-1.05%
Total	100.0%		

(a) An expected inflation of 2.5% used for this period.

(b) An expected inflation of 3.0% used for this period.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate: The following presents the LAFCo's proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what the LAFCo's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	Miscellaneous
1% Decrease	6.50%
Net Pension (Liability)	$ (127,684)
Current Discount Rate	7.50%
Net Pension (Liability)	$ (26,691)
1% Increase	8.50%
Net Pension Asset	$ 56,691

NOTE E – PENSION PLAN (Continued)

Pension Plan Fiduciary Net Position: Detailed information about Plan's fiduciary net position is available in the separately issued CalPERS financial reports.

C. Payable to the Pension Plan

At June 30, 2016, the LAFCo had no outstanding contributions payable to the Plan.

NOTE F – OTHER POSTEMPLOYMENT BENEFITS PLAN

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 benefits to its employees.

NOTE G – RISK MANAGEMENT

LAFCo obtained up to $10 million of 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 an additional $2 million of directors and officers and employment practices liability insurance coverage with a $10,000 deductible from Great American Insurance Company through Alliant Insurance Services. There have been no reductions in insurance coverage or payments in excess of insurance limits during the past three years.

NOTE H – COMMITMENTS AND CONTINGENCIES

LAFCo had the following contract commitments at June 30, 2016:

Cities municipal services review	$ 16,732
GIS mapping services	6,000
	$ 22,732

NOTE I – NEW PRONOUNCEMENTS

In March 2016, the GASB issued Statement No. 82, *Pension Issues, an Amendment of GASB Statements No. 67, No. 68, and No. 73*. This Statement clarifies certain accounting and reporting issues related to pension plans, including the presentation of payroll related measures in required supplementary information, clarifies the use of the term deviation for the selection of assumptions, and clarifies the classification of employer-paid member contributions and the period in which they should be recognized. The requirements of this Statement are effective for periods beginning after June 15, 2017.

The LAFCo will fully analyze the impact of this new Statement prior to the effective date listed above.

NOTE J – RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET WITH THE GOVERNMENT-WIDE STATEMENT OF NET POSITION

Total fund balances of the LAFCo's governmental funds differ from net position of governmental activities primarily because of the long-term focus of the statement of net position versus the current financial resources focus of the governmental fund balance sheet. The differences are described below:

Fund balance of governmental funds	$ 157,268
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds.	
Capital assets, net	4,884
Pension contributions subsequent to the valuation measurement date will reduce the pension liability in the future and are reported as deferred outflows of resources on the statement of net position.	53,847
Certain liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.	
Compensated absences	(11,917)
Net pension liability	(26,691)
Employee pension differences to be recognized in the future as pension expense are reported as deferred inflows of resources on the statement of net position.	(26,160)
Net position in the government-wide statement of net position	$ 151,231

The net change in fund balances of governmental funds differs from the change in net position of governmental activities primarily because of the long-term focus of the statement of net position versus the current financial resources focus of the governmental funds balance sheet. The differences are described below:

Net change in fund balances of governmental funds	$ (60,330)
Governmental funds report capital outlays as expenditures. In the statement of activities, however, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. The change in capital assets consists of:	
Depreciation expense	(1,738)
Recognition of long-term receivable not available to pay current expenditures in the prior year.	(5,000)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
Change in deferred outflows of resources related to employee pensions	20,120
Change in compensated absences	6,379
Change in net pension obligation	3,588
Change in deferred inflows of resources related to employee pensions	11,437
Change in net position of the statement of activities	$ (25,544)

REQUIRED SUPPLEMENTARY INFORMATION

EL DORADO LOCAL AGENCY FORMATION COMMISSION

REQUIRED SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2016

SCHEDULE OF THE PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY - MISCELLANEOUS PLAN (UNAUDITED)
Last 10 Years

	2016	2015
Proportion of the net pension liability	0.000973%	0.001230%
Proportionate share of the net pension liability	$ 26,691	$ 30,279
Covered - employee payroll - measurement period	$ 185,009	$ 178,118
Proportionate share of the net pension liability as a percentage of covered payroll	14.43%	17.00%
Plan fiduciary net position as a percentage of the total pension liability	96.40%	93.23%

Notes to Schedule:
Change in Benefit Changes: The figures above do not include any liability impact that may have resulted from the plan changes which occurred after June 30, 2014 as they have minimal cost impact.

Changes in assumptions: The discount rate changed from 7.50% in 2015 to 7.65% in 2016.

Omitted years: GASB Statement No. 68 was implemented during the year ended June 30, 2015. No information was available prior to this date.

SCHEDULE OF CONTRIBUTIONS TO THE PENSION PLAN - MISCELLANEOUS PLAN (UNAUDITED)
Last 10 Years

	2016	2015
Contractually required contribution (actuarially determined)	$ 18,188	$ 18,854
Contributions in relation to the actuarially determined contributions	(52,775)	(18,854)
Contribution deficiency (excess)	$ (34,587)	$ -
Covered - employee payroll - LAFCO's fiscal year	$ 190,860	$ 185,009
Contributions as a percentage of covered - employee payroll	27.65%	10.19%

Notes to Schedule:

Valuation Date:	June 30, 2014	June 30, 2013
Measurement Date:	June 30, 2015	June 30, 2014

Methods and Assumptions Used to Determine Contribution Rates

Actuarial Method	Entry age normal cost method
Amortization Method	Difference between projected and actual earnings is amortized straight-line over 5 years. All other amounts are amortized straight-line over average remaining service life of participants
Remaining Amortization Period	Not Stated
Asset Valuation Method	5-year smoothed market
Inflation	2.75%
Salary Increases	3.30% to 14.20% depending on entry age and service
Investment Rate of Return	7.65% (2016), 7.50% (2015 net of administrative expenses); including inflation.
Retirement Age	50-67 years. Probabilities of retirement are based on the 2010 CalPERS Experience Study for the period 1997 to 2007.
Mortality	CalPERS specific data from January 2014 Actuarial Experience Study for the period 1997 to 2011 that uses 20 years of mortality improvements using Society of Actuaries Scale BB.

Omitted Years: GASB Statement No. 68 was implemented during the year ended June 30, 2015. No information was available prior to this date.

COMPLIANCE REPORT

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INDEPENDENT AUDITOR'S 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*

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

We have audited, 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, the financial statements of the governmental activities, the major fund and the aggregate remaining fund information of the El Dorado Local Agency Formation Commission (the LAFCo), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the LAFCo's basic financial statements, and have issued our report thereon dated May 11, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the LAFCo's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the LAFCo's internal control. Accordingly, we do not express an opinion on the effectiveness of the LAFCo's internal control.

A *deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the LAFCo's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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.*

To the Commissioners
El Dorado Local Agency Formation Commission

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide on the effectiveness of the LAFCo's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards*, in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Richardson & Company, LLP

May 11, 2017