EL DORADO LOCAL AGENCY FORMATION COMMISSION

Placerville, California

FINANCIAL STATEMENTS WITH INDEPENDENT AUDITORS' REPORTS

June 30, 2010

Matson and Isom

TABLE OF CONTENTS
June 30, 2010

Certified Public Accountants

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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, 2010, 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, 2010, and the changes in financial position and 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 our report dated December 6, 2010, 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 omitted management's discussion and analysis (MD&A) that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information. 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 inquires of management regarding 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

December 6, 2010

FINANCIAL SECTION

June 30, 2010		
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$	222,309
Prepaid expenses		9,219
Total Current Assets		231,528
CAPITAL ASSETS - NET		2,798
Total Assets	$	234,326
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$	2,710
Accrued expenses		17,470
Total Current Liabilities		20,180
NET ASSETS (FUND BALANCES)		
Invested in capital assets		2,798
Unrestricted		211,348
Total Net Assets (Fund Balance)		214,146
Total Liabilities and Net Assets	$	234,326

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Year Ended June 30, 2010	
REVENUE	
Agency funding	$ 362,423
Filing fees and other	134,507
Total Revenue	496,930
EXPENSES	
Cellular and telephone services	3,567
Depreciation	427
Publications and subscriptions	646
Information services	7,854
Insurance	13,469
Memberships	3,136
Office expenses	4,459
Professional services	135,482
Rents and leases	20,004
Salaries and benefits	218,233
Staff development	4,153
Transportation and travel	3,091
Total Expenses	414,521
Operating Income	82,409
OTHER REVENUES	
Interest earned	1,149
Excess Revenues Over Expenses	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.

BUDGETARY COMPARISON SCHEDULE

El Dorado Local Agency
Formation Commission

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	-	(12,343)
Professional services	36,500	135,482	98,982
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.

Year Ended June 30, 2010	
CASH FLOWS FROM OPERATING ACTIVITIES	
Agency funding	$ 362,423
Charges for services	134,507
Payments to employees	(218,233)
Payments to suppliers	(204,843)
Net Cash Provided by Operating Activities	73,854
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	1,149
Net Cash Provided by Investing Activities	1,149
Net Increase in Cash	75,003
Cash - Beginning of Year	147,306
Cash - End of Year	$ 222,309
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	$ 82,409
Adjustments to reconcile operating income to net cash provided:	
Depreciation expense	427
Changes in assets and liabilities:	
Prepaid expenses	(4,225)
Accounts payable and accrued expenses	(4,757)
Net Cash Provided by Operating Activities	$ 73,854
Cash consists of:	
Petty cash	$ 250
General cash account	28,358
Money market account	193,701
Total Cash	$ 222,309

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 Local Government Reorganization Act of 2000.

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, 2010.

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. 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 required the approval of the Commissioners.

Date of Management Evaluation Management has evaluated subsequent events through December 6, 2010, the date on which the financial statements were available to be issued.

Impact of Recently Issued Accounting Standards The GASB has issued a pronouncement that has an effective date that may impact future financial presentations. In February 2009, the GASB issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, with required implementation during the 2010-11 fiscal year. The statement establishes accounting and financial reporting standards for classifying fund balances into specifically defined classifications.

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 expense amounted to $17,835 for the year ended June 30, 2010. Minimum future rental payments under the non-cancelable operating lease are as follows:

Year Ending June 30	
2010	$ 18,500
2011	$ 18,500
2012	$ 6,123

3. CAPITAL ASSETS

Capital asset activity was as follows:

	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), 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 four plus years of service to the agency as of June 30, 2010; 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 2009-10 fiscal year was 12.899%. The contribution requirements of the plan members are established by State statute. For the years ended June 30, 2010, 2009 and 2008, contributions of $29,029, $30,828 and $32,257, respectively, were contributed and equaled 100% of the required contribution.

5. OTHER POSTEMPLOYMENT BENFITS

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, 2009, is as follows:

Total assets	$ 85,054,191
Total liabilities	52,207,995
Net Assets	$ 32,846,196
Total revenues	$ 36,460,056
Total expenses	30,282,632
Net Operating Income	6,177,424
Nonoperating income	4,345,824
Net Income	$ 10,523,248

OTHER REPORT SECTION

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INDEPENDENT AUDITORS' 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 the financial statements of El Dorado Local Agency Formation Commission (LAFCo) as of and for the year ended June 30, 2010, and have issued our report thereon dated December 6, 2010. 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 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 results in more than a remote likelihood that a material misstatement of LAFCo's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 ONCOMPLIANCE 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

December 6, 2010

EL DORADO LOCAL AGENCY FORMATION COMMISSION

Placerville, California

REPORT TO THE COMMISSIONERS

June 30, 2010

Matson and Isom

Certified Public Accountants

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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, 2010, and have issued our report thereon dated December 6, 2010. Professional standards also require that we communicate to you the following information related to our audit.

REQUIRED COMMUNICATIONS

Our Responsibility Under Generally Accepted Auditing Standards and *Government Auditing Standards*

Our engagement letter dated June 21, 2010, states that our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in conformity with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal control structure of LAFCo. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control structure.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters dated August 2, 2010.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. 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 the year.

We noted no transactions entered into by LAFCo 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 6, 2010.

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 6, 2010