



CONTRA COSTA LOCAL AGENCY FORMATION COMMISSION

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Lou Ann Texeira
Executive Officer

MEMBERS

Donald A. Blubaugh
Public Member

Federal Glover
County Member

Michael R. McGill
Special District Member

Don Tatzin
City Member

Dwight Meadows
Special District Member

Mary N. Piepho
County Member

Rob Schroder
City Member

ALTERNATE MEMBERS

Candace Andersen
County Member

Sharon Burke
Public Member

Tom Butt
City Member

George H. Schmidt
Special District Member

June 11, 2014 (Agenda)

June 11, 2014
Agenda Item 10

Contra Costa Local Agency Formation Commission
651 Pine Street, Sixth Floor
Martinez, CA 94553

Financial Audit for Fiscal Year 2012-13

Dear Members of the Commission:

Each year, LAFCO conducts a financial audit of the LAFCO finances. The independent auditing firm of R.J. Ricciardi, Inc. prepared the LAFCO financial audit for FY 2012-13.

The audit was conducted in accordance with the generally accepted auditing standards as specified in the report. The report found no material weaknesses. The auditors identified no deficiencies in internal control that they would consider to be material weaknesses, and no current year observations. The auditors propose one change in how the Commission or staff account for or manage financial resources. The auditors recommend that the Commission consider recording the Other Post-Employment Benefits (OPEB) liability on the books for the fiscal year ended June 30, 2014 and also include the OPEB expense in the budget. These recommendations have been implemented.

Special thanks are extended to the County Auditor-Controller's Office staff, especially Laura Garvey, and LAFCO Executive Assistant Kate Sibley for their work on the annual audit.

RECOMMENDATION

It is recommended that the Commission receive and file the audit report for the fiscal year ending June 30, 2013 (attached).

Sincerely,

LOU ANN TEXEIRA
EXECUTIVE OFFICER

Enclosure – FY 2012-13 Financial Audit

c: R.J. Ricciardi, Inc. CPAs
Bob Campbell, County Auditor's Office

CONTRA COSTA LOCAL AGENCY FORMATION COMMISSION

MARTINEZ, CALIFORNIA

BASIC FINANCIAL STATEMENTS

JUNE 30, 2013

TABLE OF CONTENTS

| | <u>PAGE</u> |
|---|---------------|
| Independent Auditors' Report | 1-2 |
| Management's Discussion and Analysis | 3-6 |
| Basic Financial Statements: | |
| Statement of Net Position and Governmental Funds Balance Sheet | Exhibit A 7 |
| Statement of Revenues, Expenses, and Changes in Net Position and Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances | Exhibit B 8 |
| Notes to Basic Financial Statements | 9-14 |
| Auditors' Information | 15 |
| Required Supplemental Information: | |
| Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General Fund | Schedule 1 16 |

R. J. RICCIARDI, INC.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Commissioners
Contra Costa Local Agency Formation Commission
Martinez, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of Contra Costa Local Agency Formation Commission, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Contra Costa Local Agency Formation Commission'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 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 State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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.

Basis for Qualified Opinion

As described in Note 8 to the basic financial statements, the Other Postemployment Benefits was not recorded on the accrual basis of accounting in accordance with Government Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. In our opinion, accounting principles generally accepted in the United States of America require that Other Postemployment Benefits be accounted for and disclosed on the accrual basis of accounting.

Qualified Opinion

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion" paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of Contra Costa Local Agency Formation Commission as of June 30, 2013, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (page 3-6) and budgetary comparison information (page 16) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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.

R. J. Ricciardi, Inc.

R. J. Ricciardi, Inc.
Certified Public Accountants

San Rafael, California
May 19, 2014

Contra Costa Local Agency Formation Commission
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013

This section of Contra Costa Local Agency Formation Commission's (LAFCO's) basic financial statements presents management's overview and analysis of the financial activities of the agency for the fiscal year ended June 30, 2013. We encourage the reader to consider the information presented here in conjunction with the basic financial statements as a whole.

Introduction to the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to LAFCO's audited financial statements, which are composed of the basic financial statements. This annual report is prepared in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for States and Local Governments*. The Single Governmental Program for Special Purpose Governments reporting model is used, which best represents the activities of LAFCO.

The required financial statements include the Statement of Net Position and Governmental Funds Balance Sheet; and the Statement of Revenues, Expenses, and Changes in Net Position and Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances.

These statements are supported by notes to the basic financial statements. All sections must be considered together to obtain a complete understanding of the financial picture of LAFCO.

The Basic Financial Statements

The Basic Financial Statements comprise the Government-wide Financial Statements and the Fund Financial Statements; these two sets of financial statements provide two different views of LAFCO's financial activities and financial position.

The Government-wide Financial Statements provide a longer-term view of LAFCO's activities as a whole, and comprise the Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position. The Statement of Net Position provides information about the financial position of LAFCO as a whole, including all of its capital assets and long-term liabilities on the full accrual basis, similar to that used by corporations. The Statement of Revenues, Expenses, and Changes in Net Position provides information about all of LAFCO's revenues and all of its expenses, also on the full accrual basis, with the emphasis on measuring net revenues or expenses of LAFCO's programs. The Statement of Revenues, Expenses, and Changes in Net Position explains in detail the change in Net Position for the year.

All of LAFCO's activities are grouped into Government Activities, as explained below.

The Fund Financial Statements report LAFCO's operations in more detail than the Government-wide statements and focus primarily on the short-term activities of LAFCO's Major Funds. The Fund Financial Statements measure only current revenues and expenditures and fund balances; they exclude capital assets, long-term debt and other long-term amounts.

Major Funds account for the major financial activities of LAFCO and are presented individually. Major Funds are explained below.

The Government-wide Financial Statements

Government-wide Financial Statements are prepared on the accrual basis, which means they measure the flow of all economic resources of LAFCO as a whole.

Contra Costa Local Agency Formation Commission
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013

The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position present information about the following: *Governmental Activities* – LAFCO's basic services are considered to be governmental activities. These services are supported by specific general revenues from local agencies.

Fund Financial Statements

The Fund Financial Statements provide detailed information about each of LAFCO's most significant funds, called Major Funds. The concept of Major Funds, and the determination of which are Major Funds, was established by GASB Statement No. 34 and replaces the concept of combining like funds and presenting them in total. Instead, each Major Fund is presented individually, with all Non-major Funds summarized and presented only in a single column. Major Funds present the major activities of LAFCO for the year, and may change from year-to-year as a result of changes in the pattern of LAFCO's activities.

In LAFCO's case, there is only one Major Governmental Fund.

Governmental Fund Financial Statements are prepared on the modified accrual basis, which means they measure only current financial resources and uses. Capital assets and other long-lived assets, along with long-term liabilities, are not presented in the Governmental Fund Financial Statements.

Comparisons of Budget and Actual financial information are presented for the General Fund.

Analyses of Major Funds

Governmental Funds

General Fund actual revenue increased this fiscal year compared to the prior year by \$116,219 due primarily to increased contributions from cities and districts. Actual revenues were more than budgeted amounts by \$7,417 due primarily to additional application processing reimbursements.

General Fund actual expenditures were \$586,899, a decrease of \$1,525 from the prior year primarily due to decreased application activity. Expenditures were \$68,326 less than budgeted due primarily to less legal expenses and less Municipal Service Review activity.

Governmental Activities

Table 1
Governmental Net Position

| | 2013 Governmental Activities | 2012 Governmental Activities |
|--------------------------|------------------------------------|------------------------------------|
| Current assets | \$ 326,367 | \$ 321,920 |
| Total assets | <u>326,367</u> | <u>321,920</u> |
| Accounts payable | 25,311 | 28,825 |
| Due to other governments | 25,398 | 61,639 |
| Total liabilities | <u>50,709</u> | <u>90,464</u> |
| Net position: | | |
| Unrestricted | 275,658 | 231,456 |
| Total net position | <u>\$ 275,658</u> | <u>\$ 231,456</u> |

Contra Costa Local Agency Formation Commission
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013

LAFCO's governmental net position amounted to \$275,658 as of June 30, 2013, an increase of \$44,202 from 2012. This increase is the Change in Net Position reflected in the Statement of Revenues, Expenses, and Changes in Net Position shown in Table 2. LAFCO's net position as of June 30, 2013 comprised the following:

- Cash and investments comprised \$323,188 of cash on deposit with the Contra Costa County Treasury.
- Prepaid items totaling \$3,179.
- Accounts payable totaling \$25,311.
- Due to other government agencies totaling \$25,398.
- Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants or other legal requirements or restrictions. LAFCO had \$275,658 of unrestricted net position as of June 30, 2013.

The Statement of Revenues, Expenses, and Changes in Net Position presents program revenues and expenses and general revenues in detail. All of these are elements in the Changes in Governmental Net Position summarized below.

Table 2
Changes in Governmental Net Position

| | 2013 Governmental Activities | 2012 Governmental Activities |
|-------------------------------|------------------------------------|------------------------------------|
| <u>Expenses</u> | | |
| Salaries and benefits | \$ 346,931 | \$ 337,512 |
| Services and supplies | 239,968 | 250,912 |
| Total expenses | <u>586,899</u> | <u>588,424</u> |
| <u>Revenues</u> | | |
| Program revenues: | | |
| Charges for services | 37,417 | 28,505 |
| Total program revenues | <u>37,417</u> | <u>28,505</u> |
| General revenues: | | |
| Intergovernmental | 593,684 | 486,377 |
| Total general revenues | <u>593,684</u> | <u>486,377</u> |
| Total revenues | <u>631,101</u> | <u>514,882</u> |
| <u>Change in net position</u> | <u>\$ 44,202</u> | <u>\$ (73,542)</u> |

As Table 2 above shows, \$37,417, or 5.9% of LAFCO's fiscal year 2013 governmental revenue, came from program revenues and \$593,684, or 94.1%, came from general revenues (i.e. contributions from local agencies). Furthermore, LAFCO had budgeted \$121,541 of its fund balance reserves to cover the budgeted excess expenditures over revenues.

Program revenues were composed of Boundary Proposal and related fees of \$37,417.

General revenues are not allocable to programs. General revenues are used to pay for the net cost of governmental programs.

Capital Assets

LAFCO has no capital assets.

Contra Costa Local Agency Formation Commission
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013

Debt Administration

LAFCO does not utilize long-term debt to fund operations or growth.

Economic Outlook and Major Initiatives

Financial planning is based on specific assumptions from recent trends, State of California economic forecasts and historical growth patterns in the various agencies served by LAFCO.

The economic condition of LAFCO as it appears on the Statement of Net Position reflects financial stability and the potential for organizational growth. LAFCO will continue to maintain a watchful eye over expenditures and remain committed to sound fiscal management practices to deliver the highest quality service to the citizens of the area.

Contacting LAFCO's Financial Management

The basic financial statements are intended to provide citizens, taxpayers, and creditors with a general overview of LAFCO's finances. Questions about this report should be directed to Contra Costa Local Agency Formation Commission, 651 Pine Street 6th Floor, Martinez, California 94553.

Contra Costa Local Agency Formation Commission
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
 June 30, 2013

Exhibit A

| | <u>General</u> | <u>Adjustments</u> | <u>Statement of Net Position</u> |
|-------------------------------------|-------------------|--------------------|--------------------------------------|
| <u>ASSETS</u> | | | |
| Cash and investments | \$ 323,188 | \$ - | \$ 323,188 |
| Prepaid items | 3,179 | - | 3,179 |
| Total assets | <u>\$ 326,367</u> | <u>\$ -</u> | <u>\$ 326,367</u> |
| <u>LIABILITIES</u> | | | |
| Accounts payable | \$ 25,311 | \$ - | \$ 25,311 |
| Due to other governments | 25,398 | - | 25,398 |
| Total liabilities | <u>50,709</u> | <u>-</u> | <u>50,709</u> |
| <u>FUND BALANCES/NET POSITION</u> | | | |
| Fund balances: | | | |
| Assigned fund balance | 20,000 | (20,000) | - |
| Unassigned fund balance | 255,658 | (255,658) | - |
| Total fund balances | <u>275,658</u> | <u>(275,658)</u> | <u>-</u> |
| Total liabilities and fund balances | <u>\$ 326,367</u> | | |
| Net position: | | | |
| Unrestricted | | 275,658 | 275,658 |
| Total net position | | <u>\$ 275,658</u> | <u>\$ 275,658</u> |

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

Contra Costa Local Agency Formation Commission Exhibit B
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
AND GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES

For the Period Ended June 30, 2013

| | General | Adjustments | Statement of Net Position |
|---------------------------------|------------|-------------|------------------------------|
| Expenditures/expenses: | | | |
| Salaries and benefits | \$ 346,931 | \$ - | \$ 346,931 |
| Services and supplies | 239,968 | - | 239,968 |
| Total expenditures/expenses | 586,899 | - | 586,899 |
| Program revenues: | | | |
| Charges for services | 37,417 | - | 37,417 |
| Total program revenues | 37,417 | - | 37,417 |
| Net program expenses | | | (549,482) |
| General revenues: | | | |
| Intergovernmental | 593,684 | - | 593,684 |
| Total general revenues | 593,684 | - | 593,684 |
| Excess of revenues over (under) | | | |
| expenditures | 44,202 | (44,202) | - |
| Change in net position | - | 44,202 | 44,202 |
| Fund balance/Net position, | | | |
| beginning of period | 231,456 | - | 231,456 |
| Fund balance/Net position, | | | |
| end of period | \$ 275,658 | \$ - | \$ 275,658 |

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

Contra Costa Local Agency Formation Commission
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE 1 - REPORTING ENTITY

A. Organization of LAFCO

Contra Costa Local Agency Formation Commission (LAFCO) was formed in 1963. LAFCO is responsible for coordinating logical and timely changes in local government boundaries, conducting special studies that review ways to reorganize, simplify, and streamline governmental structure, and preparing a sphere of influence for each city and special district within its county. LAFCO's efforts are directed toward seeing that services are provided efficiently and economically while agricultural and open-space lands are protected. LAFCO also conducts service reviews to evaluate the provision of municipal services within its county.

B. Principles that Determine the Scope of Reporting Entity

LAFCO consists of seven voting members and exercises the powers allowed by state statutes. This follows section 56325 of the Government Code. The basic financial statements of LAFCO consist only of the funds of LAFCO. LAFCO has no oversight responsibility for any other governmental entity since no other entities are considered to be controlled by, or dependent on, LAFCO.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

LAFCO's basic financial statements are prepared in conformity with U.S. generally accepted accounting principles. The Governmental Accounting Standards Board (GASB) is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.A.

LAFCO has chosen to present its basic financial statements using the reporting model for special purpose governments engaged in a single government program.

This model allows the fund financial statements and the government-wide statements to be combined using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column on the face of the financial statements rather than at the bottom of the statements or in an accompanying schedule.

Government-wide Financial Statements

LAFCO's financial statements reflect only its own activities; it has no component units. The statement of net position and statement of revenues, expenses, and changes in net position display information about the reporting government as a whole. They include all funds of the reporting entity. Governmental activities generally are financed through intergovernmental revenues and charges for services.

The statement of revenues, expenses, and changes in net position presents a comparison between direct expenses and program revenues for each segment of LAFCO's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipients of goods and services offered by the program. Revenues that are not classified as program revenues, including all intergovernmental revenues, are presented as general revenues.

Contra Costa Local Agency Formation Commission
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Basis of Presentation (concluded)

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. General Fund operations are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures (or expenses) as appropriate. LAFCO's resources are accounted for based on the purposes for which they are to be spent and the means by which spending activities are controlled. An emphasis is placed on major funds within the governmental categories. A fund is considered major if it is the primary operating fund of LAFCO or meets the following criteria: Total assets, liabilities, revenues or expenditures (or expenses) of the individual governmental fund are at least 10 percent of the corresponding total for all funds of that category or type. The General Fund is always a major fund.

Governmental Funds

General Fund: This is the operating fund of LAFCO. The major revenue source for this fund is intergovernmental revenues. Expenditures are made for intergovernmental revenues projects and administration.

B. Basis of Accounting

The government-wide financial statements are reported using the *economic resources measurement focus* and the *full accrual basis* of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place.

Governmental funds are reported using the *current financial resources measurement focus* and the *modified accrual basis* of accounting. Under this method, revenues are recognized when "measurable and available." LAFCO considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as *other financing sources*.

Those revenues susceptible to accrual are intergovernmental, certain charges for services and interest revenue. Charges for services are not susceptible to accrual because they are not measurable until received in cash.

Contra Costa Local Agency Formation Commission
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

B. Basis of Accounting (concluded)

LAFCO may fund programs with a combination of charges for services and general revenues. Thus, both restricted and unrestricted net position may be available to finance program expenditures. LAFCO's policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary.

C. LAFCO Budget

Pursuant to Section 56381, et seq of the Government Code, LAFCO adopts a preliminary budget by May 1 and a final budget by June 15 of each year.

Budgets are adopted on a basis consistent with U.S. generally accepted accounting principles. Budget/actual comparisons in this report use this budgetary basis. These budgeted amounts are as originally adopted or as amended by LAFCO. Individual amendments were not material in relation to the original appropriations that were amended.

D. Property, Plant and Equipment

LAFCO currently has no fixed assets.

E. Compensated Absences

Compensated absences comprise unpaid vacation. Vacation and sick time are accrued as earned.

NOTE 3 - CASH AND INVESTMENTS

LAFCO's cash is maintained with the Contra Costa County Treasury in a non-interest-bearing account. LAFCO's cash on deposit with the Contra Costa County Treasury at June 30, 2013 was \$323,188.

Credit Risk, Carrying Amount and Market Value of Investments

LAFCO maintains specific cash deposits with Contra Costa County. Contra Costa County is restricted by state code in the types of investments it can make. Furthermore, the Contra Costa County Treasurer has a written investment policy, approved by the Board of Supervisors, which is more restrictive than state code as to terms of maturity and type of investment. Also, Contra Costa County has an investment committee, which performs regulatory oversight for its pool as required by California Government Code Section 27134. In addition, LAFCO has its own investment policy as well.

Contra Costa County's investment policy authorizes Contra Costa County to invest in obligations of the U.S. Treasury, its agencies and instrumentalities, certificates of deposit, commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record, bankers' acceptances, repurchase agreements, and the State Treasurer's investment pool. At June 30, 2013, LAFCO's cash with the Contra Costa County Treasurer was maintained in a non-interest-bearing account.

Contra Costa Local Agency Formation Commission
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE 4 - USE OF ESTIMATES

The basic financial statements have been prepared in conformity with U.S. generally accepted accounting principles and, as such, include amounts based on informed estimates and judgments of management with consideration given to materiality. Actual results could differ from those amounts.

NOTE 5 - CONTINGENCIES

LAFCO may be involved from time to time in various claims and litigation arising in the ordinary course of business. LAFCO management, based upon the opinion of legal counsel, is of the opinion that the ultimate resolution of such matters should not have a materially adverse effect on LAFCO's financial position or results of operations.

NOTE 6 - FUND EQUITY

The accompanying basic financial statements reflect certain changes that have been made with respect to the reporting of the components of Fund Balances for governmental funds. In previous years, fund balances for governmental funds were reported in accordance with previous standards that included components for reserved fund balance, unreserved fund balance, designated fund balance, and undesignated fund balance. Due to the implementation of GASB Statement No. 54, the components of the fund balances of governmental funds now reflect the component classifications described below. In the fund financial statements, governmental fund balances are reported in the following classifications:

Nonspendable fund balance includes amounts that are not in a spendable form, such as prepaid items or supplies inventories, or that are legally or contractually required to remain intact, such as principal endowments.

Restricted fund balance includes amounts that are subject to externally enforceable legal restrictions imposed by outside parties (i.e., creditors, grantors, contributors) or that are imposed by law through constitutional provisions or enabling legislation.

Committed fund balance includes amounts whose use is constrained by specific limitations that the government imposes upon itself, as determined by a formal action of the highest level of decision-making authority. The Commissioners serve as LAFCO's highest level of decision-making authority and have the authority to establish, modify or rescind a fund balance commitment via minutes action.

Assigned fund balance includes amounts intended to be used by LAFCO for specific purposes, subject to change, as established either directly by the Commissioners or by management officials to whom assignment authority has been delegated by the Commissioners.

As of June 30, 2013, the assigned fund balance was \$20,000 designated for the Other Postemployment Benefits (OPEB). Beginning in fiscal year 11/12, LAFCO began designating \$10,000 annually for OPEB.

Unassigned fund balance is the residual classification that includes spendable amounts in the General Fund that are available for any purpose.

Contra Costa Local Agency Formation Commission
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE 6 - FUND EQUITY (concluded)

When expenditures are incurred for purposes for which both restricted and unrestricted (committed, assigned or unassigned) fund balances are available, LAFCO specifies that restricted revenues will be applied first. When expenditures are incurred for purposes for which committed, assigned or unassigned fund balances are available, LAFCO's policy is to apply committed fund balance first, then assigned fund balance, and finally unassigned fund balance.

Net Position

Net Position is the excess of all LAFCO's assets over all its liabilities, regardless of fund. Net Position is divided into three captions under GASB Statement No. 34. These captions apply only to Net Position, which is determined only at the government-wide level, and are described below:

Invested in capital assets, net of related debt describes the portion of Net Position that is represented by the current net book value of LAFCO's capital assets, less the outstanding balance of any debt issued to finance these assets.

Restricted describes the portion of Net Position that is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions that LAFCO cannot unilaterally alter.

Unrestricted describes the portion of Net Position that is not restricted to use.

All of LAFCO's Net Position is unrestricted.

NOTE 7 - PENSION PLAN

A LAFCO employee is eligible to participate in pension plans offered by the Contra Costa County Employee Retirement Association (CCCERA), a cost sharing multiple employer defined benefit pension plan (the Plan) which acts as a common investment and administrative agent for its participating member employers. CCCERA provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefit provisions under the Plan are established by State statute and County resolution. Benefits are based on years of credited service, equal to one year of full time employment. Funding contributions for the Plan are determined annually on an actuarial basis as of December 31 by CCCERA; LAFCO must contribute these amounts.

A LAFCO employee will pay actuarially required contributions. Retirement age varies and is based on different criteria, described as follows: any time, regardless of age, if the employee has 30 or more years of retirement service credit; any time after age 50, if the employee has 10 or more years of retirement service credit; at age 65, if the employee was a member on or before December 31, 1978; at age 70, regardless of years of retirement service credit.

CCCERA determines contribution requirements using a modification of the Entry Age Normal Method. Under this method, LAFCO's total normal benefit cost for each employee from date of hire to date of retirement is expressed as a level percentage of the related total payroll cost.

Contra Costa Local Agency Information Commission
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE 7 - PENSION PLAN (concluded)

Normal benefit cost under this method is the level amount the employer must pay annually to fund an employee's projected retirement benefit. This level percentage of payroll method is used to amortize any unfunded actuarial liabilities. The actuarial assumptions used to compute contribution requirements are also used to compute the pension benefit obligation.

CCCERA uses the market related value method of valuing the Plan's assets. The December 31, 2012 valuation included an assumed investment rate of return of 7.75%, including inflation at 3.25%. Salary increases are based on performance. LAFCO's unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period ends January 1, 2025.

CCCERA financial statements can be obtained at the Contra Costa County Employee Retirement Association, 1355 Willow Way, Suite 221, Concord, California 94520.

NOTE 8 - OTHER POSTEMPLOYMENT BENEFIT (OPEB)

Governmental Accounting Standards Board (GASB) statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, establishes standards for measurement, recognition, and display of Other Postemployment Benefit expenses, related assets and liabilities, note disclosures and, if applicable, required supplementary information in the financial reports of state and local government employers. This statement requires such benefits to be accounted for and disclosed on the accrual basis of accounting. Prior to the fiscal year ended June 30, 2013, the OPEB liability was reported in the County's financial statements. During the year, the County notified LAFCO that they will no longer carry the OPEB liability on the County's books. LAFCO took immediate action and obtained an actuarial valuation for the OPEB liability. However, LAFCO was not able to implement GASB statement No. 45 during the year ended June 30, 2013. LAFCO plans to evaluate its impact and will implement the statement as soon as possible.

Contra Costa Local Agency Formation Commission
AUDITORS' INFORMATION
June 30, 2013

| | |
|---------------------------------------|---|
| Audit Firm: | R.J. Ricciardi, Inc. |
| Lead Auditor's Name: | Hiep Pham, CPA |
| Audit Firm's Address: | 1000 Fourth Street, Suite 400 San Rafael, CA 94901 |
| Telephone number: | (415) 457-1215 |
| Date of Independent Auditors' Report: | May 19, 2014 |

Contra Costa Local Agency Formation Commission
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES

Schedule 1

Required Supplemental Information
 Budget and Actual
 General Fund (Unaudited)
 For the Period Ended June 30, 2013

| | Original Budget | Final Budget | Actual (Budgetary Basis) | Variance with Final Budget |
|---|--------------------|-----------------|--------------------------------|----------------------------------|
| Revenues: | | | | |
| Intergovernmental | \$ 593,684 | \$ 593,684 | \$ 593,684 | \$ - |
| Charges for services | 30,000 | 30,000 | 37,417 | 7,417 |
| Total revenues | <u>623,684</u> | <u>623,684</u> | <u>631,101</u> | <u>7,417</u> |
| Expenditures: | | | | |
| Salaries and benefits | 335,466 | 335,466 | 346,931 | (11,465) |
| Services and supplies | 319,759 | 319,759 | 239,968 | 79,791 |
| Total expenditures | <u>655,225</u> | <u>655,225</u> | <u>586,899</u> | <u>68,326</u> |
| Excess of revenues over (under) expenditures | (31,541) | (31,541) | 44,202 | <u>\$ (60,909)</u> |
| Fund balance, beginning of period | | | <u>231,456</u> | |
| Fund balance, end of period | | | <u>\$ 275,658</u> | |
| Contingency reserve | (80,000) | (80,000) | | |
| OPEB trust | (10,000) | (10,000) | | |
| Fund balance reserves | <u>121,541</u> | <u>121,541</u> | | |
| Total | <u>\$ -</u> | <u>\$ -</u> | | |

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

May 19, 2014

To the Board of Directors
Contra Costa Local Agency Formation Commission
Martinez, California

We have audited the financial statements of the governmental activities and the major fund of Contra Costa Local Agency Formation Commission (LAFCO) for the year ended June 30, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted 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 May 3, 2013. Professional standards also require that we communicate to you the following information related to our audit.

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 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2013. 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. We evaluated the key factors and assumptions used to develop the accounting estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The financial statement disclosures are neutral, consistent, and clear.

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 misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's 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 May 19, 2014.

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 auditor's 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.

As described in Note 8 to the basic financial statements, the Other Postemployment Benefits was not recorded on the accrual basis of accounting in accordance with Government Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for PostEmployment Benefits Other Than Pensions*. In our opinion, accounting principles generally accepted in the United States of America require that Other Postemployment Benefits be accounted for and disclosed on the accrual basis of accounting.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board of Directors and management of Contra Costa Local Agency Formation Commission and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

R.J. Ricciardi, Inc.

R.J. Ricciardi, Inc.
Certified Public Accountants