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4/26/2012

TO: Local Agency Formation Commission
FROM: George Spiliotis, Executive Officer

SUBJECT: INDEPENDENT AUDITOR'S REPORT FOR FISCAL YEAR 2010-11.

In May of 2008, the firm of Lance, Soll & Lunghard (LSL) was selected to audit the Commission's financial statements for fiscal years 2007-08, 2008-09, and 2009-10. Last year, the Commission extended the term of the agreement for one additional fiscal year. LSL has completed its audit for FY 2010-11 with financial statements and related documentation, which are attached.

As with the audits for each of the six previous fiscal years, the significant finding is that the financial statements "present fairly, in all material respects, the respective financial position of the governmental activities and General Fund of the Commission as of June 30, 2011, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America ...". Lance, Soll & Lunghard has not identified any changes necessary in the Commission's internal controls or recommended changes in the practices of the Commission in the report. The Commission has successfully implemented past recommendations such as the adoption of capital assets and reserve policies, and has developed a cash reconciliation process for the Commission's accounts.

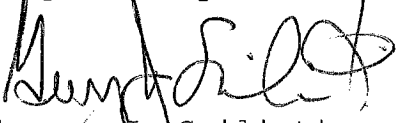
With the decline in fee revenue over the last few years, the Commission's net assets status continues to decline. As noted last year, a significant contributing factor on the liability side is the increasing Compensated Absences (leave balances) accrued by current LAFCO staff. In order to conserve cash, we have reduced the limits on cashing out leave time for the last few fiscal years. Additionally, the institution of furloughs has reduced the need for employees to use leave. While these budgetary control measures have reduced expenditures, they have contributed to the increase in long-term liability. Should any employee separate from the agency, those leave balances must be paid out. While not an immediate concern, the long-term liability must be addressed by the Commission. The recommended proposed budget, also on this agenda, presents an option to begin reducing compensated absences liability.

SPECIFIC RECOMMENDATION:

It is recommended the Commission:

1. Review the attached report from LSL and Management Discussion and Analysis.
2. Receive and file the Independent Auditor's Report for FY 2010-11

Respectfully submitted,


George J. Spiliotis
Executive Officer

AUDIT COMMITTEE LETTER

- Brandon W. Burrows, CPA
- David E. Hale, CPA, CFP
A Professional Corporation
- Donald G. Slater, CPA
- Richard K. Kikuchi, CPA
- Susan F. Matz, CPA
- Shelly K. Jackley, CPA
- Bryan S. Gruber, CPA
- Deborah A. Harper, CPA

March 14, 2012

To the Members of the Commission
Riverside Local Agency Formation Commission
Riverside, California

We have audited the financial statements of the Riverside Local Agency Formation Commission (the Commission) for the year ended June 30, 2011, and have issued our report thereon dated March 14, 2012. Professional standards require that we provide you with the following information related to our audit.

Our Responsibilities under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

Our responsibility, as described by professional standards, is to express opinions about whether the financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Significant deficiencies in such controls, if any, have been communicated to you by a separate letter.

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the Commission's compliance with those requirements. Again, instances of non-compliance with provisions of laws, regulations, contracts and grants noted by us, if any, have been communicated to you by a separate letter.

Planned Scope and Timing of the Audit

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Accordingly, a material misstatement may remain undetected. Also, an audit is not designed to detect error or fraud that is immaterial to the financial statements.

During the audit, we obtained an understanding of the entity and its environment, including its internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. An audit is not designed to provide assurance on internal control or to identify significant deficiencies. Significant deficiencies in such controls, if any, have been communicated to you by a separate letter.



Our audit has been performed in phases which consisted of interim contact(s) during the fiscal year and a year-end contact which occurred after the fiscal year-end.

Had we noted any significant matters related to the financial statement audit that were, in our professional judgment, relevant to the responsibilities of those charged with governance in overseeing the financial reporting process, we would have communicated those in a separate letter. We did not note any such matters. Generally accepted auditing standards do not require us to design procedures for the purpose of identifying other matters to communicate with those charged with governance.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Commission are described in the notes to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2011. We noted no transactions entered into by the Commission 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

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. Where applicable, the Commission utilized accounting estimates for depreciation on Commission assets, amortization of bond related issuance costs, premiums/discounts and gains/losses on bond defeasance and for reporting incurred but not reported amounts relating to the liability for claims and judgments. The methodology used during this audit is consistent with that of prior years. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Financial Statements Disclosure

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The disclosures in the financial statements 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 known and likely misstatements identified during the audit, other than those that are 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.



Members of the Commission
Riverside Local Agency Formation Commission
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Disagreements with Management

For purposes of this letter, 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 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 March 14, 2012.

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 the governmental unit'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 the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Communications

The Commission implemented the following new Governmental Accounting Standards Board (GASB) pronouncements, which were effective for fiscal year 2010-2011 audits:

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*

This information is intended solely for the use of the members of the Commission or individual(s) charged with governance and management, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Lance, Soll & Loughard, LLP

Audit Difference Evaluation Form

Name of Governmental Unit: Riverside Local Agency Formation Commission

Date of Combined Balance Sheet: June 30, 2011

Opinion Unit, Fund Type or Fund: All funds

Instructions

This form should be used to accumulate known audit differences by opinion unit, fund type or fund detected by non-sampling substantive tests (including differences in accounting estimates) and projected audit differences from substantive tests that used sampling. The current year effect of prior year uncorrected audit differences should also be summarized at the bottom of the form. This form should not include normal closing entries. At the end of the audit, the auditor should evaluate all uncorrected audit differences individually and in the aggregate, in the context of individual opinion and conclude whether they materially misstate the financial statement of an opinion unit. Thus, a separate Audit Difference Evaluation Form should be maintained for each opinion unit, fund type or fund.

Description (Nature) of Audit Difference	Cause	Workpaper Ref.	Amount
None noted			\$ -
Total			-
Less Audit Adjustments Subsequently Booked			-
Net Unadjusted Audit Differences - this year			-
Effect of Net Unadjusted Audit Difference - prior year			-
Net Audit Differences			\$ -

MANAGEMENT LETTER

- Brandon W. Burrows, CPA
- David E. Hale, CPA, CFP
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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 Members of the Commission
Riverside Local Agency Formation Commission
Riverside, California

We have audited the financial statements of the governmental activities and the General Fund of the Riverside Local Agency Formation Commission (the Commission) as of and for the year ended June 30, 2011, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated March 14, 2012. 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 the Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission'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 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 Commission's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of 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 material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission'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 Members of the Commission
Riverside Local Agency Formation Commission
Riverside, California

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

Lance, Soll & Lughard, LLP

Brea, California
March 14, 2012

**AUDITED FINANCIAL
STATEMENTS FY 10-11**



**RIVERSIDE LOCAL AGENCY
FORMATION COMMISSION**

FINANCIAL STATEMENTS

JUNE 30, 2011

Lance Soll & Lunghard, LLP

203 North Brea Blvd
Suite 203
Brea, CA 92821

41185 Golden Gate Circle
Suite 103
Murrieta, CA 92562

RIVERSIDE LOCAL AGENCY
FORMATION COMMISSION

FINANCIAL STATEMENT

JUNE 30, 2011

RIVERSIDE LOCAL AGENCY FORMATION COMMISSION

BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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- Brandon W. Burrows, CPA
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- Deborah A. Harper, CPA

INDEPENDENT AUDITOR'S REPORT

To the Members of the Commission
Riverside Local Agency Formation Commission

We have audited the accompanying financial statements of the governmental activities and the General Fund of the Riverside Local Agency Formation Commission (the Commission) as of and for the year ended June 30, 2011, which collectively comprise the Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Commission's management. 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 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 the 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 respective financial position of the governmental activities and the General Fund of the Commission as of June 30, 2011, and the respective changes in financial position, thereof and the respective budgetary comparison for the General Fund 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 March 14, 2012, on our consideration of the Commission'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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents 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.



To the Members of the Commission
Riverside Local Agency Formation Commission

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.

Lance, Solt & Lughard, LLP

Brea, California
March 14, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ended June 30, 2011

The following discussion and analysis of the financial performance of the Local Agency Formation Commission of Riverside County (Commission) provides an overview of the Commission's financial activities for the fiscal year ended June 30, 2011. Please read it in conjunction with the financial statements identified in the accompanying table of contents.

Using the Accompanying Financial Statements

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Commission as a whole and present a longer view of the Commission's finances. Also included in the accompanying report are fund financial statements. For governmental activities, the fund financial statements tell how these services were financed in the short-term as well as what remains for future spending.

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements provide both long-term and short-term information about the Commission's overall financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that provides additional financial and budgetary information.

Reporting the Commission as a Whole

The accompanying Government-wide financial statements include two statements that present financial data for the Commission as a whole. An important question to be asked about the Commission's finances is, "Is the Commission as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Commission as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting. Revenues are recognized when they are earned. Expenditures are recognized when the related liability is incurred, regardless of the cash flow.

The statements report the Commission's net assets and changes in them. You can think of the Commission's net assets – the difference between assets and liabilities - as one way to measure the Commission's financial health or financial position. Over time, increases and decreases in the Commission's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other factors, such as changes in the Commission's revenues, to assess the overall health of the Commission. Indeed, a reduction in net assets is assumed in the budget process. The prior year end fund balance is relied on as a funding source for the current year budget.

Reporting the Commission's Fund Activity

The fund financial statements provide detailed information about the Commission's governmental fund as it operates under a single-program government fund. All of the Commission's basic services are reported in its General Fund. The fund is 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 government considers revenues to be available if they are collected within 60 days of the end of the subject fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments are recorded only when a payment is due.

TABLE 1
GOVERNMENT-WIDE FINANCIAL STATEMENTS

	<u>2010-11</u>	<u>2009-10</u>	<u>DIFFERENCE</u>
<u>ASSETS</u>			
Current Assets:			
Cash and Cash Equivalents	\$194,485	\$250,701	\$(56,216)
Accounts Receivable	3	743	(740)
Interest Receivable/Accrued Interest	220	569	(349)
Due from Other Governments	2,705	5,815	(3110)
Capital Assets, Net of Depreciation	4,860	6,136	(1,276)
Total Current Assets	<u>202,273</u>	<u>263,964</u>	<u>(61,691)</u>
<u>LIABILITIES</u>			
Current Liabilities:			
Salaries and Benefits Payable	24,824	21,141	3,683
Accounts Payable	2,071	1,124	947
Deferred Revenue	0	5,815	(5,815)
Unearned Revenue	77,740	65,251	12,489
Total Current Liabilities	<u>104,635</u>	<u>93,331</u>	<u>11,304</u>
Non-current Liabilities:			
Compensated Absences (due within one year)	33,729	33,892	(163)
Compensated Absences (due in more than one year)	194,923	177,424	17,499
Total Liabilities	<u>333,287</u>	<u>304,647</u>	<u>28,640</u>
<u>NET ASSETS</u>			
Invested in Capital Assets, net of related debt	4,860	6,136	(1,276)
Unrestricted	(135,874)	(46,819)	(89,055)
Total Net Assets	<u>\$(131,014)</u>	<u>\$(40,683)</u>	<u>\$(90,331)</u>

TABLE 2**CHANGES IN NET ASSETS – GOVERNMENTAL ACTIVITIES**

	<u>2010-11</u>	<u>2009-10</u>	<u>DIFFERENCE</u>
<u>REVENUES</u>			
Charges for Services	\$78,001	\$163,159	\$(85,158)
Intergovernmental	570,366	567,412	2,954
Interest	3,160	6,181	(3,021)
Total Revenues	<u>651,527</u>	<u>736,752</u>	<u>(85,225)</u>
<u>EXPENDITURES</u>			
Salaries and Benefits ¹	560,426	563,912	(3,486)
Services and Supplies ²	<u>181,432</u>	<u>209,698</u>	<u>(28,266)</u>
Total Expenditures	<u>741,858</u>	<u>773,610</u>	<u>(31,752)</u>
<u>CHANGE IN NET ASSETS</u>	(90,331)	(36,858)	(53,473)
Net Assets, Beginning	(40,683)	(5,405)	(35,278)
Restatements	<u>0</u>	<u>1,580</u>	<u>(1,580)</u>
Net Assets, Ending	<u>\$(131,014)</u>	<u>\$(40,683)</u>	<u>\$(90,331)</u>

¹Includes Compensated Absences.²Includes Depreciated Assets.

An explanation of significant changes in the revenues and expenses of the Commission's governmental activities presented above and in the following financial statements is as follows:

- Revenues related to proposal activity, Charges for Services, decreased by approximately 52 percent from the prior year, reflecting the stalled development activity in the County of Riverside. Historically, a significant amount of the fee revenue generated by this LAFCO has been related to new construction.
- A significant portion of revenues for Fiscal Year 2010-11 was determined to be unearned, as required per generally accepted accounting principles (GAAP), and has been identified as unearned revenue in the accompanying financial statements. For Fiscal Year 2010-11, the amount of revenue identified as unearned revenue is \$77,740 and will be recognized in Fiscal Year 2011-12. The unearned revenues in Fiscal Year 2009-10 were \$62,251 and were recognized as earned in Fiscal Year 2010-11. The amount of revenue earned versus unearned for a particular proposal is based on an estimate of the proportion of work done in the current fiscal year. Revenue not earned in the current fiscal year is then recognized in the next fiscal year.

- Interest Revenue decreased approximately 49 percent from the prior year. The variance is due to the decreased fee revenue and fund balance carryover (56 percent decrease) pooled in the County Treasury.
- Decreased expenditures in the Salaries and Benefits category is related to staff's participation in voluntary furlough at six percent of salaries, which is an additional three percent from the prior year. The decrease in the Services and Supplies category is primarily due to the implementation of cost saving measures such as a reduction in the number of public hearings and the reduction in services related to the decline in proposal activity.
- Net assets continue to decrease and remain negative. This is largely due to the decrease of our revenues reflected in our cash account and the increased non-current liabilities (accumulated compensated absences). Therefore, the financial position of the Commission has worsened.
- The annual increase in compensated absences is furthering the net assets deficit significantly and revenues have not been sufficient to offset this accumulated liability.

Long-term liabilities, such as compensated absences are not due and payable in the current period.

LONG-TERM LIABILITIES

	<u>2010-11</u>	<u>2009-10</u>	<u>DIFFERENCE</u>
Compensated Absences	<u>\$228,652</u>	<u>\$211,316</u>	<u>\$17,336</u>

Additional information on the Commission's long-term liabilities can be found in Note 1 to the accompanying financial statements.

Contacting the Commission's Financial Management

This financial report is designed to provide our citizens, public officials, applicants, and creditors with a general overview of the Commission's finances and to show the Commission's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Executive Officer, George Spiliotis at 3850 Vine Street, Suite 110, Riverside CA 92507-4277.

RIVERSIDE LOCAL AGENCY FORMATION COMMISSION

STATEMENT OF NET ASSETS
JUNE 30, 2011

	Governmental Activities
Assets:	
Cash and investments	\$ 194,485
Receivables:	
Accounts	3
Accrued interest	220
Due from other governments	2,705
Capital assets, net of depreciation	<u>4,860</u>
Total Assets	<u>202,273</u>
Liabilities:	
Accounts payable	2,071
Salaries and benefits payable	24,824
Unearned revenue	77,740
Noncurrent liabilities:	
Due within one year	33,729
Due in more than one year	<u>194,923</u>
Total Liabilities	<u>333,287</u>
Net Assets:	
Invested in capital assets, net of related debt	4,860
Unrestricted	<u>(135,874)</u>
Total Net Assets	<u>\$ (131,014)</u>

RIVERSIDE LOCAL AGENCY FORMATION COMMISSION

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011

		Program Revenues			Net (Expenses) Revenues and Changes in Net Assets
		Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants	Primary Governmental Activities
	Expenses				
Functions/Programs					
Primary Government:					
Governmental Activities:					
General government	\$ 741,858	\$ 78,001	\$ 570,366	\$ -	\$ (93,491)
Total Governmental Activities	\$ 741,858	\$ 78,001	\$ 570,366	\$ -	(93,491)
General Revenues:					
Use of money and property					3,160
Total General Revenues					3,160
Change in Net Assets					(90,331)
Net Assets at Beginning of Year					(40,683)
Net Assets at End of Year					\$ (131,014)

RIVERSIDE LOCAL AGENCY FORMATION COMMISSION

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011

	<u>General Fund</u>
Assets:	
Cash and investments	\$ 194,485
Receivables:	
Accounts	3
Accrued interest	220
Due from other governments	<u>2,705</u>
Total Assets	<u>\$ 197,413</u>
 Liabilities and Fund Balances:	
Liabilities:	
Accounts payable	\$ 2,071
Salaries and benefits payable	24,824
Unearned revenues	<u>77,740</u>
Total Liabilities	<u>104,635</u>
 Fund Balances:	
Unassigned	<u>92,778</u>
Total Fund Balances	<u>92,778</u>
 Total Liabilities and Fund Balances	<u>\$ 197,413</u>

RIVERSIDE LOCAL AGENCY FORMATION COMMISSION

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2011**

Fund balances of governmental funds	\$ 92,778
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets net of depreciation have not been included as financial resources in governmental fund activity.	4,860
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Long-term liabilities, such as compensated absences, are not due and payable in the current period and therefore are not reported in the governmental fund balance sheet.	<u>(228,652)</u>
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Net assets of governmental activities	<u><u>\$ (131,014)</u></u>
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RIVERSIDE LOCAL AGENCY FORMATION COMMISSION

STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2011

	<u>General Fund</u>
Revenues:	
Intergovernmental	\$ 570,366
Charges for services	78,001
Use of money and property	<u>3,160</u>
Total Revenues	<u>651,527</u>
Expenditures:	
Current:	
General government	<u>723,246</u>
Total Expenditures	<u>723,246</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(71,719)
Fund Balances, Beginning of Year	<u>164,497</u>
Fund Balances, End of Year	<u>\$ 92,778</u>

RIVERSIDE LOCAL AGENCY FORMATION COMMISSION

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011**

Net change in fund balances - total governmental funds	\$	(71,719)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Depreciation expense	(1,276)
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Compensated absences 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

(17,336)

Change in net assets of governmental activities	\$	<u>(90,331)</u>
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RIVERSIDE LOCAL AGENCY FORMATION COMMISSION

BUDGETARY COMPARISON STATEMENT
GENERAL FUND
YEAR ENDED JUNE 30, 2011

	Budget Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
Budgetary Fund Balance, July 1	\$ 164,497	\$ 164,497	\$ 164,497	\$ -
Resources (Inflows):				
Intergovernmental	567,529	567,529	570,366	2,837
Charges for services	90,000	90,000	78,001	(11,999)
Use of money and property	2,000	2,000	3,160	1,160
Amounts Available for Appropriations	824,026	824,026	816,024	(8,002)
Charges to Appropriations (Outflow):				
General government				
Salaries and Benefits	551,487	551,487	543,090	8,397
Services and Supplies	224,906	234,181	180,156	54,025
Total Charges to Appropriations	776,393	785,668	723,246	62,422
Budgetary Fund Balance, June 30	\$ 47,633	\$ 38,358	\$ 92,778	\$ 54,420

RIVERSIDE LOCAL AGENCY FORMATION COMMISSION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2011

Note 1: Summary of Significant Accounting Policies

The accounting policies of the Riverside Local Agency Formation Commission (Commission) conform to generally accepted accounting principles as applicable to governments. The following is a summary of the significant policies.

a. Reporting Entity

Following the end of World War II, California entered a new era of demographic growth and diversity, and economic development. With this growth came the need for housing, jobs and public services. To provide for these services, California experienced a wave of newly formed cities and special districts, but with little forethought as to how the new agencies should plan for services. The lack of coordination and adequate planning for future governance led to a multitude of overlapping, inefficient jurisdictional and service boundaries.

In 1963, the State Legislature created Local Agency Formation Commissions to help direct and coordinate California's growth in a logical, efficient, and orderly manner. Each county within California is required to have a Commission. The Commission's decisions strive to balance the competing needs for efficient services, affordable housing, economic opportunity, and conservation of natural resources.

The Cortese-Knox Local Government Reorganization Act of 1985 regulated the powers and authority of the Commission. Assembly Bill No. 2838 renames the act to Cortese-Knox-Hertzberg Local Governments Reorganization Act of 2000 and amends numerous Government Codes to delete references to the conducting authority, County, or other public agency, and transfer its duties and powers to the Commission.

The Commission was operated much like a County of Riverside (County) department until 1989. However, from 1989 through 2001, the Commission was independent in every aspect except for fiscal matters. After July 1, 2001, the Commission separated from the County and is now fiscally independent. The Commission's governing board consists of seven members — two members each from the County of Riverside (County) Board of Supervisors, city governments, and special districts members, and one member from the public. The Commission appoints an Executive Officer and legal counsel and may appoint staff to conduct the operations of the Commission. The Commission is included in the County's financial statements as an agency fund.

Funding for the Commission's operations is equally shared by the County, the twenty-four County Cities and the independent special districts. Although the County contributes 33% of the Commission's funding, the Commission is an independent agency and its budget is not subject to County approval.

The Commission and County entered into a County Services Agreement to provide all accounting, banking/investment, and insurance services for the Commission. The Commission is staffed by a total of five full-time staff.

This report has been prepared in conformity with accounting principles generally accepted in the United States (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB).

RIVERSIDE LOCAL AGENCY FORMATION COMMISSION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2011

Note 1: Summary of Significant Accounting Policies (Continued)

b. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the Commission.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges for services and other governmental aid that are restricted to meeting the operational or capital requirements of a particular function or segment. Investment income and other items not properly included among program revenues are reported instead as general revenues.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis accounting. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows.

c. Fund Financial Statements

The accounts of the Commission are organized on a fund basis. The operations of the Commission's general fund are accounted for by providing a separate self-balancing set of accounts that comprises its assets, liabilities, fund balance, revenues, and expenditures. The general fund is used to account for resources traditionally associated with the government, which are not required legally or by sound financial management to be accounted for in another fund.

d. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The general fund is accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is followed for the general fund. Under the modified accrual basis of accounting, revenues are recognized when they become susceptible to accrual; that is, when they become both measurable and available to finance expenditures of the current or soon enough thereafter to be used to pay liabilities of the current period. Those revenues susceptible to accrual include interest on investments and charges for services, if they have been remitted within 60 days of the year-end. Expenditures are generally recorded when the related fund liability is incurred.

e. Capital Assets

Capital assets, which include property, plant, equipment used in the operation of the governmental funds, are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$3,000 and an estimated useful life based on the estimated useful lives and capitalization thresholds.

RIVERSIDE LOCAL AGENCY FORMATION COMMISSION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2011

Note 1: Summary of Significant Accounting Policies (Continued)

Such capital assets are valued at historical cost or estimated historical costs if actual historical cost is not available. Donated capital assets are valued at their fair market value on the date donated. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Depreciation of all exhaustible capital assets is charged as an expense against their operations. Depreciation has been provided over the estimated useful lives using the straight-line method

The estimated useful lives and capitalization thresholds are as follows:

Furniture and Fixtures	Up to 15 Years
General Office Equipment	5 Years
Computer Hardware and Peripherals	3-5 Years
Computer Software	2-3 Years

f. Compensated Absences

The Commission's policy permits non-management employees to accumulate earned but unused vacation, holiday, and sick pay. Management employees however, accumulate earned but unused holiday and annual leave benefits. Management employees do not accumulate sick and vacation pay hours. The rate of pay for all compensated absences is the same rate as that received on the last day worked. Eligibility for compensation of sick pay is available after employees have worked for the agency for five (5) years. Eligibility for compensation of all other types of absences is available immediately as accumulated.

Upon retirement, disability, or death of an employee, unused accumulated sick leave is paid to the employee or the employee's estate at a total amount of fifty (50) percent of their current accumulated time and limited to no more than one hundred and twenty (120) days of full pay. Upon leave of employment, employees are entitled to one hundred (100) percent of vacation and annual leave benefits with total payments not to exceed sixty (60) days of full pay for vacation and no maximum amount for annual leave

g. Budgets and Budgetary Accounting

The Commission established accounting controls through formal adoption of an annual operating budget for its General Fund. The operating budget is prepared on a basis consistent with generally accepted accounting principles. The adopted budget can be amended by the Commission's Board (Board) to change both appropriations and estimated revenues as unforeseen circumstances come to management's attention. Increases and decreases in revenue and appropriations require Commission approval. Expenditures may not exceed total appropriations at the individual fund level. It is the practice of the Commission's management to review the budget mid-year.

h. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

RIVERSIDE LOCAL AGENCY FORMATION COMMISSION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2011

Note 1: Summary of Significant Accounting Policies (Continued)

i. Fund Equity

In the fund financial statements, government funds report the following fund balance classification:

Nonspendable includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted includes amounts that are constrained on the use of resources by either (a) external creditors, grantors, contributors, or laws or regulations of other governments or (b) by law through constitutional provisions or enabling legislation.

Committed includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest authority, the Members of the Commission.

Assigned includes amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed.

Unassigned includes the residual amounts that have not been restricted, committed, or assigned to specific purposes.

An individual governmental fund could include nonspendable resources and amounts that are restricted or unrestricted (committed, assigned, or unassigned) or any combination of those classifications. Restricted amounts are to be considered spent when expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available and committed, assigned, and then unassigned amounts are considered to have been spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications can be used.

Note 2: Cash and Investments

The Commission's cash from operations is deposited in the County Treasury. The County pools its funds with other government agencies in the County and invests them as prescribed by the California Government Code. The Commission's deposits in the County pool may be accessed any time. The Commission is allocated interest income on monies deposited with the County based on its proportional share of the total pool. All pooled investments are carried at fair value. The fair value of a participant's position in the pool is not the same as the value of the pooled shares.

In December 1994, the Board of Supervisors created an Investment Oversight Committee to work with the County Treasurer to oversee County investment policies. The Committee reviews the County's investment strategy and the status of the County's investment and reports its findings to the Board. The Investment Oversight Committee has reviewed and approved investment policies for funds held outside the County Treasury.

RIVERSIDE LOCAL AGENCY FORMATION COMMISSION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

Note 2: Cash and Investments (Continued)

Cash and investments as of June 30, 2011, consist of the following:

Demand Deposits	\$ 193,485
Petty Cash	<u>1,000</u>
Total Cash and Investments	<u>\$ 194,485</u>

a. Investments Authorized by the Commission's Investment Policy

The Commission's investment policy authorizes investments in the under-mentioned agencies/institutions:

- County of Riverside Investment Pool
- Bankers' Acceptances
- Commercial Papers
- Medium Term Notes
- Mutual Funds
- Repurchase Agreements
- Reverse Repurchase Agreements

b. Disclosures Relating to 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 of the maturity of an investment, the greater the sensitivity of the fair value to changes in market interest rates.

As of June 30, 2011, the Commission had all its cash and investments pooled with the County of Riverside Treasurer. The Commission was not exposed to an interest rate risk as described above.

c. Disclosures Relating to 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. The money pooled with the County of Riverside is not subject to credit rating.

d. 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 the failure of the counterparty (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 and the Commission's investment policy do not contain legal or policy requirements, other than the following provision for deposits. The California Government Code requires that a financial institution secure

RIVERSIDE LOCAL AGENCY FORMATION COMMISSION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2011

Note 2: Cash and Investments (Continued)

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 Authority deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2011, the Commission had all of its cash and investments pooled with the County of Riverside Treasurer; therefore, the Commission was not exposed to any custodial credit risk as described above.

With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as the money invested by the Commission in the County of Riverside Investment Pool).

Note 3: Capital Assets

The Commission has reported all capital assets in the Government-Wide Statement of Net Assets. A summary of changes in capital assets is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets, Being Depreciated:				
Furniture and Fixtures	\$ 17,972	\$ -	\$ -	\$ 17,972
Total Capital Assets, Being Depreciated	17,972	-	-	17,972
Less Accumulated Depreciation:				
Furniture and Fixtures	11,836	1,276	-	13,112
Total Accumulated Depreciation	11,836	1,276	-	13,112
Total Capital Assets, Being Depreciated, Net	6,136	(1,276)	-	4,860
Governmental Activities Capital Assets, Net	\$ 6,136	\$ (1,276)	\$ -	\$ 4,860

Depreciation expense was charged to the following functions of the primary government as follows:

Governmental Activities	
General government	\$ 1,276

RIVERSIDE LOCAL AGENCY FORMATION COMMISSION**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**
JUNE 30, 2011

Note 4: Unearned Revenue

At June 30, 2011, the Commission deferred recognition of \$77,740 from service fees that had been received but not yet earned.

Note 5: Compensated Absences

The activity in compensated absences for fiscal year 2009-10 is as follows:

Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011	Due Within One Year
\$ 211,316	\$ 48,508	\$ 31,172	\$ 228,652	\$ 33,729

Note 6: Insurance

For fiscal year 2011, the Commission obtained insurance policies for criminal coverage, with a \$1,000,000 per loss limit and \$25,000 deductible, a property damage policy with limits varying on property type, and general liability coverage (includes E&O and Board insurance) with a \$5,000,000 loss limit and a \$10,000 deductible. There were no claims for the fiscal year 2011.

Note 7: Retirement Plan**Plan Description**

The Commission contributes to the California Public Employees Retirement System (CalPERS), under the County of Riverside's agent multiple-employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. State statutes within the Public Employees Retirement Law have established a menu of benefit provisions as well as other requirements. The County, on behalf of the Commission, selects optional benefit provisions from the benefit menu offered by CalPERS and adopts those benefits through local ordinance. CalPERS issues a separate comprehensive annual financial report. However, a report for the Commission's plan within CalPERS is not available. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office — 400 P Street, Sacramento, CA 95814.

Funding Policy

Active plan members in the CalPERS are required to contribute 8% of their annual covered salary for fiscal year 2011. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. For fiscal year 2011, the employer contribution rate was 12.165%. State statute establishes the contribution requirements of the plan members and the employer contribution rate is established and may be amended by CalPERS.

Annual Pension Costs

For the year ended June 30, 2011, the Commission's annual pension cost of \$90,013 for CalPERS was equal to the Commissions required and actual contributions. The required contribution was determined as part of the June 30, 2010, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service and (c) 3.25% per year cost-of-living adjustments.

RIVERSIDE LOCAL AGENCY FORMATION COMMISSION**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**
JUNE 30, 2011

Note 7: Retirement Plan (Continued)

Both (a) and (b) included an inflation component of 3.0%. The actuarial value of PERS assets was determined using techniques that smooth the effect of short-term volatility in the market value of investments over a three-year period (smoothed market value). PERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2011, is 14 years for miscellaneous employees.

Three-Year Trend Information		
Fiscal Year	Required Contributions	Percentage Contributed
6/30/2009	\$ 93,259	100%
6/30/2010	91,584	100%
6/30/2011	90,013	100%

Starting in fiscal years 2002-2003, the Commission participated in risk pooling. Risk pooling consists of combining assets and liabilities across employers to produce large groups where the impact of a catastrophic demographic event is shared among all employers of the same risk pool. Participation in risk pools is mandatory for all rate plans with less than 100 active members. Mandated participation in risk pools was initially based on the active membership of each rate plan as of June 30, 2003. The implementation of risk pools was done in a way that minimizes the impact on employer contribution rates. The first year in risk pools, the employer contribution rates are almost identical to what the rates would have been outside the pools. Future rates will be based on the experience of each pool. Pooling will reduce the volatility of future employer rates. Mandated participation will occur on an annual basis. If on any valuation date, starting with the June 30, 2003, valuation, a rate plan has less than 100 active members, it will be mandated in one of the risk pools effective on that valuation date.

Note 8: Other Post Employment Benefits**Plan Description**

The Commission provides other post-employment benefits (OPEB) for retired employees. Additional information may be obtained by reviewing the County of Riverside financial statement footnotes.

Funding

An actuarial valuation is performed for the County of Riverside which includes the Commission's employees. The policy of the Commission is to fully contribute an amount at least equal to the Annual Required Contribution (ARC) as determined by the actuarial valuation.

Benefits

All employees who retire from active employment within 120 days of separation are eligible for participation. Participants are eligible for service retirement at or after age 50, or disability retirement at an age younger than 50, with at least 5 years of service. Former employees who become eligible for CalPERS pension benefits more than 120 days after separation are not eligible for retiree health benefits. The benefits provided include access to the same medical coverage as active participants and the County contributes a portion of an eligible retiree's premiums under a County sponsored health plan. Contributions are based on County bargaining unit at the time of retirement.

RIVERSIDE LOCAL AGENCY FORMATION COMMISSION**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**
JUNE 30, 2011

Note 8: Other Post Employment Benefits (Continued)**Contribution**

The Commission pays the County of Riverside for their pro-rata share of OPEB. The total amount of contributions by the Commission for the year ended June 30, 2011 was \$774. Information for the last three years on annual OPEB costs, percentage of annual OPEB cost contributed, and net OPEB obligation are presented below:

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2009	\$ 53	100%	\$ -
June 30, 2010	1,604	100%	-
June 30, 2011	774	100%	-

Note 9: Commitments and Contingencies**Operating Lease**

The Commission is obligated under an operating lease for the rental of office space and equipment. Future minimum lease payments under this operating lease is as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2012	\$ 63,748
2013	51,856
Total	<u>\$ 115,604</u>

Rent expense was \$68,786 for the year ended June 30, 2011.

Legal Matters

In the ordinary course of business, the Commission is subject to certain lawsuits and other potential legal actions. As of June 30, 2011, the Commission was named in certain matters that are being handled by the County of Riverside, Office of County Counsel. The Commission has a potential liability for legal fees; however an accurate estimate cannot be determined as of the date of this report.

Note 10: Related Party Transactions

The Commission reimburses the County for the cost of providing legal and other administrative services to the Commission. Amounts charged by other County departments are reported as expenditures during the fiscal year and totaled \$42,219 for the year ended June 30, 2011.