

**LOCAL AGENCY FORMATION COMMISSION OF
SHASTA COUNTY**

Redding, California

FINANCIAL STATEMENTS WITH INDEPENDENT" AUDITORS' REPORT

June 30, 2012

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June 30, 2012

Local Agency Formation
Commission of Shasta County

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Donald R. Reynolds

Certified Public Accountant

INDEPENDENT AUDITORS' REPORT

To the Commissioners
Local Agency Formation Commission of Shasta County
Redding, California

Report on the Financial Statements

I have audited the accompanying statements of net assets of Local Agency Formation Commission of Shasta County (Shasta LAFCo), a public entity, as of June 30, 2012, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the year then ended., and the related notes to the financial statements.

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

My responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with auditing standards generally accepted in the United States of America. Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the income statement and the cash flow statement.

I conducted my audit of the balance sheet in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the balance sheet is 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, I 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. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my unmodified opinion on the financial position.

Basis for Disclaimer of Opinion on the Results of Operations and Cash Flows.

I was not engaged as auditors of the Company until after June 30, 2011, and, therefore, did not observe the counting of physical inventories at the beginning of the year. I was unable to satisfy myself by performing other auditing procedures concerning the inventory held at June 30, 2011. Since opening inventories enter into the determination of net income and cash flows, I was unable to determine whether any adjustments might have been necessary in respect of the profit for the year reported in the income statement and the net cash flows from operating activities reported in the cash flow statement.

Disclaimer of Opinion on the Results of Operations and Cash Flows

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the results of operations and cash flows for the year ended June 30, 2012. Accordingly, I do not express an opinion on the results of operations and cash flows for the year ended June 30, 2012.

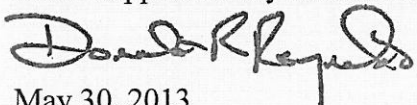
Opinion on the Financial Position

In my opinion, the balance sheet presents fairly, in all material respects, the financial position of Shasta LAFCo as of June 30, 2012, in accordance with accounting principles generally accepted in the United States of America. Report on Other Legal and Regulatory Requirements

Required Supplementary Information

My audit was performed for the purpose of forming an opinion on the basic financial statements of Shasta LAFCo taken as a whole. The Schedule of Functional Expenditures on page 10 and 11 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Management has elected to omit the Management Discussion and Analysis, which is a require part of the supplementary information.



May 30, 2013
Redding, California

BASIC FINANCIAL STATEMENTS
GOVERNMENT-WIDE FINANCIAL STATEMENTS

LOCAL AREA FORMATION COMMISSION OF SHASTA COUNTY
STATEMENT OF NET ASSETS
JUNE 30, 2012

ASSETS

Cash and investments	\$	89,641
Accounts receivable		12,440
Allowance for doubtful accounts		(12,440)
Accounts receivable - net		<u>-</u>
Total Assets	\$	<u><u>89,641</u></u>

LIABILITIES

Accounts payable	\$	-
Accrued payroll and payroll taxes		<u>16,116</u>
Total Liabilities		<u><u>16,116</u></u>

NET ASSETS

Assigned		<u>73,525</u>
Total Net Assets	\$	<u><u>73,525</u></u>

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

LOCAL AREA FORMATION COMMISSION OF SHASTA COUNTY
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
For the Fiscal Year Ended December 31, 2012

	Business-type Activities
OPERATING REVENUES	
Charges for Services	\$ 2,550
Assessments to member entities	187,501
Other	-
	190,051
OPERATING EXPENSES	
Payroll and payroll overhead	128,782
Professional fees	11,402
Building rent	9,864
Travel	6,078
Office	4,849
Memberships	3,070
Equipment rent	2,298
Communications	2,235
Other	4,733
Total Operating Expenses	173,311
Operating Income	16,740
NONOPERATING REVENUES (EXPENSES)	
Investment income	507
Interest expense	-
Total Nonoperating Revenues (Expenses)	507
CHANGE IN NET ASSETS	17,247
TOTAL NET ASSETS, BEGINNING OF YEAR	56,278
TOTAL NET ASSETS, END OF YEAR	\$ 73,525

The accompanying notes are an integral part of these financial statements

LOCAL AREA FORMATION COMMISSION OF SHASTA COUNTY
STATEMENTS OF CASH FLOWS -
For the Fiscal Year Ended December 31, 2012

	<u>Business-type Activities</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash Received From (Used For):	
Member agenciew	187,501
Applicants	2,550
Employee Wages and Benefits	(130,498)
Suppliers for Goods and Services	<u>(44,529)</u>
Net Cash Provided (Used) by Operating Activities	<u>15,024</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Cash Received From:	
Interest Collected	507
Penalties and Miscellaneous	<u>-</u>
Net Cash Provided by Noncapital Financing Activities	<u>507</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	15,531
CASH AND CASH EQUIVALENTS - Beginning	<u>74,110</u>
CASH AND CASH EQUIVALENTS - Ending (Note 9)	<u><u>89,641</u></u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:	
Operating Income	\$ 16,740
Adjust to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
(Increase) Decrease in Operating Assets:	
Accounts Receivable - Customers	-
Increase (Decrease) in Operating Liabilities:	
Accounts Payable	-
Payroll Related Payables and Sales Taxes Payable	<u>(1,716)</u>
Total Adjustments	<u>(1,716)</u>
Net Cash Provided (Used) By Operating Activities	<u><u>\$ 15,024</u></u>

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

1. **NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Nature of Activities The Local Agency Formation Commission of Shasta County (Shasta LAFCo) is an intralocal agency that was created by State legislation to ensure that changes in governmental organizations occur in a manner which provides efficient quality services and preserves open space land resources. The Legislature established a local agency formation commission in each county in 1963 and delegated its regulatory authority over local agency boundary changes. The Legislature then charged Shasta LAFCo with carrying out changes in governmental organizations to promote specified legislative policies codified in the CorteseKnox-Hertzberg Act, which was adopted by the Legislature in 2000 and became effective in 2001. The county, cities, and independent special districts provide funding for Shasta LAFCo.

Shasta LAFCo charges fees for various proceedings such as annexations, special district formations, and mergers or dissolutions.

Basis of Accounting Shasta LAFCo applies Financial Accounting Standards Board (FASB) pronouncements issued through November 30, 1989, only to the extent that they have not been superseded by Governmental Accounting Standards Board (GASB) pronouncements issued after GASB Statement No. 1. The financial statements are prepared using the economic measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when incurred.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre November 30, 1989, FASB and AICPA Pronouncements*. The object of this statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with GASB pronouncements: 1) FASB Statements and Interpretations; 2) Accounting Principles Board (APB) Opinions; and 3) Accounting Research Bulletins (ARI3) of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. The provisions of GASB Statement No. 62 are effective for the 2012-13 fiscal year. Shasta LAFCo does not expect that this statement will have any effect on its financial statements.

Cash The Organization's cash and cash equivalents are separately held in various local banks. The Financial Accounting Standards Board defines cash equivalents as short-term, highly liquid investments that are both: (1) readily convertible to known amounts of cash; and (2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The cost of all cash equivalents approximate market value.

Net Assets Beginning with fiscal year 2011, the City implemented GASB Statement 54 "Fund Balance Reporting and Governmental Fund Type Definitions". This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable fund balance - Amounts in fund balance that cannot be spent because they are either not in spendable form (such as prepaids and inventory) or legally/contractually are required to be maintained intact.

Restricted fund balance - Resources that are constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through externally enforceable legal restrictions (cannot be spent due to their form).

Committed fund balance - Amounts are constrained to specific purposes by action of the Commission itself, using its highest level of decision-making authority; removal or modification of the restrictions on the use of these amounts can only be accomplished if the Commission takes the same highest level action to remove or change the constraint.

Assigned fund balance - Amounts the Commission intends to use for a specific purpose; intent can be expressed by the Commission, a Commission created committee, or an official designated by the Commission to which it delegates the authority; Informal commitments (no formal action by the Commission).

Unassigned fund balance - Resources in the fund balance that cannot be classified into any of the other categories. These amounts that are available for any purpose; positive amounts are reported only in the general fund.

The Commission establishes fund balance commitments by passage of a resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the Commission

Operating Income and Expenses The statement of revenues, expenses, and changes in net assets distinguishes between operating and nonoperating income and expenses. Operating revenues include all revenues received in order to provide services. Operating revenues are received from project fees and allocations from governmental agencies. Interest earned on cash deposits with the County are recorded as other revenue. Operating expenses are all expenses incurred to provide operating income, other than financing costs.

2. CAPITAL ASSETS

Capital assets are stated at cost, or if acquired by gift, are recorded at estimated market value at the date of acquisition. Shasta LAFCo capitalizes assets with an acquisition cost in excess of \$1,500. The Organization does not currently possess any assets that exceed the capitalization limit.

3. OPERATING LEASE

Shasta LAFCo leases office space under an operating lease with the Kenneth Prescott. The lease has a term of 36 months with an option for another 12 months at the same terms. The lease allows for the 12th month free for the first year of the lease. Rent paid amounted to \$9,864 in 2012. The Organization also has an operating lease for a copy machine with Costal Business Systems in the base amount of \$179 per month for a period of 60 months, beginning March 6, 2012. The future minimum lease payments are as follows:

2012-2013	\$ 12,196
2013-2014	7,716
2014-2015	2,148
2015-2016	2,148
2016-2017	1,432

4. RETIREMENT PLAN

Shasta LAFCo contributes to the California Public Employees Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California. CalPERS provides retirement, disability benefits, and death benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of CalPERS' annual financial report may be obtained from their executive office at 400 Q Street, Sacramento, California 95811.

Funding Policy

Shasta LAFCo is required to contribute at an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer's contribution rate of annual payroll for fiscal year 2011-12 was 12.821%. Shasta LAFCo also pays the employees' contribution which amounts to 7% of annual payroll. The employer's contribution rate for 2012-13 is projected to be 15.311%.

Annual Pension Cost

Shasta LAFCo's contributions to CalPERS for fiscal years ended June 30, 2012, amounted to \$16,249 and equals 100% of the required contributions. The required contributions were determined as part of the June 30, 2011, actuarial valuation using the entry-age actuarial cost method. This is a projected benefit cost method, which takes into account those benefits that are expected to be earned in the future as well as those already accrued. The actuarial assumptions included: a) a 7.50% investment rate of return {net of administrative expenses}; b) projected salary increases that vary by age, service, and type of employment, which ranged from 3.30% to 14.20%; c) an inflation rate of 2.75%; and d) a payroll growth rate of 3.00%. The actuarial value of the CalPERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period (smoothed market value). The CalPERS unfunded actuarial accrued liability is being amortized as a level of percentage of projected payroll. The remaining amortization period at June 30, 2011, was 21 years.

The net pension obligation and the annual required contribution were not calculated by CalPERS as of June 30, 2012. Three-year trend information was not available.

5. OTHER POSTEMPLOYMENT BENEFITS

GASB Statement No. 45 requires all other postemployment benefits (OPEB) that are in addition to pension benefits be recorded as an expense and a liability by the employer. Shasta LAFCo has not granted any OPEB to employees.

6. RISK MANAGEMENT

Shasta LAFCo obtained general liability, auto liability, auto physical damage, public officials' errors and omissions, elected officials' personal liability, employment practices and benefits, fidelity blanket bond, property coverage, and boiler and machinery coverage from Special District Risk Management Authority (SDRMA). The SDRMA is organized as a joint powers authority and provides coverage to certain maximum limits applied annually, per occurrence or per year. Members are subject to dividends and /or assessments in accordance with an agreement. Workers' compensation coverage is purchased from State Compensation Insurance Fund.

7. ESTIMATES

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

estimates.

8. CONCENTRATIONS OF CREDIT RISK:

The Commission receives its funding primarily from local agencies and through user fees charged to Agencies that desire to implement changes or establish new Agencies. Changes in the economy can adversely affect the Commission's available funding.

9. SUBSEQUENT EVENT

Management has evaluated events subsequent to June 30, 2012 through May 30, 2013, the date on which the financial statements were available for issuance. Management has determined no subsequent events requiring disclosure have occurred. The Commission is the subject of pending litigation which the Commission's counsel does not feel represents a threat of a negative outcome.

REQUIRED SUPPLEMENTARY INFORMATION

LOCAL AREA FORMATION COMMISSION OF SHASTA COUNTY

Schedule of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual

For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual Amount	Variance With Final Budget
Budgetary Fund Balances, July 1	\$ 56,278	\$ 56,278	\$ 56,278	\$ -
OPERATING REVENUES				
Charges for Services	\$ -	\$ -	\$ 2,550	\$ 2,550
Assessments to member entities	186,000	186,000	187,501	1,501
Other	-	-	-	-
	<u>186,000</u>	<u>186,000</u>	<u>190,051</u>	<u>4,051</u>
OPERATING EXPENSES				
Payroll and payroll overhead	147,829	147,829	128,782	19,047
Professional fees	10,800	10,800	11,402	(602)
Building rent	10,761	10,761	9,864	897
Travel	3,000	3,000	6,078	(3,078)
Office	5,000	5,000	4,849	151
Memberships	3,100	3,100	3,070	30
Equipment rent	3,000	3,000	2,298	702
Communications	3,100	3,100	2,235	865
Other	13,550	13,550	4,733	8,817
Total Operating Expenses	<u>200,140</u>	<u>200,140</u>	<u>173,311</u>	<u>26,829</u>
Operating Income	<u>(14,140)</u>	<u>(14,140)</u>	<u>16,740</u>	<u>(30,880)</u>
Interest	500	500	507	(7)
Net Change in Fund Balances	<u>(13,640)</u>	<u>(13,640)</u>	<u>17,247</u>	<u>(30,887)</u>
Fund Balances - End of Year	<u>\$ 42,638</u>	<u>\$ 42,638</u>	<u>\$ 73,525</u>	<u>\$ (30,887)</u>

LOCAL AREA FORMATION COMMISSION OF SHASTA COUN
Notes to the Required Supplementary Information
For the Year Ended June 30, 2012

BUDGET AND BUDGETARY ACCOUNTING

The LAFCo prepares and legally adopts a final budget on or before June 15th of each fiscal year. The LAFCo's operations, commencing January 1, is governed by the proposed budget, adopted by the Board of Directors in May of the prior year.

After the budget is approved, the appropriations can be added to, subtracted from or changed only by LAFCo resolution. All such changes must be within the revenues and reserves estimated as available in the final budget or within revised revenue estimates as approved by the LAFCo.

An operating budget is adopted each fiscal year on the modified accrual basis. Additionally, encumbrance accounting is utilized to assure effective budgetary control. Encumbrances outstanding at year-end represent the estimated amount of the expenditures ultimately to result if the unperformed contracts in process at year-end are completed or purchase commitments satisfied. Such year-end encumbrances are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year and included in the subsequent year's budget. Unencumbered appropriations lapse at year-end.

The legal level of budgetary control (the level on which expenditures may not legally exceed appropriations) is at the object level. Object levels of expenditures are as follows: salaries and benefits, services and supplies, and capital outlay.

The budget is adopted on a basis consistent with generally accepted accounting principles.

**LOCAL AGENCY FORMATION COMMISSION
OF SHASTA COUNTY**

Redding, California

REPORT TO THE COMMISSIONERS

June 30, 2012

Donald R. Reynolds

Certified Public Accountant

May 30, 2013

Board of Directors
Local Agency Formation Commission of Shasta County
Redding, California

In planning and performing my audit of the basic financial statements of the Local Agency Formation Commission of Shasta County for the fiscal year ended June 30, 2012, I considered its internal control in order to determine my auditing procedures for the purpose of expressing my opinion on the basic financial statements and not to provide assurance on internal control.

My consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

However, during my audit, I noted certain matters involving the internal control structure and other operational matters that are presented for your consideration. I will review the status of these comments during my next audit engagement. My comments and recommendations, all of which have been discussed with appropriate members of management, are not intended to be all-inclusive, but rather represent those matters that I considered worthy of your consideration. My comments and recommendations are submitted as constructive suggestions to assist you in strengthening controls and procedures; they are not intended to reflect on the honesty or integrity of any employee. I will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist Local Agency Formation Commission of Shasta County in implementing the recommendations.

This report is intended solely for the information and use of management, the Board of Directors, and officials of the federal and state grantor agencies and should not be used by anyone other than these specified parties.

I thank the Local Agency Formation Commission of Shasta County's staff for their cooperation during my audit.

Respectfully,



Donald R. Reynolds, CPA

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

To the Board of Directors
Local Agency Formation Commission of Shasta County

I have audited the financial statements of the Local Agency Formation Commission of Shasta County for the year ended June 30, 2012, and have issued my report thereon dated May 30, 2013. Professional standards require that I provide you with the following information related to my audit.

My Responsibilities under U.S. Generally Accepted Auditing Standards

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

In planning and performing my audit, I considered The Local Agency Formation Commission of Shasta County's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide assurance on the internal control over financial reporting.

As part of obtaining reasonable assurance about whether The Local Agency Formation Commission of Shasta County's financial statements are free of material misstatement, I 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 my audit. While my audit provides a reasonable basis for my opinion, it does not provide a legal determination on The Local Agency Formation Commission of Shasta County's compliance with those requirements.

Significant Audit Findings - See Schedule of Findings and Questioned Costs.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of my engagement letter, I will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by The Local Agency Formation Commission of Shasta County 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 2012. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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. The most sensitive estimate(s) affecting the financial statements was the calculation of depreciation and deferred revenue. In addition, management's estimate of the accrual and disclosure of compensated absences is based on employees pay rates and unused compensated balances at the end of the year. I evaluated the key factors and assumptions used to develop the accrual and disclosure of compensated absences in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the capital assets lives and depreciation expense is based on the class/type of asset, internal revenue service guidelines, and client's experience. I evaluated the key factors and assumptions used to develop the capital assets lives and depreciation expense in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure(s) affecting the financial statements was:

Accrual and disclosure of compensated absences
Capital assets lives and depreciation expense

Difficulties Encountered in Performing the Audit

I encountered no significant difficulties in performing and completing my audit. Those deficiencies discussed in the attached Schedule of Findings and Questioned Costs, are a result of the activities of the previous management and as such are presented as a matter of continued followup as no final determination has been made by State or Federal authorities. These previous inadequacies and weaknesses as noted in the prior report resulted in a high risk audit engagement.

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. The Commission's books had not been closed or adjusted at year end. The following adjustments were proposed and accepted:

An adjustment to clear posted transfers in the amount of \$13,640.

An adjustment reducing compensated absences at June 30, 2012 in the amount of \$3,791.00.

Adjustments to adjust accrued payroll taxes at the beginning and end of the year in the amounts of \$2,429.11 and \$4,504.16, respectively.

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 my satisfaction, that could be significant to the financial statements or the auditor's report. I am pleased to report that no such disagreements with the new management arose during the course of my audit.

Management Representations

I have requested certain representations from management that are included in the management representation letter dated May 30, 2013.

Management Consultations with Other Independent Accountants

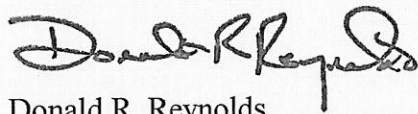
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, my professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts.

To my knowledge, there were no such consultations with outside accountants.

I generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management. These discussions occurred in the normal course of my professional relationship and my responses were not a condition to my retention.

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

Very truly yours,



Donald R. Reynolds
Certified Public Accountant

**SCHEDULE OF FINDINGS
AND QUESTIONED COSTS
June 30, 2012**

FINDINGS

FINANCIAL STATEMENTS AUDIT

Material Weakness

Condition

One element of the Organization's internal control over financial reporting is its ability to prepare financial statements from its trial balance in accordance with generally accepted accounting principles (GAAP).

During our audit of the current year, we noted several adjustments that were material to the financial statements that were required to be made in order for the financial statements to be prepared in accordance and/or conformity with generally accepted accounting principles. These adjustments were not identified through the Organization's internal control.

Criteria

The Organization does not have internal controls in place that extend to the determination that the financial statements are in accordance with GAAP.

Effect

Without internal controls that extend from the trial balance to the financial statements, the Organization is left to rely on the external auditors to identify material differences from GAAP reporting.

Recommendation

We recommend the Organization consider the cost/benefit of internal controls, separate from the external auditors, to assure the Organization's financial statements are in accordance with GAAP.

Donald R. Reynolds

Certified Public Accountant

May 25, 2013

Board of Directors
Local Agency Formation Commission of Shasta County
Redding, California

In planning and performing my audit of the basic financial statements of the Local Agency Formation Commission of Shasta County for the fiscal year ended June 30, 2012, I considered its internal control in order to determine my auditing procedures for the purpose of expressing my opinion on the basic financial statements and not to provide assurance on internal control.

My consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

However, during my audit, I noted certain matters involving the internal control structure and other operational matters that are presented for your consideration. I will review the status of these comments during my next audit engagement. My comments and recommendations, all of which have been discussed with appropriate members of management, are not intended to be all-inclusive, but rather represent those matters that I considered worthy of your consideration. My comments and recommendations are submitted as constructive suggestions to assist you in strengthening controls and procedures; they are not intended to reflect on the honesty or integrity of any employee. I will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist Local Agency Formation Commission of Shasta County in implementing the recommendations.

This report is intended solely for the information and use of management, the Board of Directors, and officials of the federal and state grantor agencies and should not be used by anyone other than these specified parties.

I thank the Local Agency Formation Commission of Shasta County's staff for their cooperation during my audit.

Respectfully,



Donald R. Reynolds, CPA

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

To the Board of Directors
Local Agency Formation Commission of Shasta County

I have audited the financial statements of the Local Agency Formation Commission of Shasta County for the year ended June 30, 2012, and have issued my report thereon dated May 30, 2013. Professional standards require that I provide you with the following information related to my audit.

My Responsibilities under U.S. Generally Accepted Auditing Standards

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

In planning and performing my audit, I considered The Local Agency Formation Commission of Shasta County's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide assurance on the internal control over financial reporting.

As part of obtaining reasonable assurance about whether The Local Agency Formation Commission of Shasta County's financial statements are free of material misstatement, I 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 my audit. While my audit provides a reasonable basis for my opinion, it does not provide a legal determination on The Local Agency Formation Commission of Shasta County's compliance with those requirements.

Significant Audit Findings - See Schedule of Findings and Questioned Costs.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of my engagement letter, I will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by The Local Agency Formation Commission of Shasta County 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 2012. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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. The most sensitive estimate(s) affecting the financial statements was the calculation of depreciation and deferred revenue. In addition, management's estimate of the accrual and disclosure of compensated absences is based on employees pay rates and unused compensated balances at the end of the year. I evaluated the key factors and assumptions used to develop the accrual and disclosure of compensated absences in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the capital assets lives and depreciation expense is based on the class/type of asset, internal revenue service guidelines, and client's experience. I evaluated the key factors and assumptions used to develop the capital assets lives and depreciation expense in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure(s) affecting the financial statements was:

- Accrual and disclosure of compensated absences
- Capital assets lives and depreciation expense

Difficulties Encountered in Performing the Audit

I encountered no significant difficulties in performing and completing my audit. Those deficiencies discussed in the attached Schedule of Findings and Questioned Costs, are a result of the activities of the previous management and as such are presented as a matter of continued followup as no final determination has been made by State or Federal authorities. These previous inadequacies and weaknesses as noted in the prior report resulted in a high risk audit engagement.

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. The Commission's books had not been closed or adjusted at year end. The following adjustments were proposed and accepted:

- An adjustment to clear posted transfers in the amount of \$13,640.

- An adjustment reducing compensated absences at June 30, 2012 in the amount of \$3,791.00.

- Adjustments to adjust accrued payroll taxes at the beginning and end of the year in the amounts of \$2,429.11 and \$4,504.16, respectively.

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 my satisfaction, that could be significant to the financial statements or the auditor's report. I am pleased to report that no such disagreements with the new management arose during the course of my audit.

Management Representations

I have requested certain representations from management that are included in the management representation letter dated May 30, 2013.

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, my professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts.

To my knowledge, there were no such consultations with outside accountants.

I generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management. These discussions occurred in the normal course of my professional relationship and my responses were not a condition to my retention.

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

Very truly yours,

Donald R. Reynolds
Certified Public Accountant

**SCHEDULE OF FINDINGS
AND QUESTIONED COSTS
June 30, 2012**

FINDINGS

FINANCIAL STATEMENTS AUDIT

Material Weakness

Condition

One element of the Organization's internal control over financial reporting is its ability to prepare financial statements from its trial balance in accordance with generally accepted accounting principles (GAAP).

During our audit of the current year, we noted several adjustments that were material to the financial statements that were required to be made in order for the financial statements to be prepared in accordance and/or conformity with generally accepted accounting principles. These adjustments were not identified through the Organization's internal control.

Criteria

The Organization does not have internal controls in place that extend to the determination that the financial statements are in accordance with GAAP.

Effect

Without internal controls that extend from the trial balance to the financial statements, the Organization is left to rely on the external auditors to identify material differences from GAAP reporting.

Recommendation

We recommend the Organization consider the cost/benefit of internal controls, separate from the external auditors, to assure the Organization's financial statements are in accordance with GAAP.