LOCAL AGENCY FORMATION COMMISSION OF SHASTA COUNTY

Redding, California

REVIEWED FINANCIAL STATEMENTS

June 30, 2016

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Local Agency Formation Commission of Shasta County

Donald R. Reynolds
Certified Public Accountant

INDEPENDENT AUDITORS' REPORT

Board of Directors
Shasta Local Agency Formation Council
Redding, California

Report On the Financial Statements

I have audited the accompanying consolidated financial statements of Shasta Local Agency Formation Council (LAFCO), which comprise the consolidated statement of financial position as of June 30, 2016, and the related consolidated statements of activities 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 consolidated 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 consolidated 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 consolidated financial statements based on my audit. I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the LAFCO's preparation and fair presentation of the consolidated 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 LAFCO'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 consolidated financial statements.

P.O. Box 994508, California 96099-4508 * (530) 246-AUDIT (2834) * FAX (530) 244-0331

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis for Qualified Opinion

The LAFCO was not subject to audit for the prior fiscal year. The lack of audited opening balances constitutes a scope limitation requiring a qualified opinion. The amount by which this departure would affect the assets, fund balances, and other account balances has not been determined.

Opinion

In my opinion, except for the effects of the matter described in the "Basis for Qualified Opinion" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of LAFCO's as of June 30, 2016, and the changes in their net position and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis 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. Management has elected to omit the Management Discussion and analysis.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, I have also issued my report dated February 23, 2016 on my consideration of the LAFCO's internal control over financial reporting and on my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering LAFCO's internal control over financial reporting and compliance.

Donald R. Reynolds,
Certified Public Accountant
August 8, 2017

BASIC FINANCIAL STATEMENTS
GOVERNMENT-WIDE FINANCIAL STATEMENTS

LOCAL AREA FORMATION COMMISSION OF SHASTA COUNTY
STATEMENT OF NET ASSETS
JUNE 30, 2016

ASSETS

Cash and investments	$	16,109
Accounts receivable		12,440
Allowance for doubtful acounts		(12,440)
Accounts receivable - net		-
Total Assets	$	16,109
Deferred outflows of resources	$	6,998

LIABILITIES

Accounts payable	$	3,300
Accrued payroll and payroll taxes		-
Net pension liability		50,482
Total Liabilities		53,782
Deferred inflows of resources		10,658

NET ASSETS

Assigned		(41,333)
Total Net Assets	$	(41,333)

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 June 30, 2016

	Business-type Activities
OPERATING REVENUES	
Charges for Services	$ -
Assessments to member entities	186,002
Other	63
	186,065
OPERATING EXPENSES	
Payroll and payroll overhead	8,986
Contract wages	81,667
Consulting	-
Professional fees - Transition	-
Professional fees - Legal and accounting	20,416
Building rent	11,455
Travel	193
Office	3,405
Memberships	3,537
Equipment rent	5,773
Communications	2,383
Other	4,341
Total Operating Expenses	142,156
Operating Income	43,909
NONOPERATING REVENUES (EXPENSES)	
Investment income	246
Interest expense	-
Total Nonoperating Revenues (Expenses)	246
CHANGE IN NET ASSETS	44,155
TOTAL NET ASSETS, BEGINNING OF YEAR, as previously stated	(85,488)
PRIOR PERIOD ADJUSTMENT, GASB 68	-
TOTAL NET ASSETS, BEGINNING OF YEAR, as restated	(85,488)
TOTAL NET ASSETS, END OF YEAR	$ (41,333)

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 June 30, 2016

		Business-type Activities
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received From (Used For):		
Member agencies		186,002
Applicants		-
Other		63
Employee Wages and Benefits		(84,683)
Suppliers for Goods and Services		(86,327)
Net Cash Provided (Used) by Operating Activities		15,055
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Cash Received From:		
Interest Collected		246
Penalties and Miscellaneous		-
Net Cash Provided by Noncapital Financing Activities		246
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		15,301
CASH AND CASH EQUIVALENTS - Beginning		808
CASH AND CASH EQUIVALENTS - Ending (Note 9)		16,109

Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:

Operating Income	$	43,909
Adjust to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
(Increase) Decrease in Operating Assets:		
Accounts Receivable - Customers		-
Deferred outlows of resources		(6,998)
Increase (Decrease) in Operating Liabilities:		
Accounts Payable		(34,824)
Payroll Related Payables and Sales Taxes Payable		2,310
Deferred inflows of resources		10,658
Total Adjustments		(28,854)
Net Cash Provided (Used) By Operating Activities	$	15,055

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 Vicki Wolf. The lease has a term of 12 months with an option for another 12 months at the same terms. Rent paid amounted to $9,864 in 2016. 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, 2016. The future minimum lease payments are as follows:

2016-2017	$ 1,432

4. RETIREMENT PLAN AND OTHER POST-RETIREMENT BENEFITS

Shasta LAFCO previously contributed 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.

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.

Shasta LAFCO, now employs only contract employees, therefore the pension and OPEB liabilities are no longer applicable to the Commission.

5. 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.

6. 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.

7. 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.

8. PENSION PLAN

A. Plan Description

The Commission's employees, as well as current and future retirees are eligible to participate in pension plans offered by California Public Employees Retirement System (CALPERS) a cost sharing multiple employer defined benefit pension plan which acts as a common investment and administrative agent for its participating member employers. CALPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. The Commission participates in the Miscellaneous Employee Plan. Benefit provisions under the Plan are established by State statute and Commission resolution. Benefits are based on years of credited service, equal to one year of full time employment. Funding contributions for the Plans are determined on an actuarial basis as of June 30 of each year. The Commission must contribute the amounts determined by CalPERS.

Continued on the following page.

8. PENSION PLAN (Continued)

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 55 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employee's Retirement Law.

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

Miscellaneous	
Hire Date	Prior to January 1, 2014
Benefit vesting schedule	5 years service
Benefit payment	Monthly for life
Retirement age	55
Monthly benefits, as a % of annual salary	2.7
Required employee and Employer contribution rates	The Commission has no active employees

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

For the year ended June 30, 2016, the contributions recognized against net pension liability for the Plans were as follows:

	Miscellaneous
Contributions - employer	$ None

Continued on the following page.

8. PENSION PLAN (Continued)

Benefits Provided, Continued
Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2016, the Commission reported net pension liabilities for its proportionate shares of the net pension liability of the Plans of $48,172.

If the Commission was an ongoing member of CalPERS, the Commission's net pension liabilities for the Plans would be measured as the proportionate share of the total net pension liability of each Plan. The net pension liability of the Plans are measured as of June 30, 2016, and the total pension liability for the Plans used to calculate the net pension liability was determined by actuarial valuations as of June 30, 2014 rolled forward to June 30, 2016 using standard update procedures. The Commission's proportionate share of the net pension liability was based on the Commission's plan liability and asset-related information where available, and proportional allocations of individual plan amounts as of the valuation date where not available.

The net pension liability is reflected on the balance sheet as follows:

Net Pension Liability - Regular	$ 50,482

For the year ended June 30, 2016, the Commission recognized pension expense of $ -0- for retired employees and $2,471 for the unfunded liability. At June 30, 2016, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ -	$ -
Changes in assumptions	-	2,622
Net differences between actual and expected earnings on plan investments	277	-
Net differences between projected and actual earnings on plan investments	6,721	8,036
Total	$ 6,998	$ 10,658

Continued on the following page.

8. PENSION PLAN (Continued)

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

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Measurement Period Ending June 30:		
2017	$	(1,836)
2018		(1,836)
2019		(1,668)
2020		1,680

Actuarial Assumptions – The total pension liabilities in the June 30, 2014 actuarial valuations were determined using the following actuarial assumptions:

	Miscellaneous Plans
Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.50%
Inflation	1.96%
Projected Salary Increase	Varies by entry age and service
Investment Rate of Return	(1) 2.79%
Mortality	Derived by CalPERS membership data for all funds

(1) Net of pension plan investment expenses, including inflation

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2015 valuation were based on the results of a January 2016 actuarial experience study for the period 1997 to 2014. Further details of the Experience Study can found on the CalPERS website.

Discount Rate **–** The discount rate used to measure the total pension liability was 7.50% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent will be applied to all plans in the Public Employees.

Continued on the following page.

8. PENSION PLAN (Continued)

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

Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

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

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

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

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

Continued on the following page.

8. PENSION PLAN (Continued)

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

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

Asset Class	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	47.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	12.00%	6.83%	6.95%
Real Estate	11.00%	4.50%	5.13%
Infrastructure and Forestland	3.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%
Total	100%		

(a) An expected inflation of 2.5% used for this period.
(b) An expected inflation of 3.0% used for this period.

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

1% Decrease	Current	1% Increase
$ 84,662	$ 50,482	$ 22,263

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

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

Payable to the Pension Plan

At June 30, 2016 the Commission reported a payable of $0 for outstanding amount of contributions to the pension plan required for the year ended June 30, 2016.

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, 2016

	Original Budget	Final Budget	Actual Amount	Variance With Final Budget
Budgetary Fund Balances, July 1	$ (85,488)	$ (85,488)	$ (85,488)	$ -
OPERATING REVENUES				
Charges for Services	$ 9,600	$ 9,600	$ -	$ (9,600)
Assessments to member entities	186,000	186,000	186,002	2
Other	50	50	63	13
	195,650	195,650	186,065	(9,585)
OPERATING EXPENSES				
Payroll and payroll overhead	-	-	8,986	(8,986)
Contract wages	111,665	111,665	81,667	29,998
Consulting	4,000	4,000	-	4,000
Professional fees - Transition	9,500	9,500	-	9,500
Professional fees	31,300	31,300	20,416	10,884
Building rent	12,000	12,000	11,455	545
Travel	2,000	2,000	193	1,807
Office	2,500	2,500	3,405	(905)
Memberships	3,500	3,500	3,537	(37)
Equipment rent	4,200	4,200	5,773	(1,573)
Communications	2,300	2,300	2,383	(83)
Other	13,135	13,135	4,341	8,794
Total Operating Expenses	196,100	196,100	142,156	53,944
Operating Income	(450)	(450)	43,909	(44,359)
Interest	450	450	246	204
Net Change in Fund Balances	$ -	$ -	$ 44,155	$ (44,155)

LOCAL AREA FORMATION COMMISSION OF SHASTA COUNTY

Notes to the Required Supplementary Information
For the Year Ended June 30, 2016

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.