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Kris Nolan, CPA
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November 28, 2011

To the Commissioners
Local Agency Formation Commission of Monterey County
Salinas, California

We have audited the financial statements of Local Agency Formation Commission of Monterey County (Agency) for the year ended June 30, 2011 and have issued our report thereon dated November 28, 2011. Professional standards require that we provide you with the following information about responsibilities under general accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Agency are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2010-2011. We noted no transactions entered into by the Agency during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was depreciation expense.

Management's estimate of depreciation expense is based on the estimated useful lives of the respective assets. We evaluated the key factors and assumptions used to develop the estimate for depreciation expense in determining that it is reasonable in relation to the financial statements take as a whole.

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Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

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 November 28, 2011.

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

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

Sincerely,

Bianchi, Kasavan + Pope, LLP

Salinas, California

LOCAL AGENCY FORMATION COMMISSION OF MONTEREY COUNTY

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

LOCAL AGENCY FORMATION COMMISSION OF MONTEREY COUNTY

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JUNE 30, 2011

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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Local Agency Formation Commission of Monterey County
Salinas, California

We have audited the accompanying financial statements of the Local Agency Formation Commission of Monterey County (Agency), a state mandated regulatory agency, as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of June 30, 2011 and the changes in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2011, on our consideration of the Agency'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 read in conjunction with this report in considering the results of our audit.

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The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. The Agency has elected not to present Management's Discussion and Analysis.

The required supplementary information, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements.

Bianchi, Kasavan & Pope, LLP

Salinas, California
November 28, 2011

FINANCIAL STATEMENTS

LOCAL AGENCY FORMATION COMMISSION OF MONTEREY COUNTY

STATEMENT OF NET ASSETS

JUNE 30, 2011

ASSETS

CURRENT ASSETS		
Cash and cash equivalents - Note 2	$	784,264
Prepaid expenses		16,170
TOTAL CURRENT ASSETS		800,434
NONCURRENT ASSETS		
Capital assets - net - Note 3		5,461
	$	805,895

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	$	17,222
Accrued liabilities		9,403
Accrued leave		53,662
Deferred fees revenue		224,815
TOTAL CURRENT LIABILITIES		305,102
NET ASSETS		
Invested in capital assets		5,461
Unrestricted - Note 4		495,332
TOTAL NET ASSETS		500,793
	$	805,895

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

LOCAL AGENCY FORMATION COMMISSION OF MONTEREY COUNTY

STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2011

OPERATING REVENUES	
County contributions	$ 227,700
City contributions	227,699
District contributions	227,699
Project fees	14,343
TOTAL OPERATING REVENUES	697,441
OPERATING EXPENSES	
Salaries	308,337
Employee benefits	118,964
Accounting and financial services	38,671
Rent - Note 5	25,532
Accrued leave	18,320
Legal expenses	11,330
Audit services	10,000
Office supplies	7,404
Computer equipment maintenance	7,131
Equipment rental	5,029
Property and general liability insurance	4,589
Telephone	4,259
LAFCO memberships	3,822
Computer support services	3,761
Depreciation	3,684
Legal notices	3,680
Training and conferences	2,790
Postage and shipping	2,723
Travel	2,101
Books and periodicals	1,003
Meeting broadcast services	975
Human resource services	467
Outside printers	345
TOTAL OPERATING EXPENSES	584,917
INCOME FROM OPERATIONS	112,524
NON-OPERATING INCOME	
Interest	1,842
Gain on county investments	1,512
TOTAL NON-OPERATING INCOME	3,354
CHANGE IN NET ASSETS	115,878
NET ASSETS, BEGINNING OF YEAR	384,915
NET ASSETS, END OF YEAR	$ 500,793

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

LOCAL AGENCY FORMATION COMMISSION OF MONTEREY COUNTY

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers, county, districts and cities	$	673,236
Payments to suppliers		(162,133)
Payments to employees		(413,989)
Net cash provided by operating activities		97,114
CASH FLOWS FROM CAPITAL AND FINANCING ACTIVITIES		
Purchases of capital assets		(2,185)
Net cash used in capital and financing activities		(2,185)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments		1,842
Cash provided by investing activities		1,512
Net cash provided by investing activities		3,354
NET INCREASE IN CASH AND CASH EQUIVALENTS		98,283
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		685,981
CASH AND CASH EQUIVALENTS, END OF YEAR	$	784,264

Reconciliation of operating income to net cash provided by operating activities -		
Income from operations	$	112,524
Adjustments to reconcile operating income to net cash provided by operating activities -		
Depreciation		3,684
Changes in operating assets and liabilities:		
Increase in accounts receivable		5,634
Increase in prepaid expenses		(10,747)
Increase in accounts payable		2,548
Increase in accrued liabilities		6,990
Increase in accrued leave		6,320
Increase in deferred fees revenue		(29,839)
Net cash provided operating activities	$	97,114

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

1. ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES

Description of Reporting Entity

Local Agency Formation Commission (LAFCO) is a regulatory agency with countywide jurisdiction, established by state law (Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000) to discourage urban sprawl and to encourage orderly and efficient provision of services, such as water, sewer, fire protection, etc. Local Agency Formation Commission of Monterey County (Agency) is a state mandated agency.

The Agency is responsible for reviewing and approving proposed jurisdictional boundary changes, including annexations and detachments of territory to and/or from cities and special districts, incorporations of new cities, formations of new special districts, consolidations, mergers, and dissolutions of existing districts. In addition, the Agency must review and approve contractual service agreements, determine spheres of influence for each city and district, and may initiate proposals involving district consolidation, dissolution, establishment of subsidiary districts, mergers, and reorganizations (combinations of these jurisdictional changes).

The Agency is composed of seven regular Commissioners: two members from the Board of Supervisors; two representatives from the cities within Monterey County; one public member; and two Independent Special District Members. There are four alternate Commissioners, which reflect the above membership categories.

Basis of Presentation

The Agency is accounted for as an enterprise fund. The accounting policies of the Agency conform to accounting principles generally accepted in the United States of America as applicable to governmental units. Such funds are used to account for operations (1) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or fees; or (2) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

1. ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES (Continued)

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the statement of net assets. Net assets are segregated into components. Proprietary fund-type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. Proprietary fund operating revenues, such as fees for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies, grants and investment earnings, result from nonexchange transactions or ancillary activities.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. The accrual basis of accounting is utilized by proprietary fund types. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

In accordance with Government Accounting Standards Board (GASB) Statement 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Agency has elected to apply only those applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements.

Cash and Cash Equivalents

Demand deposits, money market accounts, certificates of deposit with an original maturity of three months or less and their equity in the County Treasurer's investment pool are considered cash and cash equivalents.

All investments (if any) are recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties.

1. ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES (Continued)

Budget

The Agency adopts an annual budget. The budget includes expenditures and the means of financing them and is used for planning purposes. Budgeted amounts are as originally adopted or as amended by the Agency.

The Schedule of Revenues, Expenses and Change in Net Assets – Budget and Actual presents a comparison of budgetary data to actual results of operations.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Employee Retirement Plans

Qualified employees are covered under contributory retirement plans maintained by agencies of the State of California. Contributions to these plans are paid or accrued based upon a percentage of qualified employee salaries.

Concentration of Credit Risk

The Agency periodically maintains cash deposits in one financial institution, which at times exceed federally insured limits. The Agency has not experienced any losses related to these accounts and believes it is not exposed to any significant credit risk. At June 30, 2011 the Agency's uninsured cash balance was $0.

Capital Assets

The Agency records its capital assets at cost and depreciates these assets using the straight-line method. Depreciation is based on the following estimated useful lives:

	Years
Office equipment	3-5

Maintenance and minor repairs are charged against income; major renewals and betterments are capitalized and depreciated.

1. ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES (Continued)

Net Assets

Net assets are the excess of all the Agency's assets over all its liabilities, regardless of the fund. Net assets are divided into three captions under GASB Statement 34 and are described below:

- *Invested in Capital Assets, net of related debt* describes the portion of net assets which is represented by the current net book value of the Agency's capital assets, less the outstanding balance of any debt issued to finance these assets (if any).
- *Restricted* describes the portion of net assets which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws or other restrictions which the Agency cannot unilaterally alter.
- *Unrestricted* describes the portion of net assets which is not restricted to use.

Subsequent Events

Subsequent events were evaluated through November 28, 2011, the date the financial statements were available to be issued.

2. CASH AND CASH EQUIVALENTS

Cash at June 30, 2011 consisted of the following:

Cash in bank	$ 175,848
Cash held in Monterey County Treasury	155,426
Petty cash	100
Cash designated for:	
Litigation reserve	244,937
Contingency reserve	145,000
Accrued leave	53,662
Post retirement	9,291
	$ 784,264

2. CASH AND CASH EQUIVALENTS (Continued)

The Monterey County Treasurer's investment policy is in compliance with section 53635 of the Government Code of the State of California which permits investments in certain securities and participation in certain investment trading techniques or strategies. Investments of the state and local agencies generally are classified into three categories of credit risks. Category 1 includes investments that are insured or registered, for which the securities are held by the County or by the County's agent in the County's name. Category 2 consists of uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the County's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, but not in the County's name. The Agency held no Category 2 or 3 investments at June 30, 2011. As of June 30, 2011 the market value of the County investment portfolio was not materially different from its carrying value.

3. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011 was as follows:

	Balance June 30, 2010	Additions	Retirements	Balance June 30, 2011
Office equipment	$ 19,730	$ 2,185	$ -	$ 21,915
Accumulated depreciation	(12,770)	(3,684)	-	(16,454)
TOTAL CAPITAL ASSETS – net	$ 6,960	$ (1,499)	$ -	$ 5,461

4. NET ASSETS – UNRESTRICTED

Unrestricted net assets consisted of the following at June 30, 2011:

Designated for litigation	$ 244,937
Designated for contingency	145,000
Designated for encumbered funds	5,395
Unrestricted and undesignated	100,000
	$ 495,332

5. LEASE OBLIGATIONS

The Agency leases office space under an office rental agreement that expired June 30, 2011. Total office rent expense for the year ended June 30, 2011 amounted to $25,532.

See Note 10 for additional information.

6. EMPLOYEE'S RETIREMENT PLAN AND POST RETIREMENT BENEFITS

Plan Description

The Agency's defined benefit pension plan (Plan) provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Plan of the Agency is part of the Public Agencies portion of the California Public Employees Retirement System (CalPERS), an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements are established by State statutes within the Public Employees' Retirement Law. The Agency selects optional benefit provisions from the benefit menu by the contract with CalPERS and adopts those benefits. CalPERS issues a separate comprehensive annual financial report. 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 Plan are required to contribute 7% of their annual covered salary. This contribution is paid by the Agency. The Agency is required to contribute the actuarially determined, remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal 2010-2011 was 9.927%. The contribution requirements for the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS. Total expense amounted to $44,804, $50,171 and $51,122 for the year ended June 30, 2011, 2010 and 2009, respectively. This amount is included in employee benefits expense.

7. POSTEMPLOYMENT HEALTHCARE BENEFITS

Plan Description and Funding Policy

The Agency administers a single-employer defined benefit postemployment healthcare plan. Employees who retire directly from the Agency under the California Public Employee's Retirement System (CalPERS) at the minimum age of 50 with at least 5 years of CalPERS service (or disability) are eligible to receive $100/month for medical insurance premiums paid to CalPERS. This same benefit may continue to a surviving spouse depending on the retirement plan election. Currently there is 1 retiree from the Agency. This retiree declined this benefit. CalPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to CalPERS to CalPERS Executive Office, 400 P Street, Sacramento, CA 95814. The contribution requirement of the authority is based on projected pay-as-go financing arrangements.

For fiscal year ended 2011, the Agency contributed $-0- to the plan and total member contributions were $ -0-.

Annual OPEB Cost and Net OPEB Obligation

The Agency's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Agency's annual OPEB cost for the year, the amount actually contributed, and changes in the OPEB obligation:

Annual required contribution (ARC)	$ 2,245
Interest on net OPEB obligation	-
Adjustment to annual required contribution	4,801
Annual OPEB cost (expense)	7,046
Contributions made	-
Change in net OPEB obligation	7,046
Net OPEB obligation – Beginning of year	2,245
Net OPEB obligation – End of year	$ 9,291

7. POSTEMPLOYMENT HEALTHCARE BENEFITS (Continued)

The Agency's annual OPEB cost for the year, the percentage of annual OPEB cost contributed, and the net OPEB obligation for fiscal year ended June 30, 2011 was as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2011	$ 7,046	0%	$ 9,291
6/30/2010	$ 2,245	0%	$ 2,245

Fiscal year 2010 was the year of implementation of GASB Statement No. 45 and the Agency elected to implement prospectively, therefore, prior year comparative data is not available. In future years, three-year trend information will be presented.

Funding Status and Funding Progress

As of January 6, 2010, the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability for benefits as well as the unfunded actuarial accrued liability (UAAL) was $9,291. The covered payroll (annual payroll of active employees covered by the plan) was $0, and the ratio of the UAAL to the covered payroll was infinity%. Although the plan has no segregated assets, the Agency does reserve resources for retiree health care costs. At June 30, 2011, the Agency's cash designated for the post retirement liability was $9,291.

Actuarial valuations of an ongoing benefit plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets, if any, is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

7. POSTEMPLOYMENT HEALTHCARE BENEFITS (Continued)

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, if any, consistent with the long-term perspective of the calculations.

In the January 6, 2010 actuarial valuation, "entry age normal" actuarial cost method was used to estimate the actuarial accrued liability and normal costs. The actuarial assumptions included a 6.0 percent investment rate of return (net of administrative expenses). The UAAL is being amortized as a level dollar of projected payroll on an open basis. The remaining amortization period at June 30, 2011 was twenty-eight years.

8. COMPENSATED ABSENCES (ACCRUED VACATION, PAID-TIME-OFF, SICK LEAVE, AND COMPENSATORY TIME)

Management Annual Leave

In lieu of vacation and sick leave benefits, management employees of the Agency are eligible for annual leave on a pro-rated basis based on years of completed service. A maximum of 850 hours of management annual leave may be accrued. Management employees have an option to sell back up to 160 hours of annual leave each year. Annual leave is paid to the employee at the time of separation from Agency employment. Annual leave liability is calculated by using the employee's fiscal year leave balance multiplied by the employee's fiscal year end rate of pay.

Vacation and Paid-Time-Off

General employees of the Agency may accumulate up to 400 hours of unused vacation and paid-time-off (PTO). Employees may sell back up to 40 hours of vacation leave per year. Vacation and PTO leaves are paid to the employee at the time of separation from Agency employment. Vacation and PTO liabilities are calculated using employee's fiscal year end vacation and PTO leave balances multiplied by the employee's fiscal year end rate of pay.

8. COMPENSATED ABSENCES (ACCRUED VACATION, PAID-TIME-OFF, SICK LEAVE, AND COMPENSATORY TIME) (Continued)

Sick Leave

General employees can accumulate sick leave indefinitely. Upon retirement or death, unused sick leave is paid up to 30 percent of the employee's base hourly rate of pay, up to a maximum of 1500 hours. All unused sick leave above that 1500 hour limit or any unused sick leave for employees separated from the Agency for other reasons is forfeited. The sick leave liability is calculated using the employee's fiscal year end sick leave balance multiplied by the employee's fiscal year end rate of pay.

Compensatory Time

General employees are overtime eligible and can accrue compensatory time-off in lieu of overtime payments. A maximum of 80 hours of compensatory time may be accrued. The compensatory time-off balances are considered current year liabilities.

9. CONTINGENCIES

An employee filed a worker's compensation claim that is being handled by the Agency's insurance carrier. It is unknown whether this employee will pursue litigation against the Agency for working conditions leading to their claimed injuries. Given the inherent uncertainties of litigation, counsel for the Agency cannot give any opinion with respect to the likelihood of an outcome, nor the amount of range of potential loss, if any.

10. SUBSEQUENT EVENT

On July 1, 2011, the Agency entered into an agreement to extend its lease for its office space for an additional year, expiring June 30, 2013. The lease requires monthly payments of $2,028.

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*

BKP

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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*

Board of Commissioners
Local Agency Formation Commission of Monterey County
Salinas, California

We have audited the financial statements of the Local Agency Formation Commission of Monterey County (Agency) as of and for the year ended June 30, 2011 and have issued our report thereon dated November 28, 2011. 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 Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

A *deficiency in internal* control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of significant deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Agency's financial statements will not be prevented or detected and corrected in a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this report and would not necessarily identify all deficiencies in internal control that might be deficiencies, material 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.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

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

Bianchi, Kasavan & Pope, LLP

Salinas, California
November 28, 2011

REQUIRED SUPPLEMENTARY INFORMATION

LOCAL AGENCY FORMATION COMMISSION OF MONTEREY COUNTY

SCHEDULE OF POSTEMPLOYMENT HEALTHCARE BENEFITS FUNDING PROGRESS

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Actuarial Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (Unit Cost Method) (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funding Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
01/06/2010	$ -0-	$ 9,291	$ 9,291	0.0%	$ -0-	Infinity %

Note: Fiscal year 2010 was the year of implementation of GASB Statement No. 45 and the Agency elected to implement prospectively, therefore, prior year comparative data is not available. The Agency's policy is to review and update the liability calculations and assumptions every three years, and more frequently if required by changes in active or retired personnel status or accounting requirements.

The accompanying notes are an integral part of this required supplementary information.

SUPPLEMENTARY INFORMATION

LOCAL AGENCY FORMATION COMMISSION OF MONTEREY COUNTY

SCHEDULE OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS - BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Favorable
	Original	Final	Amounts	(Unfavorable)
REVENUES				
County contributions	$ 227,699	$ 227,699	$ 227,700	$ 1
City contributions	227,699	227,699	227,699	-
District contributions	227,699	227,699	227,699	-
Project fees	10,000	10,000	14,343	4,343
Interest	3,000	3,000	1,842	(1,158)
Gain on County investments	-	-	1,512	1,512
TOTAL REVENUES	696,097	696,097	700,795	4,698
EXPENSES				
Salaries	308,946	308,946	308,337	609
Employee benefits	151,000	148,300	118,964	29,336
Accounting and financial services	36,000	38,700	38,671	29
Rent - Note 5	25,500	25,500	25,532	(32)
Accrued leave	8,000	8,000	18,320	(10,320)
Other legal expenses	17,000	17,000	11,330	5,670
Audit services	10,000	10,000	10,000	-
Office supplies	8,000	8,000	7,404	596
Computer equipment maintenance	6,000	6,000	7,131	(1,131)
Equipment	15,000	15,000	5,029	9,971
Property and general liability insurance	6,000	6,000	4,589	1,411
Telephone	6,000	6,000	4,259	1,741
LAFCO memberships	4,000	4,000	3,822	178
Computer support services	8,000	8,000	3,761	4,239
Depreciation	-	-	3,684	(3,684)
Legal notices	6,000	6,000	3,680	2,320
Training and conferences	2,500	2,500	2,790	(290)
Postage and shipping	5,000	5,000	2,723	2,277
Travel	6,000	6,000	2,101	3,899
Books and periodicals	1,000	1,000	1,003	(3)
Meeting broadcast services	4,000	4,000	975	3,025
Outside printers	1,000	1,000	345	655
Human resource services	500	500	-	500
Repairs and maintenance	650	650	-	650
Litigation (Legal)	30,000	30,000	-	30,000
Contingency reserve	30,000	30,000	-	30,000
TOTAL EXPENSES	696,096	696,096	584,450	111,646
CHANGE IN BUDGETARY NET ASSETS	$ 1	$ 1	116,345	$ 116,344
BUDGETARY NET ASSETS, BEGINNING OF YEAR			384,915	
BUDGETARY NET ASSETS, END OF YEAR			$ 501,260	

EXCESS OF EXPENDITURES OVER BUDGET

At June 30, 2011, the Agency had expenditures that exceeded the budget; however, this does not constitute a violation of any legal provision.

Explanation of Differences between Budgetary and GAAP Expenditures:

Total expenditures reported on the statement of revenues, expenses and change in net assets - budget and actual	$ 584,450
Differences - Budget to GAAP: prior year encumbered funds	467
Total expenditures reported on the statement of revenues, expenses and change in net assets	$ 584,917

The accompanying notes are an integral part of this supplementary information.