

M E M O R A N D U M

TO: Local Agency Formation Commission

FROM: Stephen Lucas, Executive Officer

SUBJECT: **Agenda Item 2.2 - Independent Auditors' Report and Financial Statements for Fiscal Years ending June 30, 2022 and 2021**

DATE: May 17, 2023 for the Meeting of June 1, 2023

The 2022 Annual Financial report accompanied by the independent auditor's report is hereby submitted. Joy McNulty, CPA with the accounting firm of Horton, McNulty & Saeteurn has issued an "unqualified" opinion as stated in the second page of their report:

In our opinion, the accompanying financial statements present fairly, in all material aspects, the financial position of LAFCo as of June 30, 2022 and 2021, and the changes in its financial position and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

The audit was conducted in accordance with auditing standards generally accepted in the United States of America. Those standards require that the auditor plan and perform the audits to obtain a reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. Procedures selected depend upon the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making risk assessments, the audit considers internal control relevant to LAFCO's preparation and fair presentation of the financial statements, in order to design audit procedures that are appropriate in the circumstances. An audit also evaluates 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.

ACTION REQUESTED: Accept Financial Statements and Supplementary Information with Independent Auditor's Report for Fiscal Years ending June 30, 2022 and 2021 prepared by Horton, McNulty & Saeteurn, Certified Public Accountants.

Attachments

1. HM&S Report to the Commission
2. HM&S Financial Statements and Supplementary Information with Independent Auditors' Report

Butte Local Agency Formation Commission

Oroville, California

REPORT TO THE COMMISSIONERS

June 30, 2022





May 10, 2023

To the Commissioners
Butte Local Agency Formation Commission
Oroville, CA

55 Independence Circle, Suite 102
Chico, CA 95973
530.588.7427

We have audited the financial statements of Butte Local Agency Formation Commission (LAFCo) as of and for the year ended June 30, 2022, and have issued our report thereon dated May 10, 2023. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

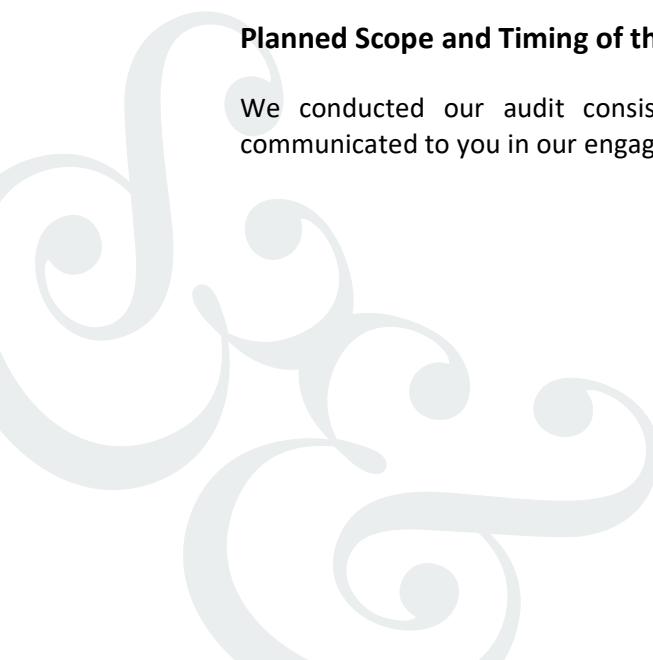
As communicated in our engagement letter dated December 5, 2022, our responsibility, as described by professional standards, is to form and express opinions about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of LAFCo's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of LAFCo solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you in our engagement letter dated December 5, 2022.



Compliance With All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and our network firms have complied with all relevant ethical requirements regarding independence.

Safeguards have been implemented to reduce the threats on our independence. These safeguards include continuing education related to independence and ethics requirements; peer review of our firm's quality control system; our firm's internal policies and procedures which are designed to monitor compliance with the independence requirements; and the involvement of another firm partner who is responsible for completing an independent technical review of the financial statements and significant audit conclusions.

Significant Risks Identified

Management override of internal controls was identified as a significant risk. Although a risk not solely specific to the LAFCo, override of internal controls warrants attention as intentional override may be more difficult to detect than an unintentional error. To address this risk, we maintained professional skepticism throughout the audit, and incorporated an element of unpredictability in designing our audit procedures.

Qualitative Aspects of LAFCo's Significant Accounting Practices

Significant Accounting Policies Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by LAFCo is included in note 1 to the financial statements. As described in note 1 to the financial statements, the LAFCo adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 87, *Leases*, as of July 1, 2021. This statement improves accounting and financial reporting for leases by governments. Accordingly, the LAFCo's financial statements have been presented in accordance with the guidance from this statement. No matters have come to our attention that would require us, under professional standards, to inform you about: (1) the methods used to account for significant unusual transactions, and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on 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 markedly from management's current judgments.

The most sensitive estimates affecting LAFCo's financial statements are noted below:

- Management's estimate of the health care liability uses the alternative measurement method as provided in GASB Statement 75, since there are fewer than 100 employees eligible for the benefit. Management's estimate of the pension liability is based on the GASB 68 accounting valuation report received from CalPERS. We evaluated the key factors and assumptions used to develop the liabilities and related expense and determined that they are reasonable in relation to the basic financial statements.
- Management's estimate of the net pension liability which is based on the Schedule of Employer Allocations and Collective Pension Amounts received from CalPERS; and the June 30, 2021, Comprehensive Annual Financial Report for CalPERS.

We evaluated the key factors and assumptions used to develop the actuarial present value of the net OPEB liability and the net pension liability in determining that they are reasonable in relation to the financial statements taken as a whole.

Financial Statement Disclosures Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting LAFCo's financial statements relate to the total OPEB liability recorded under GASB Statement No. 75, the net pension liability recorded under GASB Statement No. 68, and lease balances recorded under GASB Statement No. 87.

Significant Unusual Transactions

For the purposes of this communication, professional standards require us to communicate to you significant unusual transactions identified during the audit. We did not identify any significant unusual transactions.

Identified or Suspected Fraud

For the purposes of this communication, professional standards require us to communicate to you any identified or suspected fraud detected during the audit. We did not identify any fraud, although there is always a risk that fraud may exist that has not been identified.

Significant Difficulties Encountered During the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected 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. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances, or disclosures, and the financial statements as a whole and each applicable opinion unit. Management has corrected all identified misstatements.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. The following material misstatements that we identified as a result of our audit procedures were brought to the attention of, and corrected by, management:

- Overstatement of net pension liability of \$163,006.
- Understatement of deferred outflows of resources related to pensions of \$2,702.
- Understatement of deferred inflows of resources related to pensions of (\$19,254).
- Net understatement of the total OPEB liability of (\$4,706).
- Overstatement of cash in county treasury of (\$48,520).
- Overstatement of interest receivable of (\$3,445).
- Understatement of leased asset, net of accumulated amortization of \$55,146.
- Net understatement of lease liability of (\$55,641).

The net impact of the above adjustments was to increase net position by \$92,733.

Disagreements With Management

Professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to LAFCo's financial statements or the auditors' report. No such disagreements arose during the course of the audit.

Representations Requested From Management

We have requested certain written representations from management that are included in the management representation letter dated May 10, 2023.

Management's Consultations With Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with LAFCo, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting LAFCo, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as LAFCo's auditors.

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

Very truly yours,

Horton McNulty & Gaetavn, LLP

Butte Local Agency Formation Commission

Oroville, California

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION WITH
INDEPENDENT AUDITORS' REPORTS

June 30, 2022 and 2021



Butte Local Agency Formation Commission

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INDEPENDENT AUDITORS' REPORT

To the Commissioners
Butte Local Agency Formation Commission
Oroville, California

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Butte Local Agency Formation Commission (LAFCo), an independent agency of the state of California, as of and for the years ended June 30, 2022 and 2021; and the related notes to the financial statements, which collectively comprise LAFCo's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of LAFCo as of June 30, 2022 and 2021, and the changes in its financial position and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of LAFCo and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter—Effect of Adopting New Accounting Standard

As discussed in note 1 to the basic financial statements, LAFCo implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, for the fiscal year ended June 30, 2022. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

LAFCo's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

INDEPENDENT AUDITORS' REPORT

(Continued)

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about LAFCo's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audits of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audits 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 LAFCo's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about LAFCo's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits, significant audit findings, and certain internal control-related matters that we identified during the audits.

INDEPENDENT AUDITORS' REPORT

(Continued)

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise LAFCo's basic financial statements. The budgetary comparison schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements.

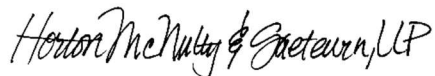
The budgetary comparison schedule is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedule is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

INDEPENDENT AUDITORS' REPORT

(Continued)

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 10, 2023 on our consideration of LAFCo'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 solely 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 the effectiveness of 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.



May 10, 2023
Chico, California

FINANCIAL SECTION

Butte Local Agency Formation Commission

STATEMENTS OF NET POSITION

June 30	2022	2021
ASSETS		
Current Assets		
Cash - general	\$ 928,079	\$ 939,934
Cash - Sphere of Influence	398,074	361,374
Total Current Assets	1,326,153	1,301,308
Noncurrent Assets		
Leased asset, net	55,146	-
TOTAL ASSETS	1,381,299	1,301,308
DEFERRED OUTFLOWS OF RESOURCES FROM PENSIONS	89,305	86,603
LIABILITIES		
Current Liabilities		
Accounts payable	1,137	1,137
Accrued salaries and benefits	8,043	18,885
Lease liability - current portion	13,817	-
Total Current Liabilities	22,997	20,022
Noncurrent Liabilities		
Accrued compensated leave	89,071	108,511
Total OPEB liability	82,708	78,002
Net pension liability	25,666	188,672
Lease liability, net of current maturities	41,824	-
Total Noncurrent Liabilities	239,269	375,185
TOTAL LIABILITIES	262,266	395,207
TOTAL DEFERRED INFLOWS OF RESOURCES FROM PENSIONS	26,848	7,594
NET POSITION		
Unrestricted	783,416	623,736
Restricted - Sphere of Influence	398,074	361,374
TOTAL NET POSITION	\$ 1,181,490	\$ 985,110

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

Butte Local Agency Formation Commission

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Years Ended June 30	2022	2021
Revenues		
Agency funding	\$ 704,873	\$ 705,712
Filing fees and other	82,021	36,214
Sphere of Influence fees	50,421	22,550
Total Revenues	837,315	764,476
Expenses		
Salaries and wages	391,058	366,540
Employee benefits	37,363	220,481
Communications	1,924	1,991
General insurance	5,451	6,264
Workers' compensation insurance	-	1,822
Memberships	6,591	6,422
Office and household expenses	880	3,539
Professional and specialized services	114,869	61,846
Publications and legal notices	3,373	1,602
Rents	390	15,479
Special department expenses	7,941	5,424
Data processing	-	6,680
Transportation and travel	11,584	11,040
Utilities	5,232	3,853
Amortization expense	13,786	-
Total Expenses	600,442	712,983
Operating Income	236,873	51,493
Nonoperating Revenues (Expenses)		
Investment earnings	(38,439)	(3,378)
Interest expense	(2,054)	-
Total Nonoperating Revenues (Expenses)	(40,493)	(3,378)
Changes in Net Position	196,380	48,115
Net Position - Beginning of Year	985,110	936,995
Net Position - End of Year	\$ 1,181,490	\$ 985,110

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

Butte Local Agency Formation Commission
STATEMENTS OF CASH FLOWS

Years Ended June 30	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Agency funding	\$ 704,873	\$ 705,712
Filing fees	82,021	36,214
Sphere of Influence fees	50,421	22,550
Payments for employees and benefits	(600,450)	(545,254)
Payments to suppliers	(158,236)	(132,332)
NET CASH PROVIDED BY OPERATING ACTIVITIES	78,629	86,890
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in fair value of treasury cash	(38,439)	1,363
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal paid on lease payable	(13,291)	-
Interest paid on lease payable	(2,054)	-
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(15,345)	-
Net Change in Cash	24,845	88,253
Cash - Beginning of Year	1,301,308	1,213,055
Cash - End of Year	\$ 1,326,153	\$ 1,301,308
SUPPLEMENTAL DISCLOSURES OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Capitalization of leased asset	\$ (68,932)	\$ -
Record lease liability	68,932	-
Cash Used in Lease Transition	\$ -	\$ -

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

Butte Local Agency Formation Commission

STATEMENTS OF CASH FLOWS

(Continued)

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income	\$	236,873	\$ 51,493
Adjustments to reconcile operating income to net cash provided by operating activities:			
Amortization of leased asset		13,786	-
Change in total OPEB liability		4,706	13,920
Change in deferred outflow of resources from pensions		(2,702)	(2,004)
Change in deferred inflows of resources from pensions		19,254	(3,269)
Difference between pension expense recognized and deferred outflows of resources - contributions		(163,006)	25,086
Changes in assets and liabilities:			
Accounts payable		-	(6,369)
Accrued salaries and benefits		(10,842)	1,824
Accrued compensated leave		(19,440)	6,209
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$	78,629	\$ 86,890
Cash consisted of:			
General account	\$	928,079	\$ 939,934
Sphere of Influence account		398,074	361,374
Total Cash	\$	1,326,153	\$ 1,301,308

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

Butte Local Agency Formation Commission

NOTES TO THE FINANCIAL STATEMENTS

1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities The Butte Local Agency Formation Commission (LAFCo) was formed in 1964. LAFCo is charged with the orderly formation of local government agencies. LAFCo is an independent agency of the state of California pursuant to the requirements of the Cortese-Knox-Hertzberg Act. Agency funding for the LAFCo budget is provided by the county of Butte at 45%, the cities within Butte County at 45%, and the special districts located in Butte County at 10%.

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

Implementation of New Accounting Standard LAFCo adopted the provisions of GASB Statement No. 87, *Leases*, as of July 1, 2021. This statement improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This statement has been applied as of the beginning of the period of implementation. The implementation did not affect net position, and has resulted in the following changes as of July 1, 2021:

- Initial right-to-use leased asset and lease liability of \$68,932.

Basis of Accounting LAFCo applies the provision of the Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements*. The statement incorporates into 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) Financial Accounting Standards Board (FASB) Statements and Interpretations; 2) Accounting Principles Board (APB) Opinions; and 3) Accounting Research Bulletins (ARB) of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

LAFCo also applies GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. These statements establish standards for reporting deferred outflows of resources, deferred inflows of resources, and net position for all state and local governments.

LAFCo has adopted the financial reporting provisions of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, but has elected to not present management's discussion and analysis (MD&A) that GASB has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Butte Local Agency Formation Commission

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

Budgetary Control LAFCo's fiscal year is the 12-month period beginning July 1. The general budget policy is that LAFCo submit to the Butte County Auditor a Commission-approved budget estimating revenues and expenditures prior to June 30. The final budget is legally enacted by resolution on or before June 15 after necessary adjustments, if any, have been made. Within certain legal restrictions, adjustments to final budget amounts may be made by the Commission during the year to account for unanticipated occurrences.

Cash LAFCo's cash balances consist of the general cash and the Sphere of Influence funds.

LAFCo maintains all of its cash in the Butte County Treasury as part of a common investment pool (the County Investment Pool). The County is restricted by *California Government Code*, Section 53635 pursuant to Section 53601, to invest in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements. Deposits in the County Investment Pool are valued using the amortized cost method (which approximates fair value) in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, and includes accrued interest. The County Investment Pool has deposits and investments with a weighted-average maturity of less than two years. As of June 30, 2022, and June 30, 2021, the fair value of the County Investment Pool were 96.99% and 100.58%, respectively, of the carrying value and is deemed to represent a material difference. Information regarding the amount of dollars invested in derivatives with the County Investment Pool was not available. The County Investment Pool is subject to regulatory oversight by the Treasury Oversight Committee, as required by *California Government Code*, Section 27130.

The calculation of realized gains is independent of the calculation of the net increase in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year. The net change in the fair value of investments held during the years ended June 30, 2022 and 2021, were \$(48,520) and \$(17,045), respectively. These amounts take into account all changes in fair value (including purchases and sales) that occurred during the year. The unrealized gain (loss) on investments held at June 30, 2022 and 2021, were \$(41,105) and \$7,415, respectively.

Fair Value Measurements LAFCo accounts for certain assets and liabilities in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. LAFCo measures some assets for fair value on a recurring basis as described in note 2. LAFCo may be required, from time to time, to measure certain assets and liabilities at fair value on a non-recurring basis. These include assets that are adjusted for the lower of cost or market, such as an inventory valuation.

LAFCo classifies its fair value assets and liabilities into a hierarchy of three levels based on the markets in which they are traded and the reliability of the assumptions used to determine fair value. The asset or liability measurement level within the hierarchy is based on the lowest level of any assumption that is significant to the measurement.

Butte Local Agency Formation Commission

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

Valuations within the hierarchy levels are based upon the following:

- Level 1:* Quoted market prices for identical instruments traded in active exchange markets.
- Level 2:* Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable or can be corroborated by observable market data.
- Level 3:* Model-based techniques that use at least one significant assumption not observable in the market.

These unobservable assumptions reflect an organization's estimates of assumptions that market participants would use on pricing an asset or liability. Valuation techniques include management's judgment and estimation which may be significant.

Net Position Net position restricted for specific purposes is required to be separately classified, which is the case with amounts classified as restricted for Sphere of Influence. The remaining balance in net position is unrestricted.

Operating Income and Expenses The statements of revenues, expenses, and changes in net position distinguish between operating and nonoperating income and expenses. Operating revenues include all revenues received in order to provide services. These revenues are received from other governmental agencies and from the public. Operating expenses are all expenses incurred to provide services. Nonoperating revenues or expenses include interest income and, if material, the change in the fair value of cash in the Butte County Treasury.

Leased Assets and Amortization Right-to-use leased assets are defined by LAFCo as assets that have an original value greater than \$5,000, and an estimated useful life in excess of one year. The measurement of leased assets is further described later in this section.

Amortization of all right-to-use assets is recorded as an allocated expense in the statement of revenues, expenses, and changes in net position with accumulated amortization reflected in the statement of net position. Amortization of right-to-use assets is provided over the shorter of the lease period or the asset's estimated useful life. The leased asset is being amortized over 5 years.

Butte Local Agency Formation Commission

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

Leases LAFCo recognizes lease liabilities with an initial, individual value of \$5,000 or more. At the commencement of a lease, LAFCo initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The leased asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain indirect costs. Subsequently, the leased asset is amortized on a straight-line basis over the shorter of the asset's useful life or the life of the lease.

Key estimates and judgments related to leases include how LAFCo determines the discount rate it uses to discount the expected lease payments to present value, the lease term, and the lease payments. LAFCo uses the following key estimates and assumptions:

- LAFCo uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, LAFCo generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that LAFCo is reasonably certain to exercise.

LAFCo monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Deferred Outflows/Inflows of Resources From Pensions In addition to assets, the statements of net position include a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period which will only be recognized as an outflow of resources (expense) in the future. LAFCo contributions, subsequent to the measurement date, and differences between contributions and proportionate share of contributions, related to pension plans are reported as deferred outflows of resources in the statement of net position. Contributions subsequent to the measurement date will be amortized during the next fiscal year as provided by accounting pronouncement GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Differences between contributions and proportionate share of contributions are amortized over the estimated service lives of the pension plan participants.

In addition to liabilities, the statements of net position include a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and would only be recognized as an inflow of resources (revenue) at that time. Changes in proportion, and the proportionate share of the net difference between projected and actual earnings on pension plan investments, are reported as deferred inflows of resources in the statements of net position. These amounts are amortized over the estimated service lives of the pension plan participants.

Butte Local Agency Formation Commission

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

Net Pension Liability For purposes of measuring the net pension liability, deferred outflows of resources/deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the California Public Employees' Retirement System (CalPERS), and additions to/deductions from CalPERS's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments are recognized when due and payable with the benefit terms. Investments are reported at fair value.

2. CASH

LAFCo is required under state statutes to deposit money in the Butte County Treasury which, in turn, pays the claims of LAFCo. *California Government Code*, Section 53601, limits investments in commercial paper to "prime" quality of the highest ranking or of the highest letter and numerical rating as provided by nationally recognized statistical rating organizations (NRSRO), and limits investments in medium-term notes to a rating of A or better. LAFCo has no investment policy that would further limit its investment choices. LAFCo's investment in the Butte County investment pool is unrated.

Cash consisted of the following:

June 30, 2022	Maturities	Fair Value
Investments That are Not Securities (1)		
County treasurer's investment pool	1.43 years average	\$ 1,326,153

June 30, 2021	Maturities	Fair Value
Investments That are Not Securities (1)		
County treasurer's investment pool	1.78 years average	\$ 1,301,308

(1) Investments That are Not Securities A "security" is a transferable financial instrument that evidences ownership or creditorship, whether in physical or book-entry form. Investments that are not securities do not have custodial credit risk because they do not involve a transferable financial instrument. Thus, they are not categorized into custodial credit risk categories.

Butte Local Agency Formation Commission

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

Fair Value Measurements

LAFCo categorizes fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; level 2 inputs are significant other observable inputs; level 3 inputs are significant unobservable inputs.

LAFCo has the following recurring fair value measurements as of June 30, 2022 and 2021:

County treasurer's investment pool of \$1,326,153 and \$1,301,308, respectively, were valued using quoted prices for similar instruments in active market and quoted prices for identical or similar instruments in markets that are not active (level 2 inputs).

Concentration of Credit Risk – Investments

California Government Code, Section 53635, places the following concentration limits on the County treasurer's investment pool:

No more than 40% may be invested in eligible commercial paper and no more than 10% may be invested in the outstanding commercial paper of any single issuer.

California Government Code, Section 53601, places the following concentration limits on LAFCo's investments:

No more than 10% may be invested in the securities of any one issuer, except the obligations of the U.S. government, U.S. government agencies, and U.S. government-sponsored enterprises and where otherwise noted; no more than 10% may be invested in any one mutual fund; no more than 25% may be invested in commercial paper; no more than 40% may be invested in bankers' acceptances and no more than 30% may be invested in bankers' acceptances of any one commercial bank; no more than 30% may be invested in negotiable certificates of deposit; no more than 20% may be invested in reverse repurchase agreements; no more than 30% may be invested in medium-term notes; no more than 20% may be invested in mortgage passthrough and related securities; and no more than 30% may be invested in certain unsecured, unsubordinated obligations.

Butte Local Agency Formation Commission

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

3. LEASED ASSET

Leased assets activity is as follows:

Year Ended June 30, 2022	Beginning Balance	Additions	Deductions	Ending Balance
Leased Asset				
Building	\$ -	\$ 68,932	\$ -	\$ 68,932
Less: Accumulated amortization	-	13,786	-	13,786
Total Leased Asset - Net	\$ -	\$ 55,146	\$ -	\$ 55,146

4. GENERAL INFORMATION ABOUT THE PENSION PLAN

Qualified employees are covered under a cost-sharing multiple-employer defined benefit pension plan maintained by an agency of the state of California. Employees are members of the California Public Employees' Retirement System (CalPERS).

California Public Employees' Retirement System (CalPERS)

Plan Description Qualified employees participate in the Miscellaneous Plan (the Plan) under CalPERS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by state statute, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a publicly available financial report that can be obtained at www.calpers.ca.gov.

Benefits Provided The Plan provides retirement, disability benefits, and death benefits to Plan members and beneficiaries. The benefits are based on members' years of service, age, final compensation, and benefit formula. Members become fully vested in their retirement benefits earned to date after five years of credited service.

Contributions Member contribution rates are defined by law. Employer contribution rates are determined by periodic actuarial valuations. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. Active plan members are required to contribute 7.00% of their salary, which is paid by LAFCo. The required employer contribution rates for the fiscal years ended June 30, 2022 and 2021, were 10.880% and 11.031%, respectively. The projected contribution rate for the 2022-23 fiscal year is 10.870%.

New CalPERS participants enrolled after January 1, 2013, are required to make contributions at a rate of 6.25% of eligible salary. LAFCo is required to match the contribution with a rate of 6.25% of eligible salaries.

Contributions to CalPERS for the fiscal years ended June 30, 2022 and 2021, were \$58,729 and \$52,025, respectively.

Butte Local Agency Formation Commission

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2022 and 2021, LAFCo reported a liability of \$25,666 and \$188,672, respectively, for LAFCo's proportionate share of the net pension liability. The net pension liability is measured annually as of June 30, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation one year prior and rolled forward to the measurement date. At June 30, 2022 and 2021, LAFCo's proportions were 0.00470% and 0.00173%, respectively.

For the year ended June 30, 2022 and 2021, LAFCo recognized pension (credit)/expense of \$(87,724) and \$71,837, respectively.

At June 30, 2022 and 2021, the deferred outflows of resources and deferred inflows of resources related to pensions were reported from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
June 30, 2022		
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 22,405
Differences between LAFCo contributions and proportionate share of contributions	-	4,443
Differences between expected and actual experience	2,878	-
Changes in employer's proportion	27,698	-
LAFCo contributions subsequent to the measurement date	58,729	-
Total	\$ 89,305	\$ 26,848

	Deferred Outflows of Resources	Deferred Inflows of Resources
June 30, 2021		
Net difference between projected and actual earnings on pension plan investments	\$ 5,605	\$ -
Differences between LAFCo contributions and proportionate share of contributions	-	6,248
Differences between expected and actual experience	9,723	-
Changes in employer's proportion	19,250	1,346
LAFCo contributions subsequent to the measurement date	52,025	-
Total	\$ 86,603	\$ 7,594

Butte Local Agency Formation Commission

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

The \$58,729 reported as deferred outflows of resources related to pensions at June 30, 2022, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending June 30		
2023	\$	6,010
2024		4,187
2025		(277)
2026		(6,192)
Total	\$	3,728

Actuarial Assumptions

The total pension liability in the actuarial valuations used for the years ended June 30, 2022 and 2021, were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Years Ended June 30	2022	2021
Valuation date	June 30, 2020	June 30, 2019
Measurement date	June 30, 2021	June 30, 2020
Actuarial cost method	Entry age normal	Entry age normal
Actuarial assumptions:		
Discount rate	7.15%	7.15%
Inflation	2.50%	2.50%
Salary increases	Varies by entry age and service	Varies by entry age and service
Investment rate of return	7.15%	7.15%

For the valuations dated June 30, 2020 and 2019, post-retirement mortality rates are based on CalPERS' experience and include 15 years of projected ongoing mortality improvement using 90% of Scale MP 2016 published by the Society of Actuaries. These tables are used to estimate the value of benefits expected to be paid for service and disability retirements. For disability retirements, impaired longevity is recognized by a separate table. The actuarial assumptions used in the valuation were based on the results of an actuarial experience study for the period of July 1, 1997, through June 30, 2015.

Butte Local Agency Formation Commission

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which 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 of the funds' asset classes, expected compound (geometric) returns were calculated over the short term (first 10 years) and the long term (11+ 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 rounded 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 equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

The tables below reflect 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.

June 30, 2022	Target Allocation	Rate of Return Years 1 - 10	Rate of Return Years 11+
Asset Class			
Global equity	50%	4.80%	5.98%
Global fixed income	28%	1.00%	2.62%
Inflation sensitive	0%	0.77%	1.81%
Private equity	8%	6.30%	7.23%
Real estate	13%	3.75%	4.93%
Liquidity	1%	0.00%	-0.92%
Total	100%		

June 30, 2021	Target Allocation	Rate of Return Years 1 - 10	Rate of Return Years 11+
Asset Class			
Global equity	50%	4.80%	5.98%
Global fixed income	28%	1.00%	2.62%
Inflation sensitive	0%	0.77%	1.81%
Private equity	8%	6.30%	7.23%
Real estate	13%	3.75%	4.93%
Liquidity	1%	0.00%	-0.92%
Total	100%		

Butte Local Agency Formation Commission

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

Discount Rate

The discount rate used to measure the total pension liability at June 30, 2022 and 2021, was 7.15%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents LAFCo's proportionate share of the net pension liability calculated using the applicable discount rate, as well as the LAFCo's proportionate share of the net pension liability if it was calculated using a discount rate that is one percentage point lower or higher, than the applicable current rate:

	1% Decrease (6.15%)	Current Discount Rate (7.15%)	1% Increase (8.15%)
June 30, 2022			
LAFCo's proportionate share of the net pension liability (asset)	\$ 206,755	\$ 25,666	\$ (124,038)

	1% Decrease (6.15%)	Current Discount Rate (7.15%)	1% Increase (8.15%)
June 30, 2021			
LAFCo's proportionate share of the net pension liability	\$ 349,563	\$ 188,672	\$ 55,733

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in CalPERS' separately issued *Annual Comprehensive Financial Report (ACFR)*.

Butte Local Agency Formation Commission

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

5. POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

Plan Description and Benefits Provided

LAFCo provides post-employment health care benefits to qualifying employees through a single-employer defined benefit healthcare plan administered by LAFCo (the Plan). The executive officer retiring before age 65, and his dependents, are eligible for post-retirement health coverage until he reaches age 65. Other employees with 10 years of continuous service are eligible up to age 65 for 12 months of post-retirement health coverage for the retiree only. In addition, employees have an option to receive one month of health coverage for each day of sick leave on accrual at the day of retirement. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

Employees Covered

Employees covered by the benefit terms of the Plan for fiscal years ended June 30, 2022 and 2021, consisted of:

Inactive Plan members or beneficiaries currently receiving benefit payment	-
Active Plan members	1
Total	1

Contributions

The contribution requirements of Plan members and LAFCo are established and may be amended by LAFCo's Commissioners. Currently, LAFCo's policy is to contribute to the Plan on a pay-as-you-go basis. For the fiscal years ended June 30, 2022 and 2021, LAFCo contributed \$23,171 and \$23,429, respectively, representing premium payments on behalf of plan members.

Net OPEB Liability

LAFCo's net OPEB liability for the Plan is measured as the total OPEB liability, less the Plan's fiduciary net position. The June 30, 2022 and June 30, 2021, total OPEB liability for each respective year, was based on the alternative measurement method and assumptions as shown below.

	1% Decrease (2.13%)	Current Discount Rate (3.13%)	1% Increase (4.13%)
June 30, 2022			
Total OPEB liability	\$ 89,118	\$ 82,708	\$ 76,631

	1% Decrease (2.13%)	Current Discount Rate (3.13%)	1% Increase (4.13%)
June 30, 2021			
Total OPEB liability	\$ 83,557	\$ 78,002	\$ 72,651

Butte Local Agency Formation Commission

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

In addition, the following simplifying assumptions were made:

Retirement Age for Active Employee: Based on the historical average retirement age for the covered group, the active plan member was assumed to retire at age 62.

Marital Status: Marital status of the member at the calculation date was assumed to continue throughout retirement.

Mortality: Life expectancies were based on a mortality table.

Turnover: The active member is expected to remain employed until retirement.

Health Insurance Premiums: The 2022 and 2021 health insurance premiums were used as the basis for calculation of the present value of total benefits to be paid for the respective measurement period.

Discount Rate

The discount rate used for the fiscal years ended June 30, 2022 and 2021, to measure the total OPEB liability was 3.13%. The discount rate is based on the index for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or better as required under GASB Statement No. 75. The discount rate of 3.13% was measured upon adoption of GASB Statement No. 75, and has not been modified as it continues to be a reasonable assumption under the alternative measurement method.

Changes in the Total OPEB Liability

The changes in the total OPEB liability for the Plan are as follows:

Years Ended June 30	2022	2021
Total OPEB Liability		
Service cost	\$ 27,877	\$ 37,349
Benefit payments - including refunds of employee contributions	(23,171)	(23,429)
Net Change in Total OPEB Liability	4,706	13,920
Total OPEB Liability - Beginning of Year	78,002	64,082
Total OPEB Liability - End of Year	82,708	78,002
Covered-employee payroll	\$ 151,884	\$ 140,438
LAFCo's total OPEB liability as a percentage of covered-employee payroll	54.45%	55.54%

Butte Local Agency Formation Commission

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

For the fiscal year ended June 30, 2022, the following presents LAFCo's total OPEB liability calculated using the discount rate of 3.13%, as well as LAFCo's total OPEB liability if it was calculated using a discount rate that is one percentage point lower (2.13%) or one percentage point higher (4.13%) than the current rate:

June 30, 2022	1% Decrease (2.13%)	Current Discount Rate (3.13%)	1% Increase (4.13%)
Total OPEB liability	\$ 89,118	\$ 82,708	\$ 76,631

For the fiscal year ended June 30, 2021, the following presents LAFCo's total OPEB liability calculated using the discount rate of 3.13%, as well as LAFCo's total OPEB liability if it was calculated using a discount rate that is one percentage point lower (2.13%) or one percentage point higher (4.13%) than the current rate:

June 30, 2021	1% Decrease (2.13%)	Current Discount Rate (3.13%)	1% Increase (4.13%)
Total OPEB liability	\$ 83,557	\$ 78,002	\$ 72,651

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

For the fiscal year ended June 30, 2022, the following presents LAFCo's total OPEB liability calculated using the healthcare cost trend rate of 5.00%, as well as LAFCo's total OPEB liability if it was calculated using a healthcare trend rate that is one percentage point lower (4.00%) or one percentage point higher (6.00%) than the current rate:

June 30, 2021	1% Decrease (4.00%)	Health Cost Trend Rates (5.00%)	1% Increase (6.00%)
Total OPEB liability	\$ 74,081	\$ 82,708	\$ 92,255

For the fiscal year ended June 30, 2021, the following presents LAFCo's total OPEB liability calculated using the healthcare cost trend rate of 5.00%, as well as LAFCo's total OPEB liability if it was calculated using a healthcare trend rate that is one percentage point lower (4.00%) or one percentage point higher (6.00%) than the current rate:

June 30, 2020	1% Decrease (4.00%)	Health Cost Trend Rates (5.00%)	1% Increase (6.00%)
Total OPEB liability	\$ 69,856	\$ 78,002	\$ 86,997

Butte Local Agency Formation Commission

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

OPEB Expense

For the years ended June 30, 2022 and 2021, LAFCo recognized OPEB expense of \$51,048 and \$60,778, respectively.

6. OTHER RETIREMENT PLANS

Deferred Compensation 457 Plan

LAFCo also established a deferred compensation plan. In lieu of Social Security contributions, LAFCo contributes 6.2% of employees' wages into the deferred compensation plan, which is administered by LAFCo. For the years ended June 30, 2022 and 2021, \$27,924, and \$28,426, respectively, were contributed.

Sick Leave Buy-back Option

Upon retirement or termination in good standing, an employee who has accrued more than 240 hours of sick leave may be compensated for that portion over 240 hours at one-half the normal rate of pay up to a maximum of \$3,000.

7. LEASE LIABILITY

LAFCo entered into a ten-year lease agreement as lessee for the use of office space on April 1, 2006, which was renewed on April 1, 2016. The lease is set to expire on March 31, 2026. An initial lease liability was recorded of \$68,932 as of July 1, 2021, in accordance with GASB 87, as described in note 1. At June 30, 2022, the value of the lease liability was \$55,641. LAFCo is required to make monthly principal and interest payments of \$1,274. The lease has an interest rate of 3.6%. The agreement does not contain a purchase option. Conditions of the lease do not provide for variable payments or residual value guarantees. The leased asset has a five year estimated useful life, which is based on the remainder of the lease period. The value of the right-to-use asset as of June 30, 2022, was \$68,932 and had accumulated amortization of \$13,786. The amount of interest cost incurred during the year ended June 30, 2022, was \$2,054, all of which was charged to expense. There were no variable or other payments recognized for the year ended June 30, 2022, that were not previously included in the measurement of the lease liability.

The future lease payments are as follows:

Years Ending June 30	Principal	Interest	Total
2023	\$ 13,817	\$ 1,777	\$ 15,594
2024	14,541	1,268	15,809
2025	15,314	732	16,046
2026	11,969	180	12,149
Total	\$ 55,641	\$ 3,957	\$ 59,598

Butte Local Agency Formation Commission

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

For fiscal year ended June 30, 2021, the above lease agreement was recognized as an operating lease. Scheduled payments during the year amounted to \$15,119 and were recognized in rent expense.

8. RISK MANAGEMENT

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, boiler and machinery coverage, and workers' compensation coverage from Special LAFCo Risk Management Authority (SDRMA). SDRMA is organized as a joint powers authority and provides coverage to certain maximum limits applied annually per occurrence or per year.

9. FUTURE GASB IMPLEMENTATION

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITA)*. This statement improves financial reporting by establishing a definition for SBITA and providing uniform guidance for accounting and financial reporting for transactions that meet this definition. This statement establishes that a SBITA results in a right-to-use asset—an intangible asset—and a corresponding subscription liability. It provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA, and requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*. The LAFCo's management has not yet determined the impact that the implementation of this standard, which is required on July 1, 2022, will have on the LAFCo's financial statements, if any.

In June 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections*. This statement enhances accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The LAFCo's management has not yet determined the impact that the implementation of this standard, which is required on July 1, 2023, will have on the LAFCo's financial statements, if any.

In June 2022, GASB issued Statement No. 101, *Compensated Absences*. This statement outlines a unified recognition and measurement model that will result in a liability for compensated absences that more appropriately reflects when a government incurs an obligation. In addition, the model can be applied consistently to any type of compensated absence and will eliminate potential comparability issues between governments that offer different types of leave. The model also will result in a more robust estimate of the amount of compensated absences that a government will pay or settle, which will enhance the relevance and reliability of information about the liability for compensated absences. The LAFCo's management has not yet determined the impact that the implementation of this standard, which is required on July 1, 2024, will have on the LAFCo's financial statements, if any.

REQUIRED SUPPLEMENTARY INFORMATION SECTION

Butte Local Agency Formation Commission

SCHEDULE OF LAFCO'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY – CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Years Ended June 30	2022		2021		2020	
Contractually required contribution	\$	58,729	\$	52,025	\$	40,242
Contributions in relation to the contractually required contribution		(58,729)		(52,025)		(40,242)
Contribution Deficiency (Excess)	\$	-	\$	-	\$	-
LAFCo's covered-employee payroll	\$	391,057	\$	364,808	\$	305,401
Contributions as a percentage of covered-employee payroll		15.02%		14.26%		13.18%

Years Ended June 30	2019		2018		2017		2016		2015	
Contractually required contribution	\$	32,317	\$	32,585	\$	34,468	\$	34,885	\$	35,663
Contributions in relation to the contractually required contribution		(32,317)		(32,585)		(34,468)		(34,885)		(35,663)
Contribution Deficiency (Excess)	\$	-	\$	-	\$	-	\$	-	\$	-
LAFCo's covered-employee payroll	\$	245,719	\$	315,064	\$	313,151	\$	342,828	\$	332,843
Contributions as a percentage of covered-employee payroll		13.15%		10.34%		11.01%		10.18%		10.71%

See the accompanying notes to the required supplementary information.

Butte Local Agency Formation Commission
 SCHEDULE OF LAFCO'S CONTRIBUTIONS –
 CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Years Ended June 30	2022		2021		2020	
Contractually required contribution	\$	58,729	\$	52,025	\$	40,242
Contributions in relation to the contractually required contribution		(58,729)		(52,025)		(40,242)
Contribution Deficiency (Excess)	\$	-	\$	-	\$	-
LAFCo's covered-employee payroll	\$	391,057	\$	364,808	\$	305,401
Contributions as a percentage of covered-employee payroll		15.02%		14.26%		13.18%

Years Ended June 30	2019		2018		2017		2016		2015	
Contractually required contribution	\$	32,317	\$	32,585	\$	34,468	\$	34,885	\$	35,663
Contributions in relation to the contractually required contribution		(32,317)		(32,585)		(34,468)		(34,885)		(35,663)
Contribution Deficiency (Excess)	\$	-	\$	-	\$	-	\$	-	\$	-
LAFCo's covered-employee payroll	\$	245,719	\$	315,064	\$	313,151	\$	342,828	\$	332,843
Contributions as a percentage of covered-employee payroll		13.15%		10.34%		11.01%		10.18%		10.71%

See the accompanying notes to the required supplementary information.

Butte Local Agency Formation Commission

SCHEDULE OF CHANGES IN LAFCO'S TOTAL OPEB LIABILITY AND RELATED RATIOS

Years Ended June 30	2022	2021	2020	2019	2018
Total OPEB Liability					
Service cost	\$ 27,877	\$ 37,349	\$ 30,145	\$ 23,849	\$ 24,759
Benefit payments - including refunds of employee contributions	(23,171)	(23,429)	(23,110)	(20,580)	(24,614)
Net Change in Total OPEB Liability	4,706	13,920	7,035	9,619	145
Total OPEB Liability - Beginning of Year	78,002	64,082	57,047	53,778	53,633
Total OPEB Liability - End of Year	82,708	78,002	64,082	57,047	53,778
Covered-employee payroll	\$ 151,884	\$ 140,438	\$ 129,855	\$ 122,505	\$ 120,102
LAFCo's total OPEB liability as a percentage of covered-employee payroll	54.45%	55.54%	49.35%	93.48%	44.78%

See the accompanying notes to the required supplementary information.

Butte Local Agency Formation Commission

SCHEDULE OF LAFCO'S CONTRIBUTIONS - OPEB

Years Ended June 30	2022		2021		2020		2019		2018	
Contractually required contribution	\$	23,171	\$	23,429	\$	23,110	\$	20,580	\$	24,614
Contributions in relation to the contractually required contribution		(23,171)		(23,429)		(23,110)		(20,580)		(24,614)
Contribution Deficiency (Excess)	\$	-	\$	-	\$	-	\$	-	\$	-
LAFCo's covered-employee payroll	\$	151,884	\$	140,438	\$	129,855	\$	122,505	\$	120,102
Contributions as a percentage of covered-employee payroll		15.26%		16.68%		17.80%		16.80%		20.49%

See the accompanying notes to the required supplementary information.

Butte Local Agency Formation Commission

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

1. SCHEDULE OF CHANGES IN LAFCO'S TOTAL OPEB LIABILITY AND RELATED RATIOS

Changes of Benefit Terms

There were no significant changes in benefit terms during the measurement periods ended June 30, 2022 and 2021.

Changes of Assumptions

There were no significant changes in assumptions during the measurement period ended June 30, 2022 and 2021.

Assets to Pay Related Benefits

There are no assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75 as of June 30, 2022 and 2021.

2. CHANGES OF BENEFIT TERMS

California Public Employees' Retirement System

There were no significant changes of benefit terms during the measurement periods ended June 30, 2021 and 2020.

3. CHANGES OF ASSUMPTIONS

California Public Employees' Retirement System

There were no significant changes in assumptions during the measurement periods ended June 30, 2021 and 2020.

OTHER SUPPLEMENTARY INFORMATION SECTION

Butte Local Agency Formation Commission

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2022	Final Budget Amounts	Actual Amounts	Variance Over (Under) Budget
Revenues			
Sphere of Influence Trust Fund transfers	\$ 20,000	\$ -	\$ (20,000)
Agency funding	705,722	704,873	(849)
Filing fees and other	22,560	82,021	59,461
Sphere of Influence fees	-	50,421	50,421
Total Revenues	748,282	837,315	89,033
Expenses			
Salaries and wages	359,500	391,058	31,558
Employee benefits	194,826	37,363	(157,463)
Communications	3,942	1,924	(2,018)
General insurance	8,457	5,451	(3,006)
Workers' compensation insurance	2,540	-	(2,540)
Memberships	7,015	6,591	(424)
Office and household expenses	6,000	880	(5,120)
Professional and specialized services	68,076	114,869	46,793
Publications and legal notices	3,500	3,373	(127)
Rents	15,706	390	(15,316)
Special department expense	5,000	7,941	2,941
Data processing	6,680	-	(6,680)
Transportation and travel	22,040	11,584	(10,456)
Utilities	5,000	5,232	232
Amortization expense	-	13,786	13,786
Appropriation for contingencies	30,000	-	(30,000)
Appropriation for reserve	25,000	-	(25,000)
Total Expenses	763,282	600,442	(162,840)
Operating Income (Loss)	(15,000)	236,873	251,873
Nonoperating Revenues (Expenses)			
Investment earnings	15,000	(38,439)	(53,439)
Interest expense	-	(2,054)	(2,054)
Total Nonoperating Revenues (Expenses)	15,000	(40,493)	(55,493)
Changes in Net Position	\$ -	\$ 196,380	\$ 196,380

Butte Local Agency Formation Commission

BUDGETARY COMPARISON SCHEDULE

(Continued)

Year Ended June 30, 2022

Sources/Inflows of Resources

Budgeted revenue	\$	748,282
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Differences - Budget to GAAP

Sphere of Influence Trust Fund transfers are a resource, but not current-year revenue for GAAP		(20,000)
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Sphere of Influence fees recognized as revenue for GAAP when earned and not included as budgetary inflows		50,421
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Agency funding was less than budgeted amount		(849)
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Filing fees earned were more than budgeted amounts		59,461
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Total Revenues Reported for GAAP	\$	837,315
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Uses/Outflows of Resources

Budgeted expenses	\$	763,282
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Differences - Budget to GAAP

Appropriation for reserve budgeted, but not an expense for GAAP		(25,000)
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Contingency fund budgeted, but not an expense for GAAP		(30,000)
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Operating expenses were less than budgeted amounts		(105,786)
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Total Expenses Reported for GAAP	\$	602,496
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OTHER REPORT SECTION

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Commissioners
Butte Local Agency Formation Commission
Oroville, California

We have audited, 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 of America, the financial statements of Butte Local Agency Formation Commission (LAFCo) as of and for the year ended June 30, 2022; and the related notes to the financial statements, which collectively comprise the LAFCo's basic financial statements; and have issued our report thereon dated May 10, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered LAFCo's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of LAFCo's internal control. Accordingly, we do not express an opinion on the effectiveness of LAFCo's internal control.

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of LAFCo's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

INDEPENDENT AUDITORS' 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

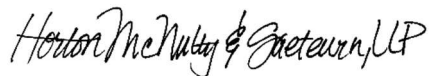
(Continued)

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether LAFCo's financial statements are free from 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 financial statements. 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*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance, and the results of that testing, and not to provide an opinion on the effectiveness of LAFCo's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering LAFCo's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



May 10, 2023
Chico, California