

## **M E M O R A N D U M**

TO: Local Agency Formation Commission

FROM: Jill Broderson, Management Analyst

SUBJECT: **Agenda Item 2.2 - Independent Auditors' Report and Financial Statements for Fiscal Years ending June 30, 2020 and 2019**

DATE: February 10, 2021 for the Meeting of March 4, 2021

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The 2020 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 financial statements referred to above present fairly, in all material aspects, the financial position of LAFCO as of June 30, 2020 and 2019, 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.

### **SUMMARY:**

Overall, the financial health of the LAFCO is sound. LAFCO has sufficient cash to meet current obligations, with current liabilities at only 2.8% of cash on hand for general purposes. The net position decreased, \$152,308 overall. Revenue increased by 4.8% due to an increase in filing fees and agency funding; while expenses increased by 14.9%, primarily due to the increase in salaries and benefits, resulting in the hiring of a new employee. The combined value of interest earned and market value adjustment for 2020 was \$42,453, an increase of \$8,825.

**ACTION REQUESTED:** Accept Financial Statements and Supplementary Information with Independent Auditor's Report for Fiscal Years ending June 30, 2020 and 2019 prepared by Horton, McNulty & Saeteurn, Certified Public Accountants.

Attachment

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



February 5, 2021

Board of Trustees  
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, 2020, and have issued our report thereon dated February 5, 2021. Professional standards require that we advise you of the following matters relating to our audit.

### **Our Responsibility in Relation to the Financial Statement Audit**

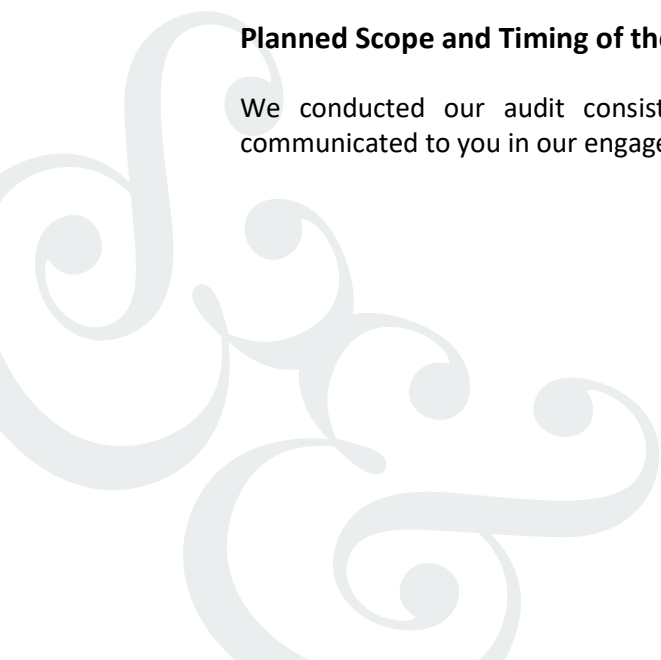
As communicated in our engagement letter dated November 20, 2020, our responsibility, as described by professional standards, is to form and express opinions about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, 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 November 20, 2020.



### **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.

### **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. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during the fiscal year ended June 30, 2020. 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 Schedules of Employer Allocations and Collective Pension Amounts received from CalPERS; and the June 30, 2019, Comprehensive Annual Financial Report for both CalPERS and CalSTRS.

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 and the net pension liability recorded under GASB Statement No. 68.

### **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:

- Understatement of net pension liability of (\$21,724).
- Overstatement of deferred outflows of resources related to pensions of (\$5,060).
- Understatement of deferred inflows of resources related to pensions of (\$2,910).
- Net understatement of the total OPEB liability of (\$12,398).
- Understatement of cash in county treasury of (\$14,413).
- Understatement of interest receivable of (\$6,364).

The net impact of the above adjustments was to decrease net position by \$62,869.

### **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 February 5, 2021.

### **Management's Consultations With Other Accountants**

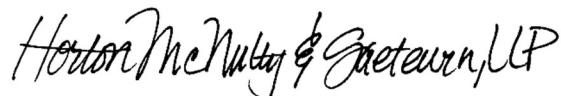
In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

### **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,

A handwritten signature in black ink that reads "Horton McNulty & Gieteman, LLP". The signature is written in a cursive, flowing style.

# **Butte Local Agency Formation Commission**

Oroville, California

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION  
WITH INDEPENDENT AUDITORS' REPORTS

**June 30, 2020 and 2019**



# Butte Local Agency Formation Commission

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June 30, 2020 and 2019

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## INDEPENDENT AUDITORS' REPORT

To the Commissioners  
Butte Local Agency Formation Commission  
Oroville, California

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, 2020 and 2019; and the related notes to the financial statements, which collectively comprise LAFCo's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

LAFCo's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to LAFCo's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of LAFCo's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **INDEPENDENT AUDITORS' REPORT**

(Continued)

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of LAFCo as of June 30, 2020 and 2019, 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.

### ***Other Matters***

***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, 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.

### ***Other 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.

## **INDEPENDENT AUDITORS' REPORT**

(Continued)

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.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 5, 2021, on our consideration of the District'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 the District's internal control over financial reporting and compliance.



February 5, 2021  
Chico, California

## **FINANCIAL SECTION**

# Butte Local Agency Formation Commission

## STATEMENTS OF NET POSITION

June 30	2020	2019
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash - general	\$ 866,737	\$ 671,621
Cash - Sphere of Influence	346,318	310,846
Interest receivable	4,741	6,035
<b>TOTAL ASSETS</b>	<b>1,217,796</b>	<b>988,502</b>
<b>DEFERRED OUTFLOWS OF RESOURCES FROM PENSIONS</b>	<b>84,599</b>	<b>89,659</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable	7,506	7,351
Accrued salaries and benefits	17,061	6,046
<b>Total Current Liabilities</b>	<b>24,567</b>	<b>13,397</b>
<b>Noncurrent Liabilities</b>		
Accrued compensated leave	102,302	78,578
Total OPEB liability	126,920	114,522
Net pension liability	163,586	141,862
<b>Total Noncurrent Liabilities</b>	<b>392,808</b>	<b>334,962</b>
<b>TOTAL LIABILITIES</b>	<b>417,375</b>	<b>348,359</b>
<b>DEFERRED INFLOWS OF RESOURCES FROM PENSIONS</b>	<b>10,863</b>	<b>7,953</b>
<b>NET POSITION</b>		
Unrestricted	527,839	411,003
Restricted - Sphere of Influence	346,318	310,846
<b>TOTAL NET POSITION</b>	<b>\$ 874,157</b>	<b>\$ 721,849</b>

*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	2020	2019
<b>Revenues</b>		
Agency funding	\$ 653,431	\$ 616,426
Filing fees and other	48,433	24,713
Sphere of Influence fees	34,114	61,307
<b>Total Revenues</b>	<b>735,978</b>	<b>702,446</b>
<b>Expenses</b>		
Salaries and wages	309,072	249,632
Employee benefits	189,786	156,918
Communications	1,971	3,434
General insurance	4,993	4,527
Workers' compensation insurance	1,681	1,634
Memberships	5,787	5,753
Office and household expenses	5,133	3,034
Professional and specialized services	60,488	70,111
Publications and legal notices	3,681	2,982
Rents and leases	13,505	14,440
Special department expenses	5,283	4,127
Data processing	6,680	6,680
Transportation and travel	14,670	17,141
Utilities	3,393	4,700
<b>Total Expenses</b>	<b>626,123</b>	<b>545,113</b>
<b>Operating Income</b>	<b>109,855</b>	<b>157,333</b>
Interest earned	42,453	33,628
<b>Changes in Net Position</b>	<b>152,308</b>	<b>190,961</b>
<b>Net Position - Beginning of Year</b>	<b>721,849</b>	<b>530,888</b>
<b>Net Position - End of Year</b>	<b>\$ 874,157</b>	<b>\$ 721,849</b>

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

# Butte Local Agency Formation Commission

## STATEMENTS OF CASH FLOWS

Years Ended June 30	2020		2019	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Agency funding	\$	653,431	\$	616,426
Filing fees		48,433		24,713
Sphere of Influence fees		34,114		61,307
Payments for employees and benefits		(422,027)		(359,193)
Payments to suppliers		(127,109)		(142,853)
<hr/>				
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		186,842		200,400
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest received		43,746		29,216
<hr/>				
<b>Net Change in Cash</b>		230,588		229,616
<b>Cash - Beginning of Year</b>		982,467		752,851
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<b>Cash - End of Year</b>	\$	1,213,055	\$	982,467
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<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>				
Operating income	\$	109,855	\$	157,333
Adjustments to reconcile operating income to net cash provided by operating activities:				
Change in total OPEB liability		12,398		9,619
Change in deferred outflow of resources from pensions		5,060		36,162
Change in deferred inflows of resources from pensions		2,910		(3,810)
Difference between pension expense recognized and deferred outflows of resources - contributions		21,724		(7,237)
Changes in assets and liabilities:				
Accounts payable		156		(4,290)
Accrued salaries and benefits		11,015		6,046
Accrued compensated leave		23,724		6,577
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<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	\$	186,842	\$	200,400
<hr/>				
Cash consisted of:				
General account	\$	866,737	\$	671,621
Sphere of Influence account		346,318		310,846
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<b>Total Cash</b>	\$	1,213,055	\$	982,467

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

# Butte Local Agency Formation Commission

## NOTES TO THE FINANCIAL STATEMENTS

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### 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.

**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.

**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.



## Butte Local Agency Formation Commission

### NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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**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, 2020, and June 30, 2019, the fair value of the County Investment Pool were 100.21% and 100.42%, 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 increase in the fair value of investments held during the years ended June 30, 2020 and 2019, were \$20,401 and \$11,050, 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, 2020 and 2019, were \$24,460 and \$3,700, 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)

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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.

**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. The Butte County Treasury is limited in investments by the *California Government Code*, Section 53635 pursuant to Section 53601, to invest in demand deposits with financial institutions, savings accounts, certificates of deposits, U.S. Treasury securities, federal agency securities, state of California notes or bonds, notes or bonds of agencies within the state of California, obligations guaranteed by the Small Business Administration, bankers' acceptances, commercial paper, and the Local Agency Investment Fund (LAIF) of the state of California. The deposits in the Butte County Treasury pooled funds are unrated.

Cash consisted of the following:

<u>June 30, 2020</u>	<u>Maturities</u>	<u>Fair Value</u>
<b>Investments That are Not Securities (1)</b>		
County treasurer's investment pool	1.7 years average	\$ 1,213,055

<u>June 30, 2019</u>	<u>Maturities</u>	<u>Fair Value</u>
<b>Investments That are Not Securities (1)</b>		
County treasurer's investment pool	1.8 years average	\$ 982,467

**(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)

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#### **Concentration of Credit Risk – Investments**

*California Government Code*, Section 53635, places the following concentration limits on the County Investment Pool:

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

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

No more than 5% 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; 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 10% of the outstanding commercial paper of any single issuer may be purchased; 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 repurchase agreements or reverse repurchase agreements; and no more than 30% may be invested in medium-term notes.

#### **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, 2020 and 2019:

County Investment Pool of \$1,213,055 and \$982,467, 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).

## Butte Local Agency Formation Commission

### NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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#### 3. 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](http://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, 2020 and 2019, were 10.221% and 9.409%, respectively. The projected contribution rate for the 2020-21 fiscal year is 11.031%.

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, 2020 and 2019, were \$40,242 and \$32,317, respectively.

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

At June 30, 2020 and 2019, LAFCo reported a liability of \$163,586 and \$141,862, 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, 2020 and 2019, LAFCo's proportions were .00160% and .00147%, respectively.

For the year ended June 30, 2020 and 2019, LAFCo recognized pension expense of \$69,936 and \$57,432, respectively.

## Butte Local Agency Formation Commission

### NOTES TO THE FINANCIAL STATEMENTS

(Continued)

At June 30, 2020 and 2019, the deferred outflows of resources and deferred inflows of resources related to pensions were reported from the following sources:

June 30, 2020	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 2,860
Differences between LAFCo contributions and proportionate share of contributions	2,701	4,358
Differences between expected and actual experience	11,362	880
Changes in assumptions	7,801	2,765
Changes in employer's proportion	22,493	-
LAFCo contributions subsequent to the measurement date	40,242	-
<b>Total</b>	<b>\$ 84,599</b>	<b>\$ 10,863</b>

June 30, 2019	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ 701	\$ -
Differences between LAFCo contributions and proportionate share of contributions	8,114	-
Differences between expected and actual experience	5,443	1,852
Changes in assumptions	16,173	3,964
Changes in employer's proportion	26,911	2,137
LAFCo contributions subsequent to the measurement date	32,317	-
<b>Total</b>	<b>\$ 89,659</b>	<b>\$ 7,953</b>

## Butte Local Agency Formation Commission

### NOTES TO THE FINANCIAL STATEMENTS

(Continued)

The \$40,242 reported as deferred outflows of resources related to pensions at June 30, 2020, 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, 2021. 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		
2021	\$	26,403
2022		4,113
2023		2,399
2024		579
<b>Total</b>	<b>\$</b>	<b>33,494</b>

#### Actuarial Assumptions

The total pension liability in the actuarial valuations used for the years ended June 30, 2020 and 2019, were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Years Ended June 30	2020	2019
Valuation date	June 30, 2018	June 30, 2017
Measurement date	June 30, 2019	June 30, 2018
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, 2018 and 2017, 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 best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all 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 single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and 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, 2020	Target Allocation	Rate of Return Years 1 - 10	Rate of Return Years 11+
<b>Asset Class</b>			
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%
<b>Total</b>	<b>100%</b>		

June 30, 2019	Target Allocation	Rate of Return Years 1 - 10	Rate of Return Years 11+
<b>Asset Class</b>			
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%
<b>Total</b>	<b>100%</b>		



## Butte Local Agency Formation Commission

### NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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#### Discount Rate

The discount rates used to measure the total pension liability at June 30, 2020 and 2019, was 7.15%. The amortization and smoothing periods adopted by CalPERS were utilized to determine whether the municipal bond rate should be used in the calculation of a discount rate. A projection of expected benefit payments and contributions was performed to determine if the assets would run out. The test revealed the assets would not run out. Therefore, the long-term expected rate of return on pension 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, 2020			
LAFCo's proportionate share of the net pension liability	\$ 309,689	\$ 163,586	\$ 42,988

	1% Decrease (6.15%)	Current Discount Rate (7.15%)	1% Increase (8.15%)
June 30, 2019			
LAFCo's proportionate share of the net pension liability	\$ 268,445	\$ 141,862	\$ 37,370

#### Pension Plan Fiduciary Net Position

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

# Butte Local Agency Formation Commission

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

### 4. 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, 2020 and 2019, consisted of:

Inactive Plan members or beneficiaries currently receiving benefit payment	-
Active Plan members	1
<b>Total</b>	<b>1</b>

#### 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, 2020 and June 30, 2019, LAFCo contributed \$23,110 and \$20,580, 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, 2020 and June 30, 2019, total OPEB liability for each respective year, was based on the alternative measurement method and assumptions as shown below.

Valuation date	June 30, 2020	June 30, 2019
Actuarial cost method	Entry age normal	Entry age normal
Actuarial assumptions:		
Salary increases	2.80%	2.80%
Discount rate	3.13%	3.13%
Healthcare cost trend rate	5.00%	5.00%

## Butte Local Agency Formation Commission

### NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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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 2020 and 2019 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, 2020 and 2019, to measure the total OPEB liability were 3.13% and 3.13%, respectively. 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.

#### Changes in the Total OPEB Liability

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

Years Ended June 30	2020	2019
<b>Total OPEB Liability</b>		
Service cost	\$ 35,508	\$ 30,199
Benefit payments - including refunds of employee contributions	(23,110)	(20,580)
<b>Net Change in Total OPEB Liability</b>	12,398	9,619
<b>Total OPEB Liability - Beginning of Year</b>	114,522	104,903
<b>Total OPEB Liability - End of Year</b>	126,920	114,522
Covered-employee payroll	\$ 129,855	\$ 122,505
LAFCo's total OPEB liability as a percentage of covered-employee payroll	97.74%	93.48%

## 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, 2020, 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:

	<b>1% Decrease (2.13%)</b>	<b>Current Discount Rate (3.13%)</b>	<b>1% Increase (4.13%)</b>
June 30, 2020			
Total OPEB liability	\$ 129,070	\$ 126,920	\$ 124,839

For the fiscal year ended June 30, 2019, 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:

	<b>1% Decrease (2.13%)</b>	<b>Current Discount Rate (3.13%)</b>	<b>1% Increase (4.13%)</b>
June 30, 2019			
Total OPEB liability	\$ 117,065	\$ 114,522	\$ 112,068

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

For the fiscal year ended June 30, 2020, 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:

	<b>1% Decrease (4.00%)</b>	<b>Health Cost Trend Rates (5.00%)</b>	<b>1% Increase (6.00%)</b>
June 30, 2020			
Total OPEB liability	\$ 113,998	\$ 126,920	\$ 141,176

For the fiscal year ended June 30, 2019, 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:

	<b>1% Decrease (4.00%)</b>	<b>Health Cost Trend Rates (5.00%)</b>	<b>1% Increase (6.00%)</b>
June 30, 2019			
Total OPEB liability	\$ 104,903	\$ 114,522	\$ 127,414

# Butte Local Agency Formation Commission

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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### OPEB Expense

For the years ended June 30, 2020 and 2019, LAFCo recognized OPEB expense of \$58,618 and \$50,779, respectively.

## 5. 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, 2020 and 2019, \$22,410, and \$19,046, 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.

## 6. OPERATING LEASE AGREEMENT

LAFCo leases office space under an operating lease. A ten-year operating lease was signed on April 1, 2006, to March 31, 2016. The lease was renewed on April 1, 2016, to March 31, 2026. Two five-year renewal options are available with the amounts to be negotiated. Rent expense amounted to \$13,145 and \$14,190, respectively, for fiscal years ended June 30, 2020 and 2019. Minimum future rental payments as of June 30, 2020, are as follows:

Years Ending June 30	
2021	\$ 15,119
2022	15,345
2023	15,575
2024	15,809
2025	15,809
Thereafter	12,170
<b>Total</b>	<b>\$ 89,827</b>

## **Butte Local Agency Formation Commission**

### **NOTES TO THE FINANCIAL STATEMENTS**

(Continued)

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#### **7. 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.

#### **8. FUTURE GASB IMPLEMENTATION**

In June 2017, GASB issued Statement No. 87, *Leases*. 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. The LAFCo's management has not yet determined the impact that the implementation of this standard, which is required on July 1, 2021, will have on the LAFCo's financial statements, if any.

**REQUIRED SUPPLEMENTARY INFORMATION SECTION**

## Butte Local Agency Formation Commission

### REQUIRED SUPPLEMENTARY INFORMATION

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

Years Ended June 30	2020	2019	2018	2017	2016	2015
LAFCo's portion of the net pension liability (asset)	0.00160%	0.00147%	0.00150%	0.00140%	0.00327%	0.00153%
LAFCo's proportionate share of the net pension liability (asset)	\$ 163,586	\$ 141,862	\$ 149,099	\$ 120,871	\$ 89,719	\$ 95,405
LAFCo's covered-employee payroll	\$ 305,401	\$ 245,719	\$ 315,064	\$ 313,151	\$ 342,828	\$ 332,843
LAFCo's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	53.56%	57.73%	47.32%	38.60%	26.17%	28.66%
Plan fiduciary net position as a percentage of the total pension liability	70.00%	70.85%	71.90%	73.90%	79.40%	83.50%

#### SCHEDULE OF LAFCO'S CONTRIBUTIONS – CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Years Ended June 30	2020	2019	2018	2017	2016	2015
Contractually required contribution	\$ 40,242	\$ 32,317	\$ 32,585	\$ 34,468	\$ 34,885	\$ 35,663
Contributions in relation to the contractually required contribution	(40,242)	(32,317)	(32,585)	(34,468)	(34,885)	(35,663)
<b>Contribution Deficiency (Excess)</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
LAFCo's covered-employee payroll	\$ 305,401	\$ 245,719	\$ 315,064	\$ 313,151	\$ 342,828	\$ 332,843
Contributions as a percentage of covered-employee payroll	13.18%	13.15%	10.34%	11.01%	10.18%	10.71%

See the accompanying notes to the required supplementary information.



**Butte Local Agency Formation Commission**

## REQUIRED SUPPLEMENTARY INFORMATION

(Continued)

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

Years Ended June 30	2020	2019	2018
<b>Total OPEB Liability</b>			
Service cost	\$ 35,508	\$ 30,199	\$ 19,863
Benefit payments - including refunds of employee contributions	(23,110)	(20,580)	(24,614)
<b>Net Change in Total OPEB Liability</b>	12,398	9,619	(4,751)
<b>Total OPEB Liability - Beginning of Year</b>	114,522	104,903	109,654
<b>Total OPEB Liability - End of Year</b>	126,920	114,522	104,903
Covered-employee payroll	\$ 129,855	\$ 122,505	\$ 120,102
LAFCo's total OPEB liability as a percentage of covered-employee payroll	97.74%	93.48%	87.34%

**SCHEDULE OF LAFCO'S CONTRIBUTIONS - OPEB**

Years Ended June 30	2020	2019	2018
Contractually required contribution	\$ 23,110	\$ 20,580	\$ 24,614
Contributions in relation to the contractually required contribution	(23,110)	(20,580)	(24,614)
<b>Contribution Deficiency (Excess)</b>	\$ -	\$ -	\$ -
LAFCo's covered-employee payroll	\$ 129,855	\$ 122,505	\$ 120,102
Contributions as a percentage of covered- employee payroll	17.80%	16.80%	20.49%

See the accompanying 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, 2020 and 2019.

**Changes of Assumptions**

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

The discount rate assumption was increased from 2.91% to 3.13% during the measurement period ended June 30, 2019, due to changes in the Municipal Bond 20-Year High Grade Rate Index. The healthcare cost trend rate was increased from 4.00% to 5.00% to reflect the current trend in health care costs.

**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, 2020 and 2019.

**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, 2019 and 2018.

**3. CHANGES OF ASSUMPTIONS**

**California Public Employees' Retirement System**

There were no significant changes in assumptions during the measurement period ended June 30, 2019.

In December 2017, the CalPERS Board adopted new mortality assumptions. The new mortality table was developed from the December 2017 experience study and includes 15 years of projected on-going mortality improvement using 90% of scale MP 2016 published by the Society of Actuaries. The inflation assumption is reduced from 2.75% to 2.50%. The assumptions for individual salary increases and overall growth are reduced from 3.00% to 2.75%.

**OTHER SUPPLEMENTARY INFORMATION SECTION**

# Butte Local Agency Formation Commission

## BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2020	Final Budget Amounts	Actual Amounts	Variance Over (Under) Budget
<b>Revenues</b>			
Sphere of Influence Trust Fund transfers	\$ 20,000	\$ -	\$ (20,000)
Agency funding	653,446	653,431	(15)
Filing fees and other	24,726	48,433	23,707
Sphere of Influence fees	-	34,114	34,114
<b>Total Revenues</b>	<b>698,172</b>	<b>735,978</b>	<b>37,806</b>
<b>Expenses</b>			
Salaries and wages	349,506	309,072	(40,434)
Employee benefits	158,136	189,786	31,650
Communications	3,942	1,971	(1,971)
General insurance	5,411	4,993	(418)
Workers' compensation insurance	2,310	1,681	(629)
Memberships	6,075	5,787	(288)
Office and household expense	6,000	5,133	(867)
Professional and specialized services	67,876	60,488	(7,388)
Publications and legal notices	3,500	3,681	181
Rents and leases	15,196	13,505	(1,691)
Special department expense	5,000	5,283	283
Data processing	6,680	6,680	-
Transportation and travel	22,040	14,670	(7,370)
Utilities	6,500	3,393	(3,107)
Appropriation for contingencies	30,000	-	(30,000)
Appropriation for reserve	25,000	-	(25,000)
<b>Total Expenses</b>	<b>713,172</b>	<b>626,123</b>	<b>(87,049)</b>
<b>Operating Income (Loss)</b>	<b>(15,000)</b>	<b>109,855</b>	<b>124,855</b>
Interest earned	15,000	42,453	27,453
<b>Changes in Net Position</b>	<b>\$ -</b>	<b>\$ 152,308</b>	<b>\$ 152,308</b>

**Butte Local Agency Formation Commission**

## BUDGETARY COMPARISON SCHEDULE

(Continued)

Year Ended June 30, 2020

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<b>Sources/Inflows of Resources</b>	
Budgeted revenue	\$ 698,172
<b>Differences - Budget to GAAP</b>	
Sphere of Influence Trust Fund transfers are a resource, but not current-year revenue for GAAP	(20,000)
Sphere of Influence fees recognized as revenue for GAAP when earned and not included as budgetary inflows	34,114
Agency funding was less than budgeted amount	(15)
Filing fees earned were more than budgeted amounts	23,707
<b>Total Revenues Reported for GAAP</b>	<b>\$ 735,978</b>
<b>Uses/Outflows of Resources</b>	
Budgeted expenses	\$ 713,172
<b>Differences - Budget to GAAP</b>	
Appropriation for reserve budgeted, but not an expense for GAAP	(25,000)
Contingency fund budgeted, but not an expense for GAAP	(30,000)
Operating expenses were less than budgeted amounts	(32,049)
<b>Total Expenses Reported for GAAP</b>	<b>\$ 626,123</b>

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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 the business-type activities of Butte Local Agency Formation Commission (LAFCo) as of and for the year ended June 30, 2020; and the related notes to the financial statements, which collectively comprise the LAFCo's basic financial statements; and have issued our report thereon dated February 5, 2021.

***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 opinions 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)

***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.



February 5, 2021  
Chico, California