

WHITE NELSON DIEHL EVANS LLP  
Certified Public Accountants & Consultants

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To the Commission Members  
Local Agency Formation Commission for  
the County of Los Angeles  
Pasadena, California

We have audited the financial statements of the Local Agency Formation Commission for the County of Los Angeles (the Commission) for the year ended June 30, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter dated July 11, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Commission are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2014. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

- a. Management's estimate of the fair market value of investments which is based on market values provided by outside sources.
- b. The estimated useful lives of capital assets for depreciation purposes which are based on industry standards.
- c. The annual required contribution for the Commission's Other Post-Employment Benefits was prepared by an outside consultant.
- d. The annual required contribution for the Pension Plan was prepared by an outside consultant

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements were reported in Note 7 and Note 8 to the financial statements regarding the annual required contribution and the actuarial liability for the Commission's Pension and Other Post-Employment Benefits Plans.

The financial statement disclosures are neutral, consistent, and clear.

#### *Difficulties Encountered in Performing the Audit*

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

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The attached "adjusting journal entries report" summarizes misstatements of the financial statements that have been corrected by management. The attached "passed adjusting journal entries report" summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole

#### *Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated December 10, 2014.

#### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Commission Members of the  
Local Agency Formation Commission  
for County of Los Angeles  
December 10, 2014  
Page 3

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to management's discussion and analysis, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

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

Very truly yours,

*White Nelson Dick Evans LLP*  
Irvine, California  
December 10, 2014

Client: **LOS006 - LAFCO - Los Angeles County**  
Engagement: **2014 AUD - Los Angeles Local Agency Formation Commission**  
Period Ending: **6/30/2014**  
Trial Balance: **3100.01 - Trial Balance**  
Workpaper: **3220.01 - Adjusting Journal Entries Report**

Account	Description	W/P Ref	Debit	Credit
<b>Adjusting Journal Entries JE # 100</b>				
To adjust Fund Balance to actual per PY FS.		<b>6000.01</b>		
30002	Retained Earnings		76.00	
50065	Miscellaneous - Other			76.00
<b>Total</b>			<b>76.00</b>	<b>76.00</b>
<b>Adjusting Journal Entries JE # 101</b>				
To adjust compensated absences to actual for 6/30/14.		<b>5200.03</b>		
50024	PTO Expense		1,689.00	
20050	PTO Liability			1,689.00
<b>Total</b>			<b>1,689.00</b>	<b>1,689.00</b>
<b>Adjusting Journal Entries JE # 102</b>				
To record deferred rent expense on building lease.		<b>1150.01</b>		
50025	Rent		16,242.00	
20060	Deferred Rent			16,242.00
<b>Total</b>			<b>16,242.00</b>	<b>16,242.00</b>

Client: **LOS006 - LAFCO - Los Angeles County**  
Engagement: **2014 AUD - Los Angeles Local Agency Formation Commission**  
Period Ending: **6/30/2014**  
Trial Balance: **3100.01 - Trial Balance**  
Workpaper: **3210.01 - Passed Adjusting Journal Entries Report**

Account	Description	W/P Ref	Debit	Credit
<b>Passed Adjusting Journal Entries JE # 300</b>				
		<b>5100.04</b>		
Known Misstatement: to accrue for legal expenses at year end.				
50076	Legal Services		7,872.00	
20001	A Accounts Payable			7,872.00
<b>Total</b>			<b>7,872.00</b>	<b>7,872.00</b>
<b>Passed Adjusting Journal Entries JE # 301</b>				
		<b>4100.03</b>		
Known Misstatement: To adjust pooled cash to market rate (Including effect of PY PAJE).				
30002	Retained Earnings		6,885.00	
10002	Investment Pool Account			249.00
10004	Reserve Account			3,348.00
40007	Interest Inc			3,288.00
<b>Total</b>			<b>6,885.00</b>	<b>6,885.00</b>
<b>Passed Adjusting Journal Entries JE # 302</b>				
		<b>4100.03</b>		
Known Misstatement: To record interest receivable at 6/30/14				
10002	Investment Pool Account		1,779.00	
40007	Interest Inc			1,779.00
<b>Total</b>			<b>1,779.00</b>	<b>1,779.00</b>

**LOCAL AGENCY FORMATION COMMISSION  
FOR THE COUNTY OF LOS ANGELES**

**BASIC FINANCIAL STATEMENTS**

**WITH REPORT ON AUDIT  
BY INDEPENDENT  
CERTIFIED PUBLIC ACCOUNTANTS**

**JUNE 30, 2014 AND 2013**

LOCAL AGENCY FORMATION COMMISSION  
FOR THE COUNTY OF LOS ANGELES

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**WHITE NELSON DIEHL EVANS LLP**  
Certified Public Accountants & Consultants

**INDEPENDENT AUDITORS' REPORT**

The Commission Members  
Local Agency Formation Commission  
for the County of Los Angeles  
Pasadena, California

**Report on the Financial Statements**

We have audited the accompanying statements of net position of the Local Agency Formation Commission for the County of Los Angeles (the Commission) as of June 30, 2014 and 2013, and the related statements of revenues, expenses and changes in net position and cash flows, for the years then ended, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

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

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

**Auditors' Responsibility**

Our responsibility is to express an opinion on these basic 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 audits to obtain reasonable assurance about whether the basic 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 auditors consider internal control relevant to the Commission's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission'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.



## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Commission, as of June 30, 2014 and 2013, and the respective changes in financial position, and cash flows thereof 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 management's discussion and analysis, and the schedule of funding progress, 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 management's discussion and analysis and the schedule of funding progress 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 the audit 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.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2014, on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control over financial reporting and compliance.

*White Nelson Reed Evans LLP*

Irvine, California  
December 10, 2014

# LOS ANGELES COUNTY LOCAL AGENCY FORMATION COMMISSION

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2014

The following discussion and analysis of the financial performance of the Los Angeles County Local Agency Formation Commission (the Commission) provides an overview of the Commission's financial activities for the fiscal year ended June 30, 2014. Please read it in conjunction with the financial statements identified in the accompanying table of contents.

### Using the Accompanying Financial Statements

This annual report consists of a series of financial statements. The statement of Net Position and the Statement of Activities provide information about the activities of the Commission as a whole and present a longer-term view of the Commission's finances.

## OVERVIEW OF THE FINANCIAL STATEMENTS

The annual report consists of two parts -- *management's discussion and analysis* (this section), and the *basic financial statements*.

The *government-wide financial statements* provide both *long-term* and *short-term* information about the Commission's overall financial status. The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data.

### Reporting the Commission as a Whole

The accompanying **government-wide financial statement** presents financial data for the Commission as a whole. One of the most important questions asked about the Commission's finances is, "Is the Commission as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the Commission as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Commission's net position and changes in them. You can think of the Commission's net position -- the difference between assets and liabilities -- as one way to measure the Commission's financial health, or *financial position*. Over time, *increases and decreases* in the Commission's net position are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other nonfinancial factors, such as changes in the Commission's revenues, to assess the *overall health* of the Commission. Indeed, a reduction in net position is assumed in the budget process. The prior year end fund balance is relied on as a funding source for the current year budget.

**LOS ANGELES COUNTY  
LOCAL AGENCY FORMATION COMMISSION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)**

**For the Fiscal Year Ended June 30, 2014**

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

A summary of the government-wide *Statement of Net Position* follows:

Table 1

Net Position – Governmental Activities

June 30, 2014 and 2013

	2014	2013	Change
<b>Assets:</b>			
Current Assets	\$ 849,908	\$ 977,950	\$ (128,042)
Non-Current Assets	\$ 20,855	\$ 21,732	\$ (877)
Security Deposits	\$ 8,232	\$ 8,232	\$ 0
<b>Total Assets</b>	<b>\$ 878,995</b>	<b>\$ 1,007,914</b>	<b>\$ (128,919)</b>
<b>Liabilities:</b>			
Current Liabilities	\$ 45,878	\$ 49,985	\$ (4,107)
Long-term Liabilities	\$ 433,531	\$ 340,634	\$ 92,897
<b>Total Liabilities</b>	<b>\$ 479,409</b>	<b>\$ 390,619</b>	<b>\$ 88,790</b>
<b>Net Position:</b>			
Invested in Capital Assets	\$ 20,855	\$ 21,732	\$ (877)
Unrestricted	\$ 378,731	\$ 595,563	\$ (216,832)
<b>Net Position</b>	<b>\$ 399,586</b>	<b>\$ 617,295</b>	<b>\$ (217,709)</b>

See independent auditors' report.

**LOS ANGELES COUNTY  
LOCAL AGENCY FORMATION COMMISSION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)**

**For the Fiscal Year Ended June 30, 2014**

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

A summary of the government-wide *Statement of Activities* follows:

Table 2

Changes in Net Position – Governmental Activities

Years ended June 30, 2014 and 2013

	2014	2013	Change
Revenues:			
Program Revenues:	\$ 932,376	\$ 850,666	\$ 81,710
Intergovernmental			
Charges for Services	\$ 72,380	\$ 121,300	\$ (48,920)
General Revenues:			
Interest	\$ 5,691	\$ 7,641	\$ (1,950)
Other	\$ 142	\$ 0	\$ 142
Total Revenues	<u>\$ 1,010,589</u>	<u>\$ 979,607</u>	<u>\$ 30,982</u>
Expenses			
Program Expenses:			
Salaries and Benefits	\$ 898,719	\$ 824,003	\$ 54,716
Services and Supplies	\$ 329,579	\$ 426,051	\$ (96,472)
Total Expenses	<u>\$ 1,228,298</u>	<u>\$ 1,250,054</u>	<u>\$ (21,756)</u>
Change in Net Position	\$ (217,709)	\$ (270,447)	\$ 52,738
Net Position, Beginning of Year	<u>\$ 617,295</u>	<u>\$ 887,742</u>	<u>\$ (270,447)</u>
Net Position, End of Year	<u><u>\$ 399,586</u></u>	<u><u>\$ 617,295</u></u>	<u><u>\$ (217,709)</u></u>

The increase or decrease in net position can provide an indication as to whether the overall financial position of the Commission improved or deteriorated during the year. Net position of the Commission decreased by \$217,709.

See independent auditors' report.

**LOS ANGELES COUNTY  
LOCAL AGENCY FORMATION COMMISSION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)**

**For the Fiscal Year Ended June 30, 2014**

**MAJOR FUNDS**

**Major Governmental Funds.** The **General Fund** is the only fund of the Commission, and is considered to be a proprietary fund for financial reporting purposes. The end of the year Net Position was \$399,586 compared to \$617,295 in the fiscal year ended June 30, 2013.

**GENERAL FUND BUDGET**

Major deviations between the budget of the General Fund and its operating results are as follows:

**Revenues**

- Revenues related to local agency apportionment contributions were increased by 9.6% to compensate for the decrease in proposal activity, and declining availability of funds to carryover from prior years.
- 14% shortfall in fee revenue due to lower than expected proposal activities.
- Overall, total revenues increased by \$30,982 over the prior year.

**Expenses**

- Salaries and Benefits:
  - Reconciliation of the annual accrued liability relating to Other Post Employment Benefits.
  - Unanticipated expenditure of funds to reconcile unpaid retirement contributions for County commissioners, covering the period of January 1999 through June 30, 2014.
- Services and Supplies:
  - Savings were achieved through and reduction in professional fees related to municipal service reviews; and a reduction in contracted CPA services.
- Overall, total expenses decreased by \$21,756, over the prior year.

See independent auditors' report.

**LOS ANGELES COUNTY  
LOCAL AGENCY FORMATION COMMISSION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)**

**For the Fiscal Year Ended June 30, 2014**

**CAPITAL ASSETS**

Capital Assets – Governmental Activities  
(net of depreciation)

Years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>	<u>Change</u>
Office Equipment	\$ 6,749	\$ 3,247	\$ 3,502
Furniture and Fixtures	\$ 5,870	\$ 9,116	\$ (3,246)
Tenant Improvements	\$ 8,236	\$ 9,369	\$ (1,133)
Total	<u>\$ 20,855</u>	<u>\$ 21,732</u>	<u>\$ (877)</u>

At the end of fiscal year 2014, the Commission's investment in capital assets amounted to \$20,855 (net of accumulated depreciation). This investment in capital assets includes equipment, furniture & fixtures and tenant improvements. (See Note 4 for further information)

**LONG-TERM LIABILITIES**

Long-term Liabilities  
Years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>	<u>Change</u>
Compensated Absences	<u>\$ 41,467</u>	<u>\$ 39,938</u>	<u>\$ 1,529</u>

Long-term liabilities, such as *Compensated Absences* are not due and payable in the current period. Additional information on long-term liabilities may be found in Note 6 of the Notes to Financial Statements.

**CONDITIONS AFFECTING CURRENT FINANCIAL POSITION**

Management is unaware of any conditions, which could have a significant impact on the Commission's current financial position, net position or operating results in terms of past, present and future.

See independent auditors' report.

**LOS ANGELES COUNTY  
LOCAL AGENCY FORMATION COMMISSION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)**

**For the Fiscal Year Ended June 30, 2014**

**CONTACTING THE COMMISSION'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the Commission's finances and to show the Commission's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Executive Officer, Paul Novak at 80 South Lake Avenue, Suite 870, Pasadena, CA 91101.

LOCAL AGENCY FORMATION COMMISSION  
FOR THE COUNTY OF LOS ANGELES

STATEMENTS OF NET POSITION

June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
ASSETS:		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 837,756	\$ 952,894
Accounts receivable	-	650
Prepaid expenses	<u>12,152</u>	<u>24,406</u>
TOTAL CURRENT ASSETS	<u>849,908</u>	<u>977,950</u>
NONCURRENT ASSETS:		
Capital assets, net of accumulated depreciation	20,855	21,732
Security deposits	<u>8,232</u>	<u>8,232</u>
TOTAL NONCURRENT ASSETS	<u>29,087</u>	<u>29,964</u>
TOTAL ASSETS	<u>878,995</u>	<u>1,007,914</u>
LIABILITIES:		
CURRENT LIABILITIES:		
Accounts payable	18,528	19,930
Advances from government agencies	-	2,865
Compensated absences due within one year	<u>27,350</u>	<u>27,190</u>
TOTAL CURRENT LIABILITIES	<u>45,878</u>	<u>49,985</u>
LONG-TERM LIABILITIES:		
Compensated absences payable	41,467	39,938
Accrued rent obligation	50,811	34,569
OPEB obligation	<u>341,253</u>	<u>266,127</u>
TOTAL LONG-TERM DEBT	<u>433,531</u>	<u>340,634</u>
TOTAL LIABILITIES	<u>479,409</u>	<u>390,619</u>
NET POSITION:		
Net investment in capital assets	20,855	21,732
Unrestricted	<u>378,731</u>	<u>595,563</u>
TOTAL NET POSITION	<u>\$ 399,586</u>	<u>\$ 617,295</u>

See independent auditors' report and notes to financial statements.



LOCAL AGENCY FORMATION COMMISSION  
FOR THE COUNTY OF LOS ANGELES

STATEMENTS OF REVENUES, EXPENSES AND  
CHANGES IN NET POSITION

For the years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
REVENUES:		
Contributions received	\$ 932,376	\$ 850,666
Fees and other charges	72,380	121,300
Interest	5,691	7,641
Miscellaneous	142	-
	<u>1,010,589</u>	<u>979,607</u>
TOTAL REVENUES		
EXPENSES:		
Salaries and employee benefits	898,719	824,003
Office expense	255,314	267,299
Professional fees	67,980	154,517
Depreciation	6,285	9,695
	<u>1,228,298</u>	<u>1,255,514</u>
TOTAL EXPENSES		
OPERATING LOSS	(217,709)	(275,907)
NONOPERATING EXPENSE:		
Gain (loss) in disposal of fixed asset	-	5,460
	<u>(217,709)</u>	<u>(270,447)</u>
CHANGES IN NET POSITION		
NET POSITION, BEGINNING OF YEAR	617,295	887,742
NET POSITION, END OF YEAR	<u>\$ 399,586</u>	<u>\$ 617,295</u>

See independent auditors' report and notes to financial statements.

LOCAL AGENCY FORMATION COMMISSION  
FOR THE COUNTY OF LOS ANGELES

STATEMENTS OF CASH FLOWS

For the years ended June 30, 2014 and 2013

	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Contributions, fees and other revenues received	\$ 1,008,374	\$ 950,985
Cash paid to suppliers for goods and services	(296,200)	(432,754)
Cash paid to employees for services	(821,904)	(747,833)
NET CASH USED BY OPERATING ACTIVITIES	<u>(109,730)</u>	<u>(229,602)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sale of furniture and equipment	-	5,460
Purchase of furniture and equipment	(5,408)	(3,226)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>(5,408)</u>	<u>2,234</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(115,138)	(227,368)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>952,894</u>	<u>1,180,262</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u><u>\$ 837,756</u></u>	<u><u>\$ 952,894</u></u>
<b>RECONCILIATION OF CHANGES IN OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:</b>		
Operating loss	\$ (217,709)	\$ (275,907)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	6,285	9,695
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	650	(650)
(Increase) decrease in prepaid expenses	12,254	(18,097)
Increase (decrease) in accounts payable	(1,402)	(11,005)
Increase (decrease) in advances from government agencies	(2,865)	(27,972)
Increase (decrease) in compensated absences payable	1,689	11,447
Increase (decrease) in accrued rent obligation	16,242	18,164
Increase (decrease) in OPEB obligation	75,126	64,723
NET CASH USED BY OPERATING ACTIVITIES	<u><u>\$ (109,730)</u></u>	<u><u>\$ (229,602)</u></u>

See independent auditors' report and notes to financial statements.

LOCAL AGENCY FORMATION COMMISSION  
FOR THE COUNTY OF LOS ANGELES

NOTES TO FINANCIAL STATEMENTS

June 30, 2014 and 2013

1. DESCRIPTION OF THE ENTITY:

The Local Agency Formation Commission for the County of Los Angeles (the Commission) was established by state law, "*The Knox-Nisbet Act of 1963*", to discourage urban sprawl and encourage the orderly formation and development of local government agencies. The Commission is responsible for coordinating logical and timely changes in local governmental boundaries, including annexations and detachments of territory, incorporation of cities, formation of special districts as well as consolidations, mergers, and dissolutions of districts, among others.

The Commission is governed by Commissioners composed of nine regular members: two members from the County Board of Supervisors, two city representatives, one City of Los Angeles representative, two special district representatives and two public members, one of which represents the San Fernando Valley Statistical area. Since implementation of the *Cortese-Knox-Hertzberg Local Government Reorganization Act* in 2001, the Commission has operated as a legally separate and independent entity from the County government. This means it can incur debt, set and modify its own budget and fees, enter into contracts, and sue and be sued in its own name.

The accompanying financial statements reflect the financial activities of the Commission. The Commission has no component units.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A summary of the Commission's significant accounting policies follows:

a. Basic Financial Statements:

The Commission's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as applied to governmental agencies. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

See independent auditors' report.

LOCAL AGENCY FORMATION COMMISSION  
FOR THE COUNTY OF LOS ANGELES

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2014 and 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

b. Basis of Accounting and Measurement Focus:

The Commission is considered a proprietary fund for financial reporting purposes. The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under this basis of accounting and measurement focus, revenues are recognized when they are earned and expenses are recognized when they are incurred.

c. Revenue Recognition:

The Commission's major source of revenue is the contributions received from the County of Los Angeles, its 88 cities and 54 special districts pursuant to an apportionment formula set forth in *California Government Code Section 56381*, as applied to its annual operating budget. The contributions are recognized as revenue when the apportionment formula is received from the County of Los Angeles.

Fees and other charges relating to municipal service reviews are recognized when money is spent for specific projects. All other fees and other charges are recognized when received.

d. New Accounting Pronouncements:

**Current Year Standards:**

GASB 66 - "*Technical Corrections, an amendment of GASB Statement No. 10 and Statement No. 62*", required to be implemented in the current fiscal year did not impact the Commission.

GASB 70 - "*Accounting and Financial Reporting for Nonexchange Financial Guarantees*", required to be implemented in the current fiscal year did not impact the Commission.

LOCAL AGENCY FORMATION COMMISSION  
FOR THE COUNTY OF LOS ANGELES

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2014 and 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

d. New Accounting Pronouncements (Continued):

**Pending Accounting Standards:**

GASB has issued the following statements which may impact the Commission's financial reporting requirements in the future:

- GASB 68 - "*Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*", effective for the fiscal years beginning after June 15, 2014.
- GASB 69 - "*Government Combinations and Disposals of Government Operations*", effective for periods beginning after December 15, 2013.
- GASB 71 - "*Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement No. 68*", effective for the periods beginning after June 15, 2014.

e. Deferred Outflows/Inflows of Resources:

In addition to assets, the statement of net position will sometimes report 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 future periods and so will not be recognized as an outflow of resources (expense) until then. The Commission does not have any deferred inflows of resources to report.

In addition to liabilities, the statement of net position will sometimes report 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 future periods and will not be recognized as an inflow of resources (revenue) until that time. The Commission does not have any deferred outflows of resources to report.

f. Cash and Cash Equivalents:

For purposes of the statements of cash flows, the Commission considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

LOCAL AGENCY FORMATION COMMISSION  
FOR THE COUNTY OF LOS ANGELES

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2014 and 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

g. Capital Assets:

Capital assets are stated at cost. The provision for depreciation is computed using the straight-line method over the estimated useful lives of the assets. When assets are sold or otherwise disposed of, related costs are removed from the accounts and any gain or loss is reported in the statements of revenues, expenses and changes in net position. Estimated useful lives of the assets are as follows:

Office equipment	3 - 5 years
Furniture and fixtures	3 - 5 years
Automotive equipment	5 years
Tenant improvements	5 years

h. Accrued Rent:

The Commission's policy is to average any defined rental escalations or rent concessions over the term of the related lease in order to provide a level recognition of rent expense. The Commission's total accrued rent obligation was \$50,811 and \$34,569 at June 30, 2014 and 2013, respectively.

i. Net Position:

Net position is classified into three components - net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

- *Net Investment in capital assets* - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- *Restricted net position* - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

See independent auditors' report.

LOCAL AGENCY FORMATION COMMISSION  
FOR THE COUNTY OF LOS ANGELES

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2014 and 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

i. Net Position (Continued):

- *Unrestricted net position* - This component of net position consists of net position that does not meet the definition of "net investment in capital assets" or "restricted".

When an expenditure is incurred for purposes for which both restricted and unrestricted net position is available, the Commission's policy is to apply restricted net position first.

j. Use of Estimates:

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from the estimates.

3. CASH AND CASH EQUIVALENTS:

The Commission's cash balances are either deposited with a bank or pooled and invested by the Los Angeles County Treasurer for the purpose of increasing interest earnings through investment activities. Interest earned on pooled investments is deposited to participating funds based upon each fund's average daily balance during the allocation period.

Statutes authorize the County of Los Angeles to invest pooled investments in obligations of the United States Treasury, federal agencies, municipalities, commercial paper rated A-1 by Standard and Poor's Corporation and P-1 by Moody's Commercial Paper Record, banker's acceptances, negotiable certificates of deposit, floating rate notes, repurchase agreements and reverse repurchase agreements.

Funds voluntarily deposited in the Los Angeles County Treasury Pool that are presented as cash and cash equivalents in the statements of net position amounted to \$819,847 and \$881,779 as of June 30, 2014 and 2013, respectively.

At June 30, 2014 accounts deposited with the bank are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 at each institution. At June 30, 2014 and 2013, the Commission had no cash balances in excess of federally insured limits.

The Commission's cash and cash equivalents may be exposed to certain risks:

See independent auditors' report.

LOCAL AGENCY FORMATION COMMISSION  
FOR THE COUNTY OF LOS ANGELES

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2014 and 2013

3. CASH AND CASH EQUIVALENTS (CONTINUED):

a. Interest Rate Risk:

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As of June 30, 2014 and 2013, the Commission's funds are held as short-term deposits in the Los Angeles County Treasury Pool.

b. Credit Risk:

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. As of June 30, 2014 and 2013, the Commission had no outstanding investments.

c. Concentration of Credit Risk:

Concentration of credit risk is the risk of loss attributable to the magnitude of the Commission's investment in a single issuer.

d. Custodial Credit Risk:

Custodial credit risk as the risk that the Commission will not be able to (a) recover deposits if the depository financial institution fails, or (b) recover the value of investments or collateral securities that are in the possession of an outside party if the counterparty to the investment or deposit transaction fails.

The Los Angeles County Treasury Pool is a pooled investment fund program governed by the Los Angeles County Board of Supervisors, and is administered by the County Treasurer. Investments in the pool are highly liquid as deposits and withdrawals can be made at any time without penalty. The Commission's fair value of its share in the pool is the same value of the pool shares, which amounted to \$819,847 and \$881,779 as of June 30, 2014 and 2013, respectively. Information on the pool's use of derivative securities in its investment portfolio is not available.

As of June 30, 2014 and 2013, the Los Angeles County Treasury Pool's and the Commission's exposure to risk (credit, market or legal) is not available.



LOCAL AGENCY FORMATION COMMISSION  
FOR THE COUNTY OF LOS ANGELES

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2014 and 2013

4. CAPITAL ASSETS:

Capital asset activity for the year ended June 30, 2014 was as follows:

	Balance at July 1, 2013	Additions	Deletions	Balance at June 30, 2014
Capital Assets:				
Office equipment	\$ 80,571	\$ 5,408	\$ (36,556)	\$ 49,423
Furniture and fixtures	65,957	-	-	65,957
Tenant improvements	11,328	-	-	11,328
 Total capital assets	 157,856	 5,408	 (36,556)	 126,708
Less accumulated depreciation for:				
Office equipment	(77,324)	(1,906)	36,556	(42,674)
Furniture and fixtures	(56,841)	(3,246)	-	(60,087)
Tenant improvements	(1,959)	(1,133)	-	(3,092)
Total accumulated depreciation	(136,124)	(6,285)	36,556	(105,853)
 Total capital assets, net	 \$ 21,732	 \$ (877)	 \$ -	 \$ 20,855

Capital asset activity for the year ended June 30, 2013 was as follows:

	Balance at July 1, 2012	Additions	Deletions	Balance at June 30, 2013
Capital Assets:				
Office equipment	\$ 77,345	\$ 3,226	\$ -	\$ 80,571
Furniture and fixtures	65,957	-	-	65,957
Auto equipment	22,818	-	(22,818)	-
Tenant improvements	11,328	-	-	11,328
 Total capital assets	 177,448	 3,226	 (22,818)	 157,856
Less accumulated depreciation for:				
Office equipment	(76,093)	(1,231)	-	(77,324)
Furniture and fixtures	(49,510)	(7,331)	-	(56,841)
Auto equipment	(22,818)	-	22,818	-
Tenant improvements	(826)	(1,133)	-	(1,959)
Total accumulated depreciation	(149,247)	(9,695)	22,818	(136,124)
 Total capital assets, net	 \$ 28,201	 \$ (6,469)	 \$ -	 \$ 21,732

See independent auditors' report.

LOCAL AGENCY FORMATION COMMISSION  
FOR THE COUNTY OF LOS ANGELES

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2014 and 2013

5. ADVANCES FROM GOVERNMENTAL AGENCIES:

Advances represent amounts provided to the Commission for the expenses to be incurred in preparation of a Comprehensive Fiscal Analysis to determine feasibility of incorporation of a new governmental entity or for or Municipal Service Reviews for specific municipalities.

6. COMPENSATED ABSENCES PAYABLE:

Compensated absences payable activity for the year ended June 30, 2014 and 2013, was as follows:

	<u>2014</u>	<u>2013</u>
Compensated absences payable at beginning of year	\$ 67,128	\$ 55,681
Compensated absences payable earned	27,350	27,190
Compensated absences payable used	<u>(25,661)</u>	<u>(15,743)</u>
Compensated absences payable at end of year	\$ <u>68,817</u>	\$ <u>67,128</u>

There is no fixed payment schedule for earned but unpaid compensated absences. Compensated absences expected to be paid within one year is \$27,350 and \$27,190 at June 30, 2014 and 2013, respectively.

7. PENSION PLAN:

a. Plan Description:

The Commission's pension plan is administered by the Los Angeles County Employees Retirement Association (LACERA) which was established under the County Employees Retirement Law of 1937. It provides benefits to employees of the County of Los Angeles as well as four other entities, including LAFCO, that are not part of the County's reporting entity. Benefits are authorized in accordance with the County Employees Retirement Law, the by-laws and procedures adopted by LACERA's Boards of Retirement and Investments and County Board of Supervisors' resolutions.

LACERA is a cost sharing, multi-employer defined benefit plan that provides retirement, disability, death benefits and cost of living adjustments to eligible employees. Eligibility to participate in the retirement plan is determined by having completed thirty days of credited service. Based on employment position the date of entry into the LACERA, the employees are enrolled in Plan D, general employees hired before January 1, 2013, Plan G, general employees hired after January 1, 2013, or Plan E, non-contributory plan for employees hired before January 1, 2013.

See independent auditors' report.

LOCAL AGENCY FORMATION COMMISSION  
FOR THE COUNTY OF LOS ANGELES

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2014 and 2013

7. PENSION PLAN (CONTINUED):

b. Funding Policy:

Members and the Commission contribute to LACERA based on unisex rates recommended by an independent consulting actuary and adopted by the Board of Investments and the Los Angeles County Board of Supervisors. Contributory plan members are required to contribute between 5.39% and 9.38% of their annual covered salary. The Commission is required to contribute the remaining amounts necessary to finance the coverage of their employees through monthly or annual prefunded contributions at actuarially determined rates. As determined by LACERA, the Commission contributes 18.24% of employees' covered salary for Plan D members, 17.81% for Plan G members, and 19.09% for Plan E members.

c. Contributions:

The Commissions contributions to LACERA for the past three years, which were equal to the required contribution for each year, were as follows:

Fiscal Year	General Risk Pool		
	Plan D	Plan E	Plan G
6/30/12	\$ 63,239	\$ 14,417	\$ -
6/30/13	77,030	10,757	4,496
6/30/14	80,639	29,518	4,978

For the funded status of the Plan refer to the 2013 Annual Report of LACERA available at 300 N. Lake Boulevard, Pasadena, California.

8. OTHER POST-EMPLOYMENT BENEFITS (OPEB):

a. Plan Description:

In addition to the retirement plan described in Note 7, the Commission provides a defined benefit healthcare plan to retirees in accordance with the benefits provided by the Los Angeles County Retirement Association. Spouses are also covered throughout their lives. The Commission pays 4% of the annual premiums for each year of service of the retiree. The retiree is responsible for payment of the remaining premiums. Retirees must have worked a minimum of 10 years with the Commission in order to be eligible for these benefits.

See independent auditors' report.

LOCAL AGENCY FORMATION COMMISSION  
FOR THE COUNTY OF LOS ANGELES

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2014 and 2013

8. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (CONTINUED):

b. Funding Policy:

As of June 30, 2014, the Commission has not established a trust account or equivalent that contains an irrevocable transfer of assets dedicated to providing benefits to retirees in accordance with the terms of the plan and that are legally protected from creditors. The Commission's contribution is currently based on a projected pay-as-you-go funding method, that is, benefits are payable when due. For the fiscal years ended June 30, 2014, 2013 and 2012, those costs totaled \$6,561, \$6,474, and \$5,208, respectively.

c. Annual OPEB Cost and Net OPEB Obligation:

The Annual Required Contribution (ARC) was calculated based on the Alternative Measurement Method which is applicable to employers with fewer than 100 plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The Commission uses a 30 year amortization period.

The following table shows the components of the Commission's annual OPEB, the cost amount of benefits and/or insurance premiums paid, and the changes in the Commission's Net OPEB obligation for the two years ended June 30, 2014 and 2013:

	2014	2013
Annual required contribution	\$ 81,470	\$ 71,033
Interest on net OPEB obligation	13,307	10,070
Adjustment to annual required contribution	<u>(13,090)</u>	<u>(9,906)</u>
Annual OPEB cost	81,687	71,197
Pay-as-you-go cost	<u>(6,561)</u>	<u>(6,474)</u>
Increase in net OPEB obligation	75,126	64,723
Net OPEB obligation - beginning of year	<u>266,127</u>	<u>201,404</u>
Net OPEB obligation - end of year	<u>\$ 341,253</u>	<u>\$ 266,127</u>

See independent auditors' report.

LOCAL AGENCY FORMATION COMMISSION  
FOR THE COUNTY OF LOS ANGELES

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2014 and 2013

8. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (CONTINUED):

d. Three-Year Trend Information:

The Commission's annual OPEB cost, the percentage of annual OPEB costs contributed to the plan and the net OPEB obligation for 2014 and the preceding two years are as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Costs Contributed</u>	<u>Net OPEB Obligation</u>
6/30/12	\$ 72,761	7.16%	\$ 201,404
6/30/13	71,197	9.09%	266,127
6/30/14	81,687	8.03%	341,253

e. Funded Status and Funding Progress:

As of July 1, 2013, the most recent actuarial valuation date, the plan is not funded. The actuarial accrued liability for benefits was \$711,231, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$711,231. The covered payroll (annual payroll of active employees covered by the plan) was \$545,832 and the ratio of the UAAL to the covered payroll was 130.30%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about rates of employee turnover, retirement, mortality, as well as economic assumptions regarding claim costs per retiree, healthcare inflation and interest rates. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

See independent auditors' report.

LOCAL AGENCY FORMATION COMMISSION  
FOR THE COUNTY OF LOS ANGELES

NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2014 and 2013

8. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (CONTINUED):

f. Methods and Assumptions:

The following statistics and assumptions were used in the actuarial valuation:

No. of active employees	7
Average age of active, eligible employees	45
Assumed retirement age	65
Actuarial cost method	Entry age
Amortization method	Level percentage of payroll over a 30-year period
Discount rate	5%
Payroll growth rate	2%
Healthcare cost trend	3%

9. COMMITMENTS:

The Commission has entered into office space and equipment leases under long-term lease agreements expiring through November 2021. Future minimum rental payment under non-cancelable leases are as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2015	\$ 92,032
2016	101,379
2017	86,700
2018	89,301
2019	91,980
Thereafter	<u>233,479</u>
Total	<u>\$ 694,871</u>

Total rent expense for the years ended June 30, 2014 and 2013 amounted to \$107,807 and \$105,598, respectively.

10. SUBSEQUENT EVENTS:

Events occurring after June 30, 2014 have been evaluated for possible adjustments to the financial statements or disclosure as of December 10, 2014, which is the date these financial statements were available to be issued.

See independent auditors' report.

## **REQUIRED SUPPLEMENTARY INFORMATION**

LOCAL AGENCY FORMATION COMMISSION  
FOR THE COUNTY OF LOS ANGELES

REQUIRED SUPPLEMENTARY INFORMATION

For the years ended June 30, 2014 and 2013

OTHER POST-EMPLOYMENT BENEFITS (OPEB)

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Accrued Liability (AAL) Entry Age (a)	Actuarial Value of Assets (AVA) (b)	Unfunded Actuarial Accrued Liability (UAAL) (a) - (b)	Funded Ratio AVA (b)/(a)	Annual Covered Payroll (c)	UAAL as a % of Covered Payroll [(a)-(b)]/c]
7/1/2009	\$ 680,973	\$ -	\$ 680,973	0.00%	\$ 531,926	128.02%
7/1/2012	\$ 748,249	\$ -	\$ 748,249	0.00%	\$ 423,900	176.52%
7/1/2013	\$ 711,231	\$ -	\$ 711,231	0.00%	\$ 545,832	130.30%

See independent auditors' report.



WHITE NELSON DIEHL EVANS LLP  
Certified Public Accountants & Consultants

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*

The Commission Members  
Local Agency Formation Commission  
for the County of Los Angeles  
Pasadena, California

We have audited, in accordance with the 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, the financial statements of the Local Agency Formation Commission for the County of Los Angeles (the Commission), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated December 10, 2014.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Commission's internal control over financial reporting (internal control) to determine the 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 Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of Commission'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 the Commission'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 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.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Commission'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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **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 the Commission's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*White Nelson Dick Evans LLP*

Irvine, California  
December 10, 2014