

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

BASIC FINANCIAL STATEMENTS

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

JUNE 30, 2015

LOCAL AGENCY FORMATION COMMISSION
FOR THE COUNTY OF LOS ANGELES

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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 statement of net position of the Local Agency Formation Commission for the County of Los Angeles (the Commission) as of June 30, 2015, and the related statements of revenues, expenses and changes in net position and cash flows, for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, 2015, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Notes 2d and 9 to the financial statements, the Commission implemented Governmental Accounting Standards Board's Statement No. 68 - "*Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*", and Statement No. 71 - "*Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement No. 68*". The adoption of these standards required retrospective application resulting in a \$660,000 reduction of previously reported net position. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted the 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.

Accounting principles generally accepted in the United States of America require that the schedule of proportionate share of the net pension liability, the schedule of contributions - defined benefit pension plan, and the schedule of funding progress - other post-employment benefits plan, identified as required supplementary information (RSI) in the accompanying 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 RSI 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 RSI 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 February 1, 2016, 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 Dick Evans LLP

Irvine, California

February 1, 2016

LOCAL AGENCY FORMATION COMMISSION
FOR THE COUNTY OF LOS ANGELES

STATEMENT OF NET POSITION

June 30, 2015

ASSETS:

CURRENT ASSETS:

| | |
|---------------------------|----------------|
| Cash and cash equivalents | \$ 912,580 |
| Prepaid expenses | 13,678 |
| TOTAL CURRENT ASSETS | <u>926,258</u> |

NONCURRENT ASSETS:

| | |
|---|---------------|
| Capital assets, net of accumulated depreciation | 14,415 |
| Security deposits | 8,232 |
| TOTAL NONCURRENT ASSETS | <u>22,647</u> |

| | |
|--------------|----------------|
| TOTAL ASSETS | <u>948,905</u> |
|--------------|----------------|

DEFERRED OUTFLOWS OF RESOURCES:

| | |
|---------------------------|----------------|
| Amount related to pension | <u>211,988</u> |
|---------------------------|----------------|

LIABILITIES:

CURRENT LIABILITIES:

| | |
|---|---------------|
| Accounts payable | 6,231 |
| Compensated absences due within one year | 36,633 |
| Accrued rent obligation due within one year | 3,600 |
| TOTAL CURRENT LIABILITIES | <u>46,464</u> |

LONG-TERM LIABILITIES:

| | |
|------------------------------|---------|
| Compensated absences payable | 37,393 |
| Accrued rent obligation | 56,214 |
| OPEB obligation | 412,094 |
| Net pension liability | 580,000 |

| | |
|----------------------|------------------|
| TOTAL LONG-TERM DEBT | <u>1,085,701</u> |
|----------------------|------------------|

| | |
|-------------------|------------------|
| TOTAL LIABILITIES | <u>1,132,165</u> |
|-------------------|------------------|

DEFERRED INFLOWS OF RESOURCES:

| | |
|---------------------------|----------------|
| Amount related to pension | <u>243,000</u> |
|---------------------------|----------------|

NET POSITION:

| | |
|----------------------------------|---------------------|
| Net investment in capital assets | 14,415 |
| Unrestricted | (228,687) |
| TOTAL NET POSITION | <u>\$ (214,272)</u> |

See accompanying notes to financial statements.

LOCAL AGENCY FORMATION COMMISSION
FOR THE COUNTY OF LOS ANGELES

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION

For the year ended June 30, 2015

| | |
|--|----------------------------|
| REVENUES: | |
| Contributions received | \$ 1,161,843 |
| Fees and other charges | 105,515 |
| Interest | <u>7,697</u> |
| TOTAL REVENUES | <u>1,275,055</u> |
| EXPENSES: | |
| Salaries and employee benefits | 883,181 |
| Office expense | 260,287 |
| Professional fees | 79,005 |
| Depreciation | <u>6,440</u> |
| TOTAL EXPENSES | <u>1,228,913</u> |
| CHANGES IN NET POSITION | 46,142 |
| NET POSITION, BEGINNING OF YEAR, AS RESTATED | <u>(260,414)</u> |
| NET POSITION, END OF YEAR | <u><u>\$ (214,272)</u></u> |

See accompanying notes to financial statements.

LOCAL AGENCY FORMATION COMMISSION
FOR THE COUNTY OF LOS ANGELES

STATEMENT OF CASH FLOWS

For the year ended June 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES:

| | |
|---|---------------|
| Contributions, fees and other revenues received | \$ 1,275,055 |
| Cash paid to suppliers for goods and services | (344,112) |
| Cash paid to employees for services | (856,119) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>74,824</u> |

CASH AND CASH EQUIVALENTS,
BEGINNING OF YEAR

837,756

CASH AND CASH EQUIVALENTS, END OF YEAR

\$ 912,580

RECONCILIATION OF CHANGES IN NET POSITION
TO NET CASH PROVIDED BY OPERATING ACTIVITIES:

| | |
|---|------------------|
| Changes in net position | \$ 46,142 |
| Adjustments to reconcile changes in net position to net cash provided by operating activities: | |
| Depreciation | 6,440 |
| Changes in operating assets and liabilities: | |
| (Increase) decrease in prepaid expenses | (1,526) |
| (Increase) decrease in deferred outflows of resources - amount related to pensions | (108,988) |
| Increase (decrease) in accounts payable | (12,297) |
| Increase (decrease) in compensated absences payable | 5,209 |
| Increase (decrease) in accrued rent obligation | 9,003 |
| Increase (decrease) in OPEB obligation | 70,841 |
| Increase (decrease) in net pension liability | (183,000) |
| Increase (decrease) in deferred inflows of resources - amount related to pensions | <u>243,000</u> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>\$ 74,824</u> |

See accompanying notes to financial statements.

LOCAL AGENCY FORMATION COMMISSION
FOR THE COUNTY OF LOS ANGELES

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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.

LOCAL AGENCY FORMATION COMMISSION
FOR THE COUNTY OF LOS ANGELES

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

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:

In fiscal year 2014-2015, the Commission implemented Governmental Accounting Standards Board (GASB) Statement No. 68 - "*Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27*" and GASB Statement No. 71 - "*Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement No. 68*". These Statements establish standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. For defined benefit pension plans, these Statements identify the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

Accounting changes adopted to conform to the provisions of these statements should be applied retroactively. The result of the implementation of these standards decreased the net position at July 1, 2014 by \$660,000.

LOCAL AGENCY FORMATION COMMISSION
FOR THE COUNTY OF LOS ANGELES

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

d. New Accounting Pronouncements (Continued):

Current Year Standards (Continued):

GASB Statement No. 69 - "*Government Combinations and Disposals of Government Operations*" was required to be implemented in the current fiscal year and did not impact the Commission.

Pending Accounting Standards:

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

- GASB 72 - "*Fair Value Measurement and Application*", effective for periods beginning after June 15, 2015.
- GASB 73 - "*Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*", effective for periods beginning after June 15, 2015 - except for those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for periods beginning after June 15, 2016.
- GASB 74 - "*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*", effective for periods beginning after June 15, 2016.
- GASB 75 - "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*", effective for periods beginning after June 15, 2017.
- GASB 76 - "*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*", effective for periods beginning after June 15, 2015.

LOCAL AGENCY FORMATION COMMISSION
FOR THE COUNTY OF LOS ANGELES

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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 that time. The Commission has two items that qualify for reporting in this category for the fiscal year ended June 30, 2015. The first item is a deferred outflow related to pensions for the changes in proportion and differences between employer contributions and the proportionate share of contributions. This amount is amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the Plan determined as of June 30, 2013 (the beginning of the measurement period ended June 30, 2014), which is 8 years. The second item is the deferred outflow related to pensions. This amount is equal to employer contributions made after the measurement date of the net pension liability.

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 has two items that qualify for reporting in this category for the fiscal year ended June 30, 2015. The first item is a deferred inflow related to pensions resulting from differences between expected and actual experience. This amount is amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the Plan determined as of June 30, 2013 (the beginning of the measurement period ended June 30, 2014), which is 8 years. The second item is a deferred inflow related to pensions for the net difference between projected and actual earnings on plan investments. This amount is amortized over a closed 5-year period.

f. Cash and Cash Equivalents:

For purposes of the statement 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, 2015

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 \$59,814 at June 30, 2015.

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. The Commission had no restricted net position at June 30, 2015.

LOCAL AGENCY FORMATION COMMISSION
FOR THE COUNTY OF LOS ANGELES

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

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. Pensions:

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Commission's Los Angeles County Employees Retirement Association (LACERA) plan (Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by LACERA. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

k. 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 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 statement of net position amounted to \$768,888 as of June 30, 2015.

LOCAL AGENCY FORMATION COMMISSION
FOR THE COUNTY OF LOS ANGELES

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

3. CASH AND CASH EQUIVALENTS (CONTINUED):

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

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, 2015, 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, 2015, 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 \$768,888 as of June 30, 2015. Information on the pool's use of derivative securities in its investment portfolio is not available.

As of June 30, 2015, 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, 2015

4. CAPITAL ASSETS:

Capital asset activity for the year ended June 30, 2015 was as follows:

| | Balance at July 1, 2014 | Additions | Deletions | Balance at June 30, 2015 |
|------------------------------------|----------------------------|-------------------|-------------|-----------------------------|
| Capital Assets: | | | | |
| Office equipment | \$ 49,423 | \$ - | \$ - | \$ 49,423 |
| Furniture and fixtures | 65,957 | - | - | 65,957 |
| Tenant improvements | <u>11,328</u> | <u>-</u> | <u>-</u> | <u>11,328</u> |
| Total capital assets | <u>126,708</u> | <u>-</u> | <u>-</u> | <u>126,708</u> |
| Less accumulated depreciation for: | | | | |
| Office equipment | (42,674) | (2,878) | - | (45,552) |
| Furniture and fixtures | (60,087) | (2,429) | - | (62,516) |
| Tenant improvements | <u>(3,092)</u> | <u>(1,133)</u> | <u>-</u> | <u>(4,225)</u> |
| Total accumulated depreciation | <u>(105,853)</u> | <u>(6,440)</u> | <u>-</u> | <u>(112,293)</u> |
| Total capital assets, net | <u>\$ 20,855</u> | <u>\$ (6,440)</u> | <u>\$ -</u> | <u>\$ 14,415</u> |

5. COMPENSATED ABSENCES PAYABLE:

Compensated absences payable activity for the year ended June 30, 2015, was as follows:

| | |
|---|------------------|
| Compensated absences payable at beginning of year | \$ 68,817 |
| Compensated absences payable earned | 36,633 |
| Compensated absences payable used | <u>(31,424)</u> |
| Compensated absences payable at end of year | <u>\$ 74,026</u> |

There is no fixed payment schedule for earned but unpaid compensated absences. Compensated absences expected to be paid within one year is \$36,633 at June 30, 2015.

LOCAL AGENCY FORMATION COMMISSION
FOR THE COUNTY OF LOS ANGELES

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

6. PENSION PLAN:

a. General Information about the Pension Plan:

Plan Description:

The Los Angeles County Employees Retirement Association (LACERA) was established under the County Employees Retirement Law of 1937. LACERA operates as a cost-sharing, multi-employer defined benefit pension plan (the Plan) and 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.

Benefits Provided:

LACERA 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. The retirement benefits within the plan are tiered based on the date of LACERA membership.

The Plan's provisions and benefits in effect at June 30, 2015, are summarized as follows:

| | General | | |
|---|--|---------------------------------|--------------------------------|
| | If elected, On or After January 4, 1982 | | |
| | Prior to January 1, 2013 | And Before November 28, 2012 | On or After January 1, 2013 |
| Hire date | Plan D | Plan E | Plan G |
| Benefit vesting schedule | 5 years of service | 10 years of service | 5 years of service |
| Benefit payments | monthly for life | monthly for life | monthly for life |
| Retirement age | 50-70 | 55-70 | 52 - 67 |
| Monthly benefits, as a % of eligible compensation | 1.18% - 2.43% | 0.75% - 2.0% | 1.0% - 2.5% |
| Required employee contribution rates (1) | 4.83% - 10.94% | 0% | 7.63% |
| Required employer contribution rates | 19.74% | 20.95% | 19.53% |

(1) Based on age at entry into the plan

LOCAL AGENCY FORMATION COMMISSION
FOR THE COUNTY OF LOS ANGELES

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

6. PENSION PLAN (CONTINUED):

a. General Information about the Pension Plan (Continued):

Contributions:

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

As of June 30, 2015, the Commission reported a net pension liability for its proportionate share of the net pension liability of the Plan of \$580,000.

b. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions:

The Commission's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2014, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. The Commission's proportionate share of the net pension liability was based on a projection of the Commission's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined.

The Commission's proportionate share of the net pension liability for the Plan as of June 30, 2013 and 2014 was as follows:

| | <u>General</u> |
|------------------------------|----------------|
| Proportion - June 30, 2013 | 0.007% |
| Proportion - June 30, 2014 | 0.008% |
| Change - Increase (Decrease) | 0.001% |

LOCAL AGENCY FORMATION COMMISSION
FOR THE COUNTY OF LOS ANGELES

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

6. PENSION PLAN (CONTINUED):

- b. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued):

For the year ended June 30, 2015, the Commission recognized pension expense of \$68,000. At June 30, 2015, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------------|-------------------------------------|
| Pension contributions subsequent to measurement date | \$ 116,988 | \$ - |
| Differences between actual and expected experience | - | (2,000) |
| Change in assumptions | - | - |
| Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions | 95,000 | - |
| Net differences between projected and actual earnings on plan investments | - | (241,000) |
| Total | <u>\$ 211,988</u> | <u>\$ (243,000)</u> |

The deferred outflows of resources related to contributions subsequent to the measurement date of \$116,988 will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

| Year Ending June 30, | Amount |
|----------------------------|---------------------|
| 2016 | \$ (47,000) |
| 2017 | (46,000) |
| 2018 | (46,000) |
| 2019 | (47,000) |
| 2020 | 13,000 |
| Thereafter | 25,000 |
| | <u>\$ (148,000)</u> |

LOCAL AGENCY FORMATION COMMISSION
FOR THE COUNTY OF LOS ANGELES

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

6. PENSION PLAN (CONTINUED):

- b. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued):

Actuarial Assumptions:

The total pension liabilities in the June 30, 2013 actuarial valuations were determined using the following actuarial assumptions:

| | General |
|---------------------------|---------------------------------|
| Valuation Date | June 30, 2013 |
| Measurement Date | June 30, 2014 |
| Actuarial Cost Method | Entry-Age Normal Cost Method |
| Actuarial Assumptions: | |
| Discount Rate | 7.5% (1) |
| Inflation | 3.00% |
| Payroll Growth | 3.00% |
| Projected Salary Increase | 3.50% (2) |
| Investment Rate of Return | 7.50% (1) |
| Mortality | (3) |

(1) Net of administrative expenses

(2) Depending on age, service and type of employment

(3) Various rates based on RP-2000 mortality tables and using static projection of improvements to 2025 using Projection Scale AA.

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2013 valuation were based on the results of the 2013 Investigation of Experience report. Further details of the report can found on the LACERA website.

LOCAL AGENCY FORMATION COMMISSION
FOR THE COUNTY OF LOS ANGELES

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

6. PENSION PLAN (CONTINUED):

- b. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued):

Discount Rate:

The discount rate used to measure the total pension liability as of June 30, 2014, was 7.63%. The projection of cash flows used to determine the discount rate assumed that Plan contributions will continue to be made in accordance with the current funding policy. Based on these assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members.

The long-term expected rate of return on pension plan investments was determined using a building-block approach in which a median (or expected) geometric rate of return is developed for each major asset class. The median rates are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target allocation percentages. Estimates of the median geometric rates of return for each major asset class at the time the asset allocation targets were selected are shown in the table. The asset class return assumptions are presented on a nominal basis, and all assumptions incorporate a base inflation rate assumption of 2.35 percent.

| Asset Class | Target Allocation | Weighted Average Long-Term Expected Rate of Return (Geometric) | |
|----------------|----------------------|---|-------------------|
| | | Asset Class | Expected Alpha |
| Global Equity | 49.00% | 7.50% | 0.10% |
| Fixed Income | 23.00% | 3.50% | 0.20% |
| Real Estate | 10.00% | 6.05% | 0.00% |
| Private Equity | 11.00% | 9.85% | 4.00% |
| Commodities | 3.00% | 4.35% | 0.75% |
| Hedge Funds | 2.00% | 5.50% | 0.00% |
| Cash | 2.00% | 1.75% | 0.25% |
| Total | 100.00% | | |

LOCAL AGENCY FORMATION COMMISSION
FOR THE COUNTY OF LOS ANGELES

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

6. PENSION PLAN (CONTINUED):

- b. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued):

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

The following presents the Commission's proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what the Commission's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

| | |
|-----------------------|----------------|
| | <u>General</u> |
| 1% Decrease | 6.63% |
| Net Pension Liability | \$ 1,144,000 |
| Current Discount Rate | 7.63% |
| Net Pension Liability | \$ 580,000 |
| 1% Increase | 8.63% |
| Net Pension Liability | \$ 109,000 |

Pension Plan Fiduciary Net Position:

Detailed information about each pension plan's fiduciary net position is available in the separately issued LACERA financial reports.

- c. Payable to the Pension Plan:

At June 30, 2015, the Commission had no outstanding amount of contributions to the pension plan required for the year ended June 30, 2015.

LOCAL AGENCY FORMATION COMMISSION
FOR THE COUNTY OF LOS ANGELES

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

7. OTHER POST-EMPLOYMENT BENEFITS PLAN:

a. Plan Description:

In addition to the retirement plan described in Note 6, 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.

b. Funding Policy:

As of June 30, 2015, 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, 2015, 2014 and 2013, those costs totaled \$10,907, \$6,561, and \$6,474, 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 year ended June 30, 2015:

| | |
|--|-------------------|
| Annual required contribution | \$ 81,470 |
| Interest on net OPEB obligation | 17,063 |
| Adjustment to annual required contribution | <u>(16,785)</u> |
| Annual OPEB cost | 81,748 |
| Pay-as-you-go cost | <u>(10,907)</u> |
| Increase in net OPEB obligation | 70,841 |
| Net OPEB obligation - beginning of year | <u>341,253</u> |
| Net OPEB obligation - end of year | <u>\$ 412,094</u> |

LOCAL AGENCY FORMATION COMMISSION
FOR THE COUNTY OF LOS ANGELES

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

7. OTHER POST-EMPLOYMENT BENEFITS PLAN (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 2015 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> |
|----------------------------------|---------------------------------|--|------------------------------------|
| 6/30/13 | \$ 71,197 | 9.09% | \$ 266,127 |
| 6/30/14 | 81,687 | 8.03% | 341,253 |
| 6/30/15 | 81,748 | 12.24% | 412,094 |

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.

LOCAL AGENCY FORMATION COMMISSION
FOR THE COUNTY OF LOS ANGELES

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

7. OTHER POST-EMPLOYMENT BENEFITS PLAN (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% |

8. 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> |
|----------------------------|-------------------|
| 2016 | \$ 101,379 |
| 2017 | 86,700 |
| 2018 | 89,301 |
| 2019 | 91,980 |
| 2020 | 94,739 |
| Thereafter | <u>138,740</u> |
| Total | <u>\$ 602,839</u> |

Total rent expense for the year ended June 30, 2015 amounted to \$108,645.

LOCAL AGENCY FORMATION COMMISSION
FOR THE COUNTY OF LOS ANGELES

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

9. RESTATEMENT OF PRIOR YEAR FINANCIAL STATEMENTS:

The implementation of GASB Statement Numbers 68 and 71 requires reporting the net pension liability of the Commission's defined benefit pension plan in the financial statements and is applied retroactively by restating the net position as of the beginning of the fiscal year. The implementation of GASB Numbers 68 and 71 resulted in a reduction of net position by \$660,000 as of July 1, 2014.

10. SUBSEQUENT EVENTS:

Events occurring after June 30, 2015 have been evaluated for possible adjustments to the financial statements or disclosure as of February 1, 2016, which is the date these financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

LOCAL AGENCY FORMATION COMMISSION
FOR THE COUNTY OF LOS ANGELES

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Last Ten Fiscal Years*

| | <u>2015</u> |
|---|--------------|
| Proportion of the net pension liability | 0.008% |
| Proportionate share of the net pension liability | \$ 580,000 |
| Plan's covered - employee payroll | \$ 575,750 |
| Proportionate share of the net pension liability as a percentage of covered - employee payroll | 100.74% |
| Plan's fiduciary net position | \$ 3,817,782 |
| Plan fiduciary net position as a percentage of the total pension liability | 86.80% |

Notes to Schedule:

Benefit Changes:

There were no changes in benefits.

Changes in Assumptions:

There were no changes in assumptions.

* - Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

LOCAL AGENCY FORMATION COMMISSION
FOR THE COUNTY OF LOS ANGELES

SCHEDULE OF CONTRIBUTIONS - DEFINED BENEFIT PENSION PLAN

Last Ten Fiscal Years*

| | <u>2015</u> |
|---|------------------|
| Contractually required contribution (actuarially determined) | \$ 116,988 |
| Contributions in relation to the actuarially determined contributions | <u>(116,988)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> |
| Covered - employee payroll | \$ 594,657 |
| Contributions as a percentage of covered - employee payroll | 19.67% |

Notes to Schedule:

Valuation Date 6/30/2013

Methods and Assumptions Used to Determine Contribution Rates:

| | |
|-------------------------------|--|
| Cost sharing employers | Entry Age Actuarial Cost Method |
| Amortization method | Level percentage of payroll over a 30 year period, layered |
| Remaining amortization period | 30 years |
| Asset valuation method | 5-year smoothed market |
| Inflation | 3.00% |
| Salary increases | 3.50% depending on age, service and type of employment |
| Investment rate of return | 7.50%, net of pension plan investment expenses |
| Retirement age | 50-67 years |
| Mortality | Various rates based on RP-2000 mortality tables and using static projection of improvements to 2025 using Projection Scale AA. |

* - Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

LOCAL AGENCY FORMATION COMMISSION
FOR THE COUNTY OF LOS ANGELES

SCHEDULE OF FUNDING PROGRESS

OTHER POST-EMPLOYMENT BENEFITS PLAN

For the year ended June 30, 2015

| 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% |

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, 2015, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated February 1, 2016.

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 Nick Evans LLP

Irvine, California

February 1, 2016