

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

BASIC FINANCIAL STATEMENTS

Year Ended June 30, 2019

(With Independent Auditor's Report Thereon)

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

Basic Financial Statements

Year Ended June 30, 2019

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INDEPENDENT AUDITOR'S REPORT

The Commission Members
Los Angeles Local Agency Formation Commission
Pasadena, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Local Agency Formation Commission for the County of Los Angeles (the Commission) as of June 30, 2019, 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.

Auditor's Responsibility

Our responsibility is to express opinions 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 auditor's 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and each major fund of the Commission, as of June 30, 2019, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Emphasis of Matter

The financial statements for the year ended June 30, 2019 reflect a certain prior period adjustment related to OPEB Plan assets based on guidance from a recently issued Governmental Accounting Standards Board (GASB) Implementation Guide, as described further in note 8 to the financial statements. Our opinion is not modified with respect to this matter.

Prior Year Comparative Financial Statements

We have previously audited the Commission's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 8, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management Discussion and Analysis, budgetary comparison information, the Schedule of the Plan's Proportionate Share of the Net Pension Liability, the Schedule of Plan Contributions for the Defined Benefit Pension Plan, the Schedule of the Proportioned Share of the Net OPEB Liability, the Schedule of Plan Contributions for the Defined Benefit OPEB Plan and the Schedule of Collective OPEB Expense for the Defined Benefit OPEB Plan be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our 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 12, 2019 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.

A handwritten signature in blue ink that reads "Davis Sun UP". The signature is written in a cursive style.

Irvine, California
December 12, 2019

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**LOS ANGELES COUNTY
LOCAL AGENCY FORMATION COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2019**

The following management's 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, 2019. 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 has been considered 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.

**LOS ANGELES COUNTY
LOCAL AGENCY FORMATION COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2019 (CONTINUED)**

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

**Table 1
Statements of Net Position
June 30, 2019 and 2018**

| | <u>2019</u> | <u>2018</u> | <u>Change</u> | <u>%</u> |
|--|-------------------|-------------------|-------------------|----------------|
| ASSETS & DEFERRED OUTFLOWS: | | | | |
| Current assets | \$ 1,981,188 | \$ 1,649,980 | \$ 331,208 | 20.07% |
| Capital assets, net | 13,026 | 7,870 | 5,156 | 65.51% |
| Total assets | <u>1,994,214</u> | <u>1,657,850</u> | <u>336,364</u> | <u>20.29%</u> |
| Deferred outflows of resources | <u>549,911</u> | <u>617,432</u> | <u>(67,521)</u> | <u>-10.94%</u> |
| LIABILITIES, DEFERRED INFLOWS & NET POSITION: | | | | |
| Current liabilities | 80,504 | 98,325 | (17,821) | -18.12% |
| Long-term liabilities | <u>1,775,105</u> | <u>1,720,382</u> | <u>54,723</u> | <u>3.18%</u> |
| Total liabilities | <u>1,855,609</u> | <u>1,818,707</u> | <u>36,902</u> | <u>2.03%</u> |
| Deferred inflows of resources | <u>433,000</u> | <u>334,000</u> | <u>99,000</u> | <u>29.64%</u> |
| Investment in capital assets | 13,026 | 7,870 | 5,156 | 65.51% |
| Unrestricted | <u>242,490</u> | <u>114,705</u> | <u>127,785</u> | <u>111.40%</u> |
| Total net position | <u>\$ 255,516</u> | <u>\$ 122,575</u> | <u>\$ 132,941</u> | <u>108.46%</u> |

Total assets have increased by \$336,364, or 20%, primarily due to an increase in the Commissions cash and investments. Current liabilities have decreased by 18% due primarily to a decrease in accounts payable. Long-term liabilities have increased 3% due an increase in the Commission's net OPEB (Other Post Employment Benefits) liability and net pension liability. Net position increased 108% with the change in net position for the year ended June 30, 2019 of \$132,941.

**LOS ANGELES COUNTY
LOCAL AGENCY FORMATION COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2019 (CONTINUED)**

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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.

**Statements of Activities
For the Years Ended June 30, 2019 and 2018**

| | <u>2019</u> | <u>2018</u> | <u>Change</u> | <u>%</u> |
|----------------------------------|-------------------|-------------------|-------------------|----------------|
| REVENUES: | | | | |
| Assessments | \$ 1,322,443 | \$ 1,322,443 | \$ - | 0.00% |
| Charges for services | 107,141 | 123,444 | (16,303) | -13.21% |
| Operating Grants & Contributions | 126,000 | - | 126,000 | 0.00% |
| Investment income | 76,369 | 19,980 | 56,389 | 282.23% |
| Total revenues | <u>1,631,953</u> | <u>1,465,867</u> | <u>166,086</u> | <u>11.33%</u> |
| EXPENSES: | | | | |
| General government | 1,499,012 | 1,259,348 | 239,664 | 19.03% |
| Total expenses | <u>1,499,012</u> | <u>1,259,348</u> | <u>239,664</u> | <u>19.03%</u> |
| Change in net position | 132,941 | 206,519 | (73,578) | -35.63% |
| NET POSITION: | | | | |
| Beginning of year | 122,575 | 330,624 | (208,049) | -63% |
| Adjustment for GASB 75 | - | (414,568) | 414,568 | 1.00% |
| End of year | <u>\$ 255,516</u> | <u>\$ 122,575</u> | <u>\$ 132,941</u> | <u>108.46%</u> |

Investment income increased significantly due to rising interest rates and the interest earned by the California Employers' Retiree Benefit Trust (CERBT) Fund, which was established in FY 18-19. Expenses increased by \$239,664 primarily due to contributions made to the Commission's CERBT Fund. An increase of \$40,275 in services and supplies was largely due to an increase in legal services, mostly associated with legal challenges, and the Commission initiated dissolution of a local water district. Of the \$1,499,012 of general government expenses, \$98,432 is due to GASB 68 Pension expenses and \$46,000 is due to GASB 75 Retiree Health expenses. The GASB 68 and 75 expenses are non-cash expenses that affect financial reporting that do not affect cash outflow.

**LOS ANGELES COUNTY
LOCAL AGENCY FORMATION COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2019 (CONTINUED)**

MAJOR FUNDS

Major Governmental Funds. The **General Fund** is the only fund of the Commission, and is considered to be a governmental fund for financial reporting purposes.

GENERAL FUND BUDGET

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

Revenues

Fee revenues or Filing Fees are projections generally based on prior year filing fees. These fees are variable and mostly related to development as the need for municipal services increases. The majority of filing fees submitted to this LAFCO office are for annexation to sanitation districts, followed by water districts for wastewater services and water services, respectively. Fee revenues for FYs 17-18 and 18-19 were greater than the budgeted amounts. In comparison, the revenue account categories were slightly different. The filing fees for FY 18-19 were less than the prior fiscal year by approximately \$16,000. Overall, total revenues in FY 18-19 were higher due to Investment income, mostly related to the CERBT fund account established by the Commission.

Expenses

Overall, total expenses were approximately \$17,000 under budget. The two categories of expenditures beyond what was budgeted—approximately \$12,000 in services and supplies, and approximately \$11,000 in professional fees—were more than offset by expenditures of less than what was budgeted for approximately \$48,000 in salaries and benefits.

**Capital Assets
June 30, 2019 and 2018**

| | <u>2019</u> | <u>2018</u> | <u>Change</u> |
|------------------------|------------------|-----------------|-----------------|
| Leasehold improvements | \$ 19,454 | \$ 11,329 | \$ 8,125 |
| Office equipment | 12,696 | 12,696 | - |
| Furniture and fixtures | - | - | - |
| Capital assets | 32,150 | 24,025 | 8,125 |
| Accum depreciation | (19,124) | (16,155) | (2,969) |
| Capital assets, net | <u>\$ 13,026</u> | <u>\$ 7,870</u> | <u>\$ 5,156</u> |

At the end of fiscal year 2018, the Commission's investment in capital assets amounted to \$13,026 (net of accumulated depreciation). This investment in capital assets includes equipment, furniture & fixtures and tenant improvements. (See Note 3 for further information)

**LOS ANGELES COUNTY
LOCAL AGENCY FORMATION COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2019 (CONTINUED)**

**Long-term Liabilities
June 30, 2019 and 2018**

| | 2019 | 2018 | Change |
|----------------------|-------------|-------------|---------------|
| Compensated Absences | \$ 102,551 | \$ 88,218 | \$ 14,333 |

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 4 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.

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
Statement of Net Position
June 30, 2019
(With comparative information for the prior year)**

| | Governmental Activities | |
|---|-------------------------|-----------|
| | 2019 | 2018 |
| Assets: | | |
| Cash and investments (note 2) | \$ 1,653,550 | 1,618,378 |
| Restricted cash and investments (note 2) | 214,713 | - |
| Accounts receivable | 721 | 8,118 |
| Interest receivable | 3,181 | 3,817 |
| Prepaid expenses | 100,791 | 11,435 |
| Security deposits | 8,232 | 8,232 |
| Capital assets, net (note 3) | 13,026 | 7,870 |
| Total assets | 1,994,214 | 1,657,850 |
| Deferred outflow of resources: | | |
| Deferred outflows - pension contributions (note 5) | 118,911 | 106,432 |
| Deferred outflows - pension actuarial (note 5) | 334,000 | 288,000 |
| Deferred outflows - OPEB contribution (note 6) | 22,000 | 223,000 |
| Deferred outflows - OPEB actuarial (note 6) | 75,000 | - |
| Total deferred outflow of resources | 549,911 | 617,432 |
| Liabilities: | | |
| Accounts payable | 18,226 | 44,877 |
| Long-term liabilities (notes 4 to 6): | | |
| Due within one year: | | |
| Compensated absences | 49,738 | 43,668 |
| Deferred rent obligation | 12,540 | 9,780 |
| Due beyond one year: | | |
| Compensated absences | 52,813 | 44,550 |
| Deferred rent obligation | 22,292 | 34,832 |
| Net OPEB liability | 952,000 | 940,000 |
| Net pension liability | 748,000 | 701,000 |
| Total liabilities | 1,855,609 | 1,818,707 |
| Deferred inflow of resources: | | |
| Deferred inflow of resources - pension actuarial (note 5) | 257,000 | 266,000 |
| Deferred inflow of resources - OPEB actuarial (note 6) | 176,000 | 68,000 |
| Total deferred inflow of resources | 433,000 | 334,000 |
| Net position: | | |
| Investment in capital assets | 13,026 | 7,870 |
| Unrestricted | 242,490 | 114,705 |
| Total net position | \$ 255,516 | 122,575 |

See accompanying notes to the basic financial statements

**LOCAL AGENCY FORMATION COMMISSION
FOR THE COUNTY OF LOS ANGELES
Statement of Activities
Year Ended June 30, 2019
(With comparative information for the prior year)**

| <u>Functions/Programs</u> | <u>Expenses</u> | <u>Program Revenues</u> | | | <u>Net (Expense) Revenue and Changes in Net Position - Governmental Activities</u> | |
|---|---------------------|---------------------------------|---|---|--|--------------------|
| | | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | <u>Capital Grants and Contributions</u> | <u>2019</u> | <u>2018</u> |
| Governmental activities: | | | | | | |
| General government | \$ 1,499,012 | 107,141 | 126,000 | - | (1,265,871) | (1,135,904) |
| Total governmental activities | <u>\$ 1,499,012</u> | <u>107,141</u> | <u>126,000</u> | <u>-</u> | <u>(1,265,871)</u> | <u>(1,135,904)</u> |
| General revenues: | | | | | | |
| Apportionment | | | | | 1,322,443 | 1,322,443 |
| Investment income | | | | | 76,369 | 19,980 |
| Total general revenues | | | | | <u>1,398,812</u> | <u>1,342,423</u> |
| Change in net position | | | | | 132,941 | 206,519 |
| Net position (deficit), beginning of year | | | | | <u>122,575</u> | <u>(83,944)</u> |
| Net position, end of year | | | | | <u>\$ 255,516</u> | <u>122,575</u> |

See accompanying notes to the basic financial statements

**LOCAL AGENCY FORMATION COMMISSION
FOR THE COUNTY OF LOS ANGELES
Governmental Funds
Balance Sheet
June 30, 2019**

| | <u>General Fund</u> |
|--|-------------------------|
| <u>Assets</u> | |
| Cash and investments | \$ 1,653,550 |
| Restricted cash and investments | 214,713 |
| Accounts receivable | 721 |
| Interest receivable | 3,181 |
| Prepaid expenses | 100,791 |
| Security deposits | <u>8,232</u> |
| Total assets | <u>\$ 1,981,188</u> |
| <u>Liabilities and Fund Balance</u> | |
| Liabilities: | |
| Accounts payable | \$ <u>18,226</u> |
| Total liabilities | <u>18,226</u> |
| Fund balance: | |
| Nonspendable: | |
| Prepaid expenses and deposits | 109,023 |
| Restricted for OPEB plan | 214,713 |
| Unassigned | <u>1,639,226</u> |
| Total fund balance | <u>1,962,962</u> |
| Total liabilities and fund balance | <u>\$ 1,981,188</u> |

See accompanying notes to the basic financial statements

**LOCAL AGENCY FORMATION COMMISSION
FOR THE COUNTY OF LOS ANGELES
Governmental Funds
Reconciliation of the Balance Sheet of
Governmental Funds to the Statement of Net Position
June 30, 2019**

| | |
|-------------------------------------|--------------|
| Fund balances of governmental funds | \$ 1,962,962 |
|-------------------------------------|--------------|

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital Related Items

When capital assets (property, plant, equipment) that are to be used in governmental activities are purchased or constructed, the cost of those assets are reported as expenditures in governmental funds. However, the Statement of Net Position includes those capital assets among the assets of the Commission as a whole.

| | |
|--------------------------|----------|
| Capital assets | 32,150 |
| Accumulated depreciation | (19,124) |

Long-Term Liability Transactions

Long-term liabilities applicable to the Commission's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities. All liabilities (both current and long-term) are reported in the Statement of Net Position.

| | |
|--------------------------|-----------|
| Compensated absences | (102,551) |
| Deferred rent obligation | (34,832) |
| Net OPEB liability | (952,000) |
| Net pension liability | (748,000) |

Deferred Outflows and Inflows of Resources

Certain deferred outflows and inflows of resources are not due and payable in the current period and are not current assets or financial resources, therefore these items are not reported in the governmental funds.

| | |
|-----------------------------------|------------------|
| Deferred outflows - contributions | 140,911 |
| Deferred outflows - actuarial | 409,000 |
| Deferred inflows - actuarial | <u>(433,000)</u> |

| | |
|---|-------------------|
| Net position of governmental activities | <u>\$ 255,516</u> |
|---|-------------------|

**LOCAL AGENCY FORMATION COMMISSION
FOR THE COUNTY OF LOS ANGELES
Governmental Funds
Statement of Revenues, Expenditures and
Changes in Fund Balances
Year Ended June 30, 2019**

| | <u>General Fund</u> |
|--|---------------------|
| Revenues: | |
| Apportionment | \$ 1,322,443 |
| Filing fees | 100,920 |
| Charges for services | 6,221 |
| Investment income | 76,369 |
| Total revenues | 1,505,953 |
| Expenditures: | |
| Current: | |
| General government: | |
| Salaries and benefits | 928,270 |
| Services and supplies | 254,693 |
| Professional fees | 157,006 |
| Capital outlay | 8,125 |
| Total expenditures | 1,348,094 |
| Excess (deficiency) of revenues over (under) expenditures | 157,859 |
| Fund balances at beginning of year, as restated (note 8) | 1,805,103 |
| Fund balances at end of year | \$ 1,962,962 |

See accompanying notes to the basic financial statements

**LOCAL AGENCY FORMATION COMMISSION
FOR THE COUNTY OF LOS ANGELES
Governmental Funds
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances to the Statement of Activities
Year Ended June 30, 2019**

Net changes in fund balances - total governmental funds \$ 157,859

Amounts reported for governmental activities in the Statement of Activities are different because:

Capital Related Items

When capital assets that are to be used in governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in governmental funds. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

| | |
|----------------------|---------|
| Capital expenditures | 8,125 |
| Depreciation expense | (2,969) |

Long-Term Liability Transactions

Some expenses reported in the Statement of Activities do not require the use of current financial resources. Therefore, these expenses are not reported as expenditures in governmental funds. Repayment of debt service is reported as an expenditure in governmental funds and, thus, has the effect of reducing fund balances because current financial resources have been used. For the Commission as a whole, however, the principal payments reduce the liabilities in the Statement of Net Position and do not result in an expense in the Statement of Activities.

| | |
|---|-----------------------|
| Net change in net pension liability | 20,479 |
| Net change in net OPEB obligation | (46,000) |
| Net change in deferred rent obligation | 9,781 |
| Net change in compensated absences | <u>(14,334)</u> |
| Change in net position of governmental activities | <u>\$ 132,941</u> |

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

Notes to Financial Statements

Year Ended June 30, 2019

1) Summary of Significant Accounting Policies

a. Description of the Reporting 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.

b. Basis of Accounting and Measurement Focus

The *basic financial statements* of the Commission are composed of the following:

- (a) Government-wide financial statements
- (b) Fund financial statements
- (c) Notes to the basic financial statements

Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the Commission.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a function or segment. Program revenues include charges for services that are restricted to meeting the operational or capital requirements of a particular function or segment. Assessments, investment income, and other items not properly included among program revenues are reported instead as general revenues.

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

Notes to Financial Statements

(Continued)

1) Summary of Significant Accounting Policies, (Continued)

Government-wide financial statements are presented using the *economic resources measurement focus* and the *accrual basis of accounting*. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the reporting government are reported in the government-wide financial statements. *Basis of accounting* refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Under the *accrual basis of accounting*, revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB Statement No. 33.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as expenditures. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as other financing sources. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as expenditures.

Fund Financial Statements

In the fund financial statements, governmental funds are presented using the *modified accrual basis of accounting*. Revenues are recognized when they become *measurable* and *available* as net current assets. *Measurable* means that the amounts can be estimated or otherwise determined. *Available* means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. The Commission uses an availability period of 60 days for all revenues.

Charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period to the extent normally collected within the availability period. Other revenue items are considered to be measurable and available where cash is received from the government.

In the fund financial statements, governmental funds are presented using the *current financial resources measurement focus*. This means that only current assets and current liabilities are generally included on their balance sheets. The reported fund balance (net current assets) is considered to be a measure of "available spendable resources." Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Due to the nature of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by noncurrent liabilities. Since they do not affect net current position, such long-term amounts are not recognized as

**LOCAL AGENCY FORMATION COMMISSION
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Notes to Financial Statements

(Continued)

1) Summary of Significant Accounting Policies, (Continued)

governmental fund type expenditures or fund liabilities.

Amounts expended to acquire capital assets are recorded as *expenditures* in the year that resources were expended, rather than as fund assets. The proceeds of long-term debt are recorded as *other financing sources* rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

Governmental Fund Balances

Fund balances are reported in the fund statements in the following classifications:

Nonspendable Fund Balance

Nonspendable Fund Balance – this includes amounts that cannot be spent because they are either not spendable in form (such as inventory) or legally or contractually required to be maintained intact (such as endowments).

Spendable Fund Balance

Restricted Fund Balance – this includes amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation. If the Commission action limiting the use of funds is included in the same action (legislation) that created (enables) the funding source, then it is restricted.

Committed Fund Balance – this includes amounts that can be used only for the specific purposes determined by a formal action of the Commission. It includes legislation (Commission action) that can only be overturned by new legislation requiring the same type of voting consensus that created the original action. Therefore, if the Commission action limiting the use of the funds is separate from the action (legislation) that created (enables) the funding source, then it is committed, not restricted. The Commission considers a resolution, to constitute a formal action of the Board of Commissioners for the purposes of establishing committed fund balance.

Assigned Fund Balance – this includes amounts that are designated or expressed by the Commission but does not require a formal action like a resolution or ordinance. The Commission may delegate the ability of an employee or committee to assign uses of specific funds, for specific purposes. Such delegation of authority has not yet been granted.

Unassigned Fund Balance – this includes the remaining spendable amounts which are not included in one of the other classifications.

Net Position Flow Assumption – Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net

**LOCAL AGENCY FORMATION COMMISSION
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Notes to Financial Statements

(Continued)

1) Summary of Significant Accounting Policies, (Continued)

position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Fund Balance Flow Assumption – Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned, fund balance in the governmental fund financial statements flow assumption must be made about the order in which the resources are considered to be applied. It is the government’s policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as a separate column in the fund financial statements.

The Commission reports the following major governmental fund:

The General Fund is used to account for resources traditionally associated with the organization, which are not required legally or by sound financial management to be accounted for in another fund.

c. Cash and Investments

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.

Investments are reported in the accompanying balance sheet at fair value, except for certain certificates of deposit and investment contracts that are reported at cost because they are not transferable, and they have terms that are not affected by changes in market interest rates. Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation, maturity, or sale of investments.

d. Fair Value Measurements

Certain assets and liabilities are required to be reported at fair value. The fair value framework provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy are described as follows:

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Notes to Financial Statements

(Continued)

1) Summary of Significant Accounting Policies, (Continued)

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly and fair value is determined through the use of models or other valuation methodologies including:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in markets that are inactive;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement. These unobservable inputs reflect the Commission's own assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). These unobservable inputs are developed based on the best information available in the circumstances and may include the Commission's own data.

e. Capital Assets

Capital assets are recorded at cost for purchases in excess of \$1,000. Capital assets used in operations are depreciated over their estimated useful lives using the straight-line method in the government-wide financial statements. Depreciation is charged as an expense against operations and accumulated depreciation is reported on the respective balance sheet. Estimated useful lives of the assets are as follows:

| | |
|------------------------|-------------|
| Office equipment | 3 - 5 years |
| Furniture and fixtures | 3 - 5 years |
| Tenant improvements | 10 years |

f. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial 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 a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Commission reports deferred outflows related to the pension and OPEB liabilities resulting from actuarial calculations and pension and OPEB contributions made subsequent to the measurement date.

In addition to liabilities, the statement of financial 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 a future period(s) and so will not be recognized as an inflow of resources

**LOCAL AGENCY FORMATION COMMISSION
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Notes to Financial Statements

(Continued)

1) Summary of Significant Accounting Policies, (Continued)

(revenue) until that time. The Commission reports deferred inflows related to the pension and OPEB liabilities resulting from actuarial calculations.

g. Deferred Rent Obligation

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 \$34,832 at June 30, 2019.

h. Compensated Absences

Permanent Los Angeles LAFCO employees earn from approximately 5 to 16 vacation days a year and approximately 5 to 10 sick days a year, depending on their length of employment. Upon termination or retirement, permanent employees are entitled to receive compensation at their current base salary for all unused vacation leave and 50% of unused sick leave, up to the maximum hours specified in individual employment contracts.

i. 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. LACERA audited financial statements are publicly available reports that can be obtained at LACERA's website under Forms and Publications.

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

| | |
|-------------------------|-------------------------------|
| Valuation Date (VD) | June 30, 2017 |
| Measurement Date (MD) | June 30, 2018 |
| Measurement Period (MP) | July 1, 2017 to June 30, 2018 |

j. Other Post-Employment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of LAFCO's plan (Plan) additions to/deductions from the OPEB Plan's fiduciary net position have been determined by an independent actuary. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

Notes to Financial Statements

(Continued)

1) Summary of Significant Accounting Policies, (Continued)

Generally accepted accounting principles require that the reported results must pertain to liability and fiduciary net position information within certain defined timeframes. For this report, the following timeframes are used:

| | |
|-------------------------|-------------------------------|
| Valuation Date (VD) | July 1, 2017 |
| Measurement Date (MD) | June 30, 2018 |
| Measurement Period (MP) | July 1, 2017 to June 30, 2018 |

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.

l. Prior Year Data

Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Commission's prior year financial statements, from which this selected financial data was derived. Certain minor reclassifications of prior year data have been made in order to enhance their comparability with current year figures.

2) Cash and Investments

Cash and investments as of June 30, 2019, consist of the following:

| | |
|--|---------------------|
| Demand deposits | \$ 97,360 |
| Cash held by the County of Los Angeles | <u>1,556,190</u> |
| Total | <u>\$ 1,653,550</u> |

Restricted cash and investments as of June 30, 2019, consist of the following:

| | |
|----------------------|-------------------|
| Cash held with CERBT | <u>\$ 214,713</u> |
|----------------------|-------------------|

Investments Authorized by California Government Code and the Commission's Investment Policy

The table below identifies the investment types that are authorized for the Commission by the California Government Code Section 53601. The table also identifies certain provisions of the California Government Code that address interest rate risk, credit risk, and concentration of credit risk.

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

Notes to Financial Statements

(Continued)

2) Cash and Investments, (Continued)

| <u>Type of Investment</u> | <u>Maximum Maturity</u> | <u>Maximum Percentage of Portfolio</u> | <u>Maximum Investment in One Issuer</u> |
|-------------------------------------|-------------------------|--|---|
| U.S. Treasury securities | 5 years | 100% | none |
| Federal agency securities | 5 years | 100% | none |
| Bankers' acceptances | 180 days | 40% | 30% |
| Commercial paper | 180 days | 25% | 10% |
| Negotiable CDs | 5 years | 30% | none |
| Repurchase agreements | 90 days | 50% | none |
| Corporate bonds | 5 years | 30% | none |
| Mutual funds | n/a | 15% | 10% |
| Local Agency Investment Fund (LAIF) | n/a | none | 100% |

Each of the maximums included in the table above are based upon state law requirements or investment policy requirements, whichever is more restrictive.

Disclosures Relating to 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, 2019, the Commission's funds are held as short-term deposits in the Los Angeles County Treasury Pool.

Disclosures Relating to Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Los Angeles County Treasury Pool is not rated.

Disclosures Relating to Custodial Credit Risk

Custodial credit risk is 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.

Fair Value Measurement

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

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

Notes to Financial Statements

(Continued)

2) Cash and Investments, (Continued)

of the pool shares, which amounted to \$1,556,190 as of June 30, 2019. This investment is not required to be categorized within the fair value hierarchy.

Cash held with CERBT

The California Employers' Retiree Benefit Trust (CERBT) is administered by the California Public Employees' Retirement System (CalPERS). The CERBT consists of participating employers of the State of California, public agencies and schools. CalPERS is governed by the Board of Administration that is responsible for the management and control of CalPERS, including the exclusive control of the administration of and investment of CERBT. A portion of the CERBT is invested in LAIF.

CERBT is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the CERBT's investment in this pool is based upon the CERBT's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

3) Capital Assets

Capital asset activity for the year ended June 30, 2019 was as follows:

| | Balance at July 1, 2018 | Additions | Deletions | Balance at June 30, 2019 |
|------------------------------------|----------------------------|----------------|-----------|-----------------------------|
| Capital assets: | | | | |
| Office equipment | \$ 12,696 | - | - | 12,696 |
| Tenant improvements | 11,329 | 8,125 | - | 19,454 |
| Total capital assets | <u>24,025</u> | <u>8,125</u> | <u>-</u> | <u>32,150</u> |
| Less accumulated depreciation for: | | | | |
| Office equipment | (8,530) | (1,431) | - | (9,961) |
| Tenant improvements | (7,625) | (1,538) | - | (9,163) |
| Total accumulated depreciation | <u>(16,155)</u> | <u>(2,969)</u> | <u>-</u> | <u>(19,124)</u> |
| Total capital assets, net | <u>\$ 7,870</u> | <u>5,156</u> | <u>-</u> | <u>13,026</u> |

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

Notes to Financial Statements

(Continued)

4) Compensated Absences Payable

Compensated absences payable activity for the year ended June 30, 2019, was as follows:

| | |
|--|-------------------|
| Compensated absences payable at beginning of | \$ 88,218 |
| Compensated absences payable earned | 55,885 |
| Compensated absences payable used | <u>(41,552)</u> |
| Compensated absences payable at end of year | <u>\$ 102,551</u> |

Compensated absences expected to be paid within one year is \$49,738 at June 30, 2019.

5) 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.

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

Notes to Financial Statements

(Continued)

5) Pension Plan, (Continued)

The Plan's provisions and benefits in effect at June 30, 2019, are summarized as follows:

| | General | | |
|--|-----------------------------|--|--------------------------------|
| | Prior to January 1, 2013 | If elected, on or after January 4, 1982 and before November 28, 2012 | On or After January 1, 2013 |
| Hire date | | | |
| Plan name | 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 | 18.51% | 17.49% | 18.53% |

(1) Based on age at entry into the Plan

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

Notes to Financial Statements

(Continued)

5) 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.

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, 2018, 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, 2017. 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 following table shows the Commission's proportionate share of the net pension liability over the measurement period:

| | <u>Net Pension Liability</u> |
|------------------------|------------------------------|
| Balance at: 06/30/2017 | \$701,000 |
| Balance at: 06/30/2018 | 748,000 |
| Net change during 2018 | 47,000 |

The Commission's proportionate share of the net pension liability for the Plan as of June 30, 2017 and 2018 was as follows:

| | <u>General</u> |
|------------------------------|----------------|
| Proportion – June 30, 2017 | 0.00621% |
| Proportion – June 30, 2018 | 0.00695% |
| Change – Increase (Decrease) | 0.00074% |

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

Notes to Financial Statements

(Continued)

5) Pension Plan, (Continued)

For the year ended June 30, 2019, the Commission recognized pension expense of \$98,432. At June 30, 2018, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| OPEB contributions subsequent to the measurement date | \$118,911 | - |
| Changes in assumptions | 161,000 | - |
| Differences between expected and actual experience | 19,000 | (47,000) |
| Changes in proportion | 154,000 | (180,000) |
| Net difference between projected and actual earnings on OPEB plan investments | <u> -</u> | <u>(30,000)</u> |
| Totals | <u>\$452,911</u> | <u>(257,000)</u> |

The deferred outflows of resources related to contributions subsequent to the measurement date of \$118,911 will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

| <u>Fiscal Year Ending June 30</u> | <u>Amount</u> |
|---------------------------------------|---------------|
| 2020 | \$ 44,394 |
| 2021 | 21,920 |
| 2022 | (28,147) |
| 2023 | 6,950 |
| 2024 | 25,233 |
| Thereafter | 6,650 |

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

Notes to Financial Statements

(Continued)

5) Pension Plan, (Continued)

Actuarial Assumptions

The total pension liabilities in the June 30, 2017 actuarial valuations were determined using the following actuarial assumptions:

| | |
|--------------------------------|-----------------------------|
| Valuation Date | June 30, 2017 |
| Measurement Date | June 30, 2018 |
| Actuarial Cost Method | Individual Entry Age Normal |
| Actuarial Assumptions: | |
| Discount Rate | 7.38% |
| Investment Rate of Return | 7.25% |
| Inflation | 2.75% |
| Cost of Living Adjustments (1) | |
| Mortality (2) | |

(1) As noted in the June 30, 2017 actuarial valuation, with one modification: STAR COLA benefits are assumed to be substantively automatic at the 80% purchasing power level until the STAR reserve is projected to be insufficient to pay further STAR benefits.

(2) Various rates based on RP-2014 mortality tables and using MP-2014 Ultimate Projection Scale. See June 30, 2017 actuarial valuation for details.

Discount Rate

The discount rate to measure the total pension liability is 7.38 percent. The rate reflects the long-term assumed rate of return on assets for funding purposes of 7.25 percent, net of all expenses, increased by .13 percent, gross administrative expenses.

The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employer's will be made at rates equal to the difference between actuarially determined contribution rates and the member rates. Based on those assumptions, the plan's fiduciary net position was projected to be sufficient to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine total pension liability.

The long-term expected rate of return on pension plan investments was determined using a building-block approach in which best-estimate ranges of expected future real rates of returns (expected return, net of investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation. The target allocation and best estimates of the geometric real rates of return for each major asset class are summarized in the following table. The asset class return assumptions

**LOCAL AGENCY FORMATION COMMISSION
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Notes to Financial Statements

(Continued)

5) Pension Plan, (Continued)

are presented on a real basis, after the effects of inflation, and all assumptions incorporate a base inflation rate assumption of 2.75 percent.

| <u>Asset Class</u> | <u>Target Allocation</u> | 2018 Weighted-average Long- term Expected <u>Real Rate of Return</u> |
|---------------------|--------------------------|--|
| Global Equity | 43.40% | 5.70% |
| Fixed Income | 26.60% | 2.60% |
| Real Estate | 11.00% | 4.60% |
| Private Equity | 10.00% | 6.90% |
| Commodities | 2.80% | 1.60% |
| Hedge Funds | 4.20% | 3.10% |
| Other Opportunities | 0.00% | 4.50% |
| Cash | <u>2.00%</u> | -0.20% |
| Total | <u>100.00%</u> | |

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:

| | Discount Rate - 1% (6.38%) | Current Discount Rate (7.38%) | Discount Rate + 1% (8.38%) |
|---|----------------------------------|-------------------------------------|----------------------------------|
| Commission's proportionate share of the Net Pension Liability | \$1,377,000 | \$748,000 | \$227,000 |

Pension Plan Fiduciary Net Position

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

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

Notes to Financial Statements

(Continued)

6) Other Post-Employment Benefits Plan

a. Plan Description

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.

As defined by the accounting standards, the arrangement of OPEB benefits being provided the Los Angeles County Retirement Association is considered a special funding situation in which a non-employer entity (LACERA) is legally responsible for providing certain of forms of financial support for the employees of another entity (Commission). For the measurement period ending June 30, 2018, LACERA paid \$126,000 for the Commission's proportionate share of collective OPEB expense.

b. Employees Covered

The following employee statistics as of June 30, 2017 were used in the actuarial valuation:

| | |
|-----------------------------------|-----------|
| Active employees | 6 |
| Inactive – receiving benefits | 3 |
| Inactive – not receiving benefits | <u>2</u> |
| Total participants | <u>11</u> |

c. Contributions

During the fiscal year ending June 30, 2018, the Commission opened a trust account with CERBT dedicated to providing benefits to retirees in accordance with the terms of the plan and that are legally protected from creditors.

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.

d. Actuarial Methods and Assumptions Used to Determine Total Pension Liability

The June 30, 2018 OPEB liabilities were based on the following actuarial methods and assumptions:

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

Notes to Financial Statements

(Continued)

6) Other Post-Employment Benefits Plan, (Continued)

| | |
|--|---|
| Valuation Date | July 1, 2017 |
| Measurement Date | June 30, 2018 |
| Actuarial Cost Method | Individual Entry Age Normal |
| Actuarial Assumptions: | |
| Discount Rate | 5.11% |
| Inflation | 2.75% |
| General Wage Increases, including Inflation | 3.25% |
| Mortality | Refer to pages A-4 and A-5 of the July 1, 2017 OPEB Valuation Report |

e. Discount Rate

| | |
|--|-------|
| Discount Rate | 5.11% |
| Long-term expected rate of return, net of investment expenses | 6.30% |
| 20 Year Tax-Exempt Municipal Bond Yield | 3.87% |

The plan's fiduciary net position was not projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total OPEB liability is equal to the single equivalent rate that results in the same actuarial present value as the long-term expected rate of return applied to benefit payments, to the extent that the plan's fiduciary net positions is projected to be sufficient to make projected benefit payments, and the municipal bond rate applied to benefit payments, to the extent that the plan's fiduciary net position is not projected to be sufficient.

The long term expected rate of return on OPEB plan investments was determined using a building-block method in which the best-estimate ranges of expected future real rates of return (expected return, net of investment expenses and inflation) are developed for each major class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table. The asset class return assumptions are presented on a real basis, after the effects of inflation, and all assumptions incorporate a based inflation rate assumption of 2.75 percent. The expected geometric nominal return (30 years) as of June 30, 2018 was 6.30%.

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

Notes to Financial Statements

(Continued)

6) Other Post-Employment Benefits Plan, (Continued)

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Weighted-average Long- term Expected Real Rate of Return</u> |
|------------------------|--------------------------|---|
| Global Equity | 50.00% | 4.70% |
| High Yield Bonds | 6.00% | 2.60% |
| Bank Loans | 10.00% | 2.20% |
| Local Currency Bonds | 4.00% | 2.60% |
| Cash Equivalents | 2.00% | 0.10% |
| Investment Grade Bonds | 8.00% | 0.80% |
| TIPS | 6.00% | 0.50% |
| Real Estate (REITs) | 10.00% | 3.90% |
| Commodities | <u>4.00%</u> | 1.80% |
| Total | <u>100.00%</u> | |

f. Allocation of Net OPEB Liability and OPEB Expense to Individual Employers

The following table shows the Commission's proportionate share of the net OPEB liability over the measurement period:

| | <u>Net OPEB Liability</u> |
|-----------------------|---------------------------|
| Balance at: 6/30/2017 | \$940,000 |
| Balance at: 6/30/2018 | 952,000 |
| Net change | 12,000 |

The Commission's net OPEB liability for the plan is measured as the proportionate share of the net OPEB liability. The net OPEB liability of the plan is measured as of June 30, 2018, and the total OPEB liability for the plan used to calculate the net OPEB liability was determined by an actuarial valuation of July 1, 2017. The Commission's proportion of the net OPEB liability was based on a projection of the Commission's long-term share of contributions to the OPEB plans relative to the projected contributions of all participating employers, actuarially determined. The Commission's proportionate share of the net OPEB liability for the plan as of June 30, 2017 and 2018 was as follows:

| | |
|------------------------------|----------|
| Proportion - 6/30/2017 | 0.00355% |
| Proportion - 6/30/2018 | 0.00385% |
| Change - Increase (Decrease) | 0.00030% |

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

Notes to Financial Statements

(Continued)

6) Other Post-Employment Benefits Plan, (Continued)

g. Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the Plan as of the Measurement Date, calculated using the discount rate of 5.11 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage-point lower (4.11 percent) or 1 percentage-point higher (6.11 percent) than the current rate:

| | Discount Rate - 1% (4.11%) | Current Discount Rate (5.11%) | Discount Rate + 1% (6.11%) |
|--|----------------------------|-------------------------------|----------------------------|
| Commission's proportionate share of the Net OPEB Liability | \$1,141,000 | \$952,000 | \$803,000 |

The following presents the net OPEB liability of the Plan as of the Measurement Date, calculated using the changes in the healthcare cost trend rates as reported on the July 1, 2017 OPEB Actuarial Valuation Health Cost Trend Assumptions with Excise Tax table, as well as what the net OPEB liability would be if it were calculated using the healthcare cost trend rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

| | Trend Rate 1% Decrease | Current Healthcare Cost Trend Rate | Trend Rate 1% Increase |
|--|------------------------|------------------------------------|------------------------|
| Commission's proportionate share of the Net OPEB Liability | \$760,000 | \$952,000 | \$1,181,000 |

h. Amortization of Deferred Outflows and Deferred Inflows of Resources

Gains and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time.

Amounts are first amortized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred inflows and deferred outflows to be recognized in future OPEB expense.

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

Notes to Financial Statements

(Continued)

6) Other Post-Employment Benefits Plan, (Continued)

The amortization period differs depending on the source of the gain or loss:

| | |
|---|---|
| Net difference between projected and actual earnings on OPEB plan investments | 5 year straight-line amortization |
| All other amounts | Straight-line amortization over the expected average remaining service lifetime (EARSL) |

i. OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the year ended June 30, 2019, the Commission recognized expense of \$46,000 for the OPEB Plan. At June 30, 2019, the Authority reported deferred outflows of resources and deferred inflows of resources related to the OPEB plan as follows:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| OPEB contributions subsequent to the measurement date | \$22,000 | - |
| Changes in assumptions | - | (118,000) |
| Differences between expected and actual experience | - | (47,000) |
| Changes in proportion | 75,000 | (9,000) |
| Net difference between projected and actual earnings on OPEB plan investments | <u>-</u> | <u>(2,000)</u> |
| Totals | <u>\$97,000</u> | <u>(176,000)</u> |

The Commission reported \$22,000 as deferred outflows of resources related to contributions subsequent to the measurement date that will be recognized as a reduction of the net OPEB liability in the fiscal year ended June 30, 2020. Deferred outflows related to contributions subsequent to the measurement date and other amounts reported as deferred outflows or inflows of resources related to OPEB will be recognized as OPEB expense as follows:

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

Notes to Financial Statements

(Continued)

6) Other Post-Employment Benefits Plan, (Continued)

| <u>Fiscal Year Ended June 30:</u> | <u>Deferred Outflows/(Inflows) of Resources</u> |
|---------------------------------------|---|
| 2020 | \$(14,000) |
| 2021 | (14,000) |
| 2022 | (14,000) |
| 2023 | (14,000) |
| 2024 | (14,000) |
| Thereafter | (31,000) |

7) 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 Ended June 30</u> | <u>Amount</u> |
|-------------------------------|-------------------|
| 2020 | \$ 94,739 |
| 2021 | 97,582 |
| 2022 | <u>41,158</u> |
| Total | <u>\$ 233,479</u> |

Total rent expense for the year ended June 30, 2019 amounted to \$91,980.

8) Restatement of Beginning Fund Balance

During the year ended June 30, 2018, the Commission made an OPEB contribution into the California Employers' Retiree Benefit Trust (CERBT) CERBT trust. Due to recent account guidance provided by the Governmental Accounting Standards Board, that payment is now being recorded a restricted asset of the Commission. The following schedule summarizes the impact to beginning fund balance as follows:

| | |
|---|---------------------|
| Fund balance at beginning of year, as previously reported | \$ 1,605,103 |
| Change in the accounting for a prior year payment into an OPEB Trust resulting from new guidance in GASB Implementation Guide | <u>200,000</u> |
| Fund balance at end of year, as restated | \$ <u>1,805,103</u> |

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 ***

| | Measurement Date | | | | |
|--|------------------|---------------|---------------|---------------|---------------|
| | June 30, 2018 | June 30, 2017 | June 30, 2016 | June 30, 2015 | June 30, 2014 |
| Proportion of the Collective Net Pension Liability | 0.00695% | 0.00621% | 0.00775% | 0.00907% | 0.00800% |
| Proportionate Share of the Collective Net Pension Liability | \$748,000 | \$701,000 | \$806,000 | \$703,000 | \$580,000 |
| Covered Payroll | \$597,839 | \$507,467 | \$564,082 | \$594,657 | \$575,750 |
| Proportionate Share of the Collective Net Pension Liability as percentage of covered payroll | 125.12% | 138.14% | 142.89% | 118.22% | 100.74% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 83.96% | 82.37% | 81.75% | 86.30% | 86.80% |

Notes to Schedule:

Benefit Changes – There were no changes in benefits

Changes in Assumptions – For the measurement period ended June 30, 2017, the discount rate was changed from 7.63% to 7.38%.

* Fiscal year 2015 was the 1st year of implementation, therefore only five years are shown.

**LOCAL AGENCY FORMATION COMMISSION
FOR THE COUNTY OF LOS ANGELES
Schedule of Proportionate Share of the Net OPEB Liability
Last Ten Fiscal Years ***

| Measurement Date | <u>June 30, 2018</u> | <u>June 30, 2017</u> |
|--|----------------------|----------------------|
| Proportion of the Collective Net OPEB Liability | 0.00385% | 0.00355% |
| Proportionate Share of the Collective Net OPEB Liability | \$952,000 | 940,000 |
| Covered-Employee Payroll | \$594,840 | 504,171 |
| Proportionate Share of the Collective Net OPEB Liability as percentage of covered-employee payroll | 160.04% | 186.44% |
| Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability | 3.60% | 0.00% |

Notes to Schedule:

Benefit Changes – There were no changes in benefits

Changes in Assumptions – There were no changes in assumptions

* Fiscal year 2018 was the 1st year of implementation, therefore only two years are shown.

**LOCAL AGENCY FORMATION COMMISSION
FOR THE COUNTY OF LOS ANGELES
Schedule of Collective OPEB Expense – Defined Benefit OPEB Plan
Last Ten Fiscal Years ***

| Measurement Period | <u>2017-18</u> | <u>2016-17</u> |
|--|----------------|----------------|
| Total Proportionate Share of Collective OPEB Expense | \$ 126,000 | 106,000 |

* - Fiscal year 2018 was the 1st year of implementation, therefore only two years are shown.

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

**Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
Year Ended June 30, 2019**

| | Original Budget | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|--|--------------------|-----------------|-----------|---|
| Revenues: | | | | |
| Apportionment | \$ 1,322,433 | 1,322,433 | 1,322,443 | 10 |
| Filing fees | 85,000 | 85,000 | 100,920 | 15,920 |
| Charges for services | 350 | 350 | 6,221 | 5,871 |
| Investment income | 12,000 | 12,000 | 76,369 | 64,369 |
| Total revenues | 1,419,783 | 1,419,783 | 1,505,953 | 86,170 |
| Expenditures: | | | | |
| Current: | | | | |
| General government: | | | | |
| Salaries and benefits | 976,264 | 976,264 | 928,270 | 47,994 |
| Services and supplies | 242,236 | 242,236 | 254,693 | (12,457) |
| Professional fees | 146,000 | 146,000 | 157,006 | (11,006) |
| Capital outlay | 500 | 500 | 8,125 | (7,625) |
| Total expenditures | 1,365,000 | 1,365,000 | 1,348,094 | 16,906 |
| Excess (deficiency) of revenues over (under) expenditures | 54,783 | 54,783 | 157,859 | 103,076 |
| Net change in fund balances | 54,783 | 54,783 | 157,859 | 103,076 |
| Fund balances at beginning of year, as restated | 1,805,103 | 1,805,103 | 1,805,103 | - |
| Fund balances at end of year | \$ 1,859,886 | 1,859,886 | 1,962,962 | 103,076 |

See accompanying notes to the required supplementary information

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

Notes to the Required Supplementary Information

Year Ended June 30, 2019

1) Budgetary Reporting

The Commission adopted an annual budget prepared on the modified accrual basis for the General Fund, which is consistent with generally accepted accounting principles (GAAP). The adopted budget can be amended by the Commission to change both appropriations and estimated revenues as unforeseen circumstances come to management's attention. Increases and decreases in revenue and appropriations and transfers between funds require the Commission's approval. However, the Executive Officer may authorize changes within funds. Expenditures may not exceed total appropriations at the individual fund level. It is the practice of the management to review the budget with the Commission on a quarterly basis and, if necessary, recommend changes.

**INDEPENDENT AUDITOR'S 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 basic 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, 2019, 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 12, 2019.

Internal Control over Financial Reporting

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

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.



Irvine, California
December 12, 2019