

**ORANGE COUNTY
LOCAL AGENCY FORMATION COMMISSION**

FINANCIAL STATEMENTS

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

JUNE 30, 2014

ORANGE COUNTY
LOCAL AGENCY FORMATION COMMISSION

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INDEPENDENT AUDITORS' REPORT

The Commissioners of the Orange County
Local Agency Formation Commission
Santa Ana, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Orange County Local Agency Formation Commission (the Commission), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, 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 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 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 entity'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 entity'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 governmental activities and each major fund of the Commission as of June 30, 2014, and the respective changes in financial position thereof, and the respective budgetary comparison of the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as identified in the accompanying table of contents, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during the audit of the 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 October 22, 2014, on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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
October 22, 2014

ORANGE COUNTY
LOCAL AGENCY FORMATION COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended June 30, 2014

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

Using the Accompanying Financial Statements

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the Commission as a whole and present a longer-term view of the Commission's finances. Also included in the accompanying report are fund financial statements. For governmental activities, the fund financial statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Commission's operations in more detail than the government-wide statements by providing information about the Commission's most significant funds.

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 basic financial statements include two kinds of statements that present different views of the Commission.

The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the Commission's overall financial status. The remaining statements are *fund financial statements* that focus on *individual parts* of the Commission government, reporting the Commission's operations in *more detail* than the government-wide statements. 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 statements** include two statements that present financial data for the Commission as a whole. One of the most important questions asked about the Commission's finances is, "Is the Commission as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the Commission as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

See Independent Auditors' Report.

ORANGE COUNTY
LOCAL AGENCY FORMATION COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

For the year ended June 30, 2014

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Reporting the Commission as a Whole (Continued)

These two statements report the Commission's net position and changes in net position. 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.

Reporting the Commission's Major Funds

The **fund financial statements** provide detailed information about the Commission's most significant funds - not the Commission as a whole. Some funds are required to be established by State law or by bond covenants. However, the Commission establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting administrative responsibilities for using certain revenues.

Governmental funds - All of the Commission's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *current financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the Commission's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Commission's programs. We describe the relationship or differences between *governmental activities* (reported in the Statement of Net Position and the Statement of Activities) and *governmental funds* in a reconciliation following the fund financial statements.

See Independent Auditors' Report.

ORANGE COUNTY
 LOCAL AGENCY FORMATION COMMISSION
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 (CONTINUED)

For the year ended June 30, 2014

GOVERNMENT-WIDE FINANCIAL STATEMENTS

A summary of the government-wide *statement of net position* follows:

Table 1
 Net Position - Governmental Activities
 June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>	<u>Change</u>
Assets:			
Current assets	\$ 1,074,722	\$ 911,506	\$ 163,216
Capital assets, net	<u>5,637</u>	<u>7,710</u>	<u>(2,073)</u>
Total Assets	<u>1,080,359</u>	<u>919,216</u>	<u>161,143</u>
Liabilities:			
Current liabilities	60,674	59,392	1,282
Long-term liabilities	<u>6,356</u>	<u>8,099</u>	<u>(1,743)</u>
Total Liabilities	<u>67,030</u>	<u>67,491</u>	<u>(461)</u>
Net Position:			
Net investment in capital assets	5,637	7,710	(2,073)
Restricted for special projects	20,873	23,483	(2,610)
Unrestricted	<u>986,819</u>	<u>820,532</u>	<u>166,287</u>
Total Net Position	<u>\$ 1,013,329</u>	<u>\$ 851,725</u>	<u>\$ 161,604</u>

See Independent Auditors' Report.

ORANGE COUNTY
LOCAL AGENCY FORMATION COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

For the year ended June 30, 2014

GOVERNMENT-WIDE FINANCIAL STATEMENTS (CONTINUED)

A summary of the government-wide *statement of activities* follows:

Table 2
Changes in Net Position - Governmental Activities
Years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>	<u>Change</u>
Revenues:			
Program revenues:			
Charges for services	\$ 959,329	\$ 940,214	\$ 19,115
Refunds	-	(200,100)	200,100
General revenues:			
Interest	2,959	3,205	(246)
Other	<u>184</u>	<u>1,356</u>	<u>(1,172)</u>
Total Revenues	<u>962,472</u>	<u>744,675</u>	<u>217,797</u>
Expenses:			
Program expenses:			
Salaries and benefits	487,362	523,390	(36,028)
Services and supplies	310,005	349,313	(39,308)
Refund of unused deposits			
from prior years	<u>3,501</u>	<u>-</u>	<u>3,501</u>
Total Expenses	<u>800,868</u>	<u>872,703</u>	<u>(71,835)</u>
Change in net position	161,604	(128,028)	289,632
Net position, beginning of year	<u>851,725</u>	<u>979,753</u>	<u>(128,028)</u>
Net position, end of year	<u>\$ 1,013,329</u>	<u>\$ 851,725</u>	<u>\$ 161,604</u>

The increase or decrease in net position can provide an indication as to whether the overall financial position of the Commission improved or deteriorated during the year. Net position of the Commission increased by \$161,604.

See Independent Auditors' Report.

ORANGE COUNTY
LOCAL AGENCY FORMATION COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

For the year ended June 30, 2014

GOVERNMENT-WIDE FINANCIAL STATEMENTS (CONTINUED)

The reasons for significant changes in the revenues and expenses of the Commissions' governmental activities presented on the previous page are as follows:

- The Commission was able to keep expenses within or below the approved budget.
- The major expenses during the year were salaries and benefits totaling \$487,362. Salaries and benefits decreased \$36,028 (6.88%) due to the vacancy of the several positions during the year and decreases in related benefit expenses.

MAJOR FUNDS

As noted earlier, the Commission uses fund accounting to provide proper financial management of the Commission's resources and to demonstrate compliance with finance-related legal requirements.

Major Governmental Funds. The **General Fund** is the chief operating fund of the Commission. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$751,454 compared to \$588,560 in fiscal year ended June 30, 2013. Total fund balance in the General Fund at June 30, 2014 was \$1,005,888 which is a \$161,059 increase from the prior year.

GENERAL FUND BUDGET

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

- Salaries and benefits were less than the budget by \$160,801 due to the vacancy of the several positions during the year. Some savings were also achieved through prepayment of retirement expenses.
- Services and supplies were less than the budget by \$79,264 due to prudent spending practices and non-filing of anticipated projects requiring professional services.

See Independent Auditors' Report.

ORANGE COUNTY
 LOCAL AGENCY FORMATION COMMISSION
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 (CONTINUED)

For the year ended June 30, 2014

CAPITAL ASSETS

Capital Assets - Governmental Activities
 (net of depreciation)
 Years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>	<u>Change</u>
Equipment	\$ 5,637	\$ 6,054	\$ (417)
Furniture and fixtures	-	1,023	(1,023)
Software	<u>-</u>	<u>633</u>	<u>(633)</u>
 Total	 <u>\$ 5,637</u>	 <u>\$ 7,710</u>	 <u>\$ (2,073)</u>

There were only minor additions to capital assets for the year ended June 30, 2014. Additional information on capital assets may be found in Note 3 of the notes to financial statements.

LONG-TERM LIABILITIES

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

	<u>2014</u>	<u>2013</u>	<u>Change</u>
Compensated absences	<u>\$ 19,069</u>	<u>\$ 24,297</u>	<u>\$ (5,228)</u>

Additional information on long-term liabilities may be found in Note 5 of the notes to financial statements.

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 at 12 Civic Center Plaza, Room 235, Santa Ana, CA 92701.

See Independent Auditors' Report.

ORANGE COUNTY
LOCAL AGENCY FORMATION COMMISSION

STATEMENT OF NET POSITION

June 30, 2014

	<u>Governmental Activities</u>
ASSETS:	
Cash and investments	\$ 923,598
Receivables, net:	
Accounts	1,447
Accrued interest	243
Prepaid costs	149,434
Capital assets, net of depreciation	<u>5,637</u>
 TOTAL ASSETS	 <u>1,080,359</u>
LIABILITIES:	
Accounts payable	22,478
Accrued liabilities	25,258
Due to other governments	225
Noncurrent liabilities:	
Due within one year	12,713
Due in more than one year	<u>6,356</u>
 TOTAL LIABILITIES	 <u>67,030</u>
NET POSITION:	
Net investment in capital assets	5,637
Restricted for special projects	20,873
Unrestricted	<u>986,819</u>
 TOTAL NET POSITION	 <u>\$ 1,013,329</u>

See Independent Auditors' Report and Notes to the Basic Financial Statements.

ORANGE COUNTY
LOCAL AGENCY FORMATION COMMISSION

STATEMENT OF ACTIVITIES

For the year ended June 30, 2014

Functions/programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:					
General government:		\$ 959,329	\$ -	\$ -	\$ 959,329
Salaries and benefits	\$ 487,362	-	-	-	(487,362)
Services and supplies	310,005	-	-	-	(310,005)
Refunds of unused deposit	3,501	-	-	-	(3,501)
 Total governmental activities	 \$ 800,868	 \$ 959,329	 \$ -	 \$ -	 158,461
General revenues:					
					2,959
					378
					(194)
					Total general revenues 3,143
					161,604
					Net Position at Beginning of Year 851,725
					Net Position at End of Year \$ 1,013,329

See Independent Auditors' Report and Notes to the Basic Financial Statements.

ORANGE COUNTY
LOCAL AGENCY FORMATION COMMISSION

BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2014

	General Fund	Special Revenue Fund	Total Governmental Funds
ASSETS			
Cash and investments	\$ 903,953	\$ 19,645	\$ 923,598
Receivables:			
Accounts	-	1,447	1,447
Accrued interest	243	-	243
Prepaid costs	149,434	-	149,434
TOTAL ASSETS	\$ 1,053,630	\$ 21,092	\$ 1,074,722
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	\$ 22,478	\$ -	\$ 22,478
Accrued liabilities	25,258	-	25,258
Due to other governments	6	219	225
TOTAL LIABILITIES	47,742	219	47,961
FUND BALANCES:			
Nonspendable:			
Prepaid costs	149,434	-	149,434
Restricted for:			
Special projects	-	20,873	20,873
Assigned for:			
Litigation	75,000	-	75,000
Unfunded liability	30,000	-	30,000
Unassigned	751,454	-	751,454
TOTAL FUND BALANCES	1,005,888	20,873	1,026,761
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,053,630	\$ 21,092	\$ 1,074,722

See Independent Auditors' Report and Notes to the Basic Financial Statements.

ORANGE COUNTY
LOCAL AGENCY FORMATION COMMISSION

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION

June 30, 2014

Fund balances - total governmental funds	\$ 1,026,761
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets net of depreciation have not been included as financial resources in the governmental funds	5,637
Compensated absences have not been included in the governmental funds	<u>(19,069)</u>
Net position of governmental activities	<u>\$ 1,013,329</u>

See Independent Auditors' Report and Notes to the Basic Financial Statements.

ORANGE COUNTY
LOCAL AGENCY FORMATION COMMISSION

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For the year ended June 30, 2014

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total Governmental Funds</u>
REVENUES:			
Charges for services:			
Assessments	\$ 926,682	\$ -	\$ 926,682
Filing fees	-	32,647	32,647
Interest	2,959	-	2,959
Other	1,207	-	1,207
	<hr/>	<hr/>	<hr/>
TOTAL REVENUES	930,848	32,647	963,495
	<hr/>	<hr/>	<hr/>
EXPENDITURES:			
Current:			
General government:			
Salaries and benefits	471,019	21,571	492,590
Services and supplies	304,881	4,074	308,955
Refund of unused deposits from prior years	-	3,501	3,501
	<hr/>	<hr/>	<hr/>
TOTAL EXPENDITURES	775,900	29,146	805,046
	<hr/>	<hr/>	<hr/>
EXCESS OF REVENUES OVER EXPENDITURES	154,948	3,501	158,449
	<hr/>	<hr/>	<hr/>
OTHER FINANCING SOURCES (USES):			
Transfers in	6,111	-	6,111
Transfers out	-	(6,111)	(6,111)
TOTAL OTHER FINANCING SOURCES (USES)	<hr/>	<hr/>	<hr/>
	6,111	(6,111)	-
	<hr/>	<hr/>	<hr/>
NET CHANGE IN FUND BALANCES	161,059	(2,610)	158,449
	<hr/>	<hr/>	<hr/>
FUND BALANCES - BEGINNING OF YEAR	844,829	23,483	868,312
	<hr/>	<hr/>	<hr/>
FUND BALANCES - END OF YEAR	<u>\$ 1,005,888</u>	<u>\$ 20,873</u>	<u>\$ 1,026,761</u>

See Independent Auditors' Report and Notes to the Basic Financial Statements.

ORANGE COUNTY
LOCAL AGENCY FORMATION COMMISSION

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES

For the year ended June 30, 2014

Net change in fund balances - total governmental funds	\$	158,449
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
<p>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 the 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. As a result, fund balance decreases by the amount of financial resources expenses, whereas net position decreases by the amount of depreciation expense charged for the year.</p>		
Capital outlay	\$	2,353
Depreciation expense		(3,403)
Loss on sale of capital assets		(194)
Proceeds from sale of capital assets		(829)
		(2,073)
<p>Some of the compensated absences expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds</p>		
		5,228
Change in net position of governmental activities	\$	161,604

See Independent Auditors' Report and Notes to the Basic Financial Statements.

ORANGE COUNTY
LOCAL AGENCY FORMATION COMMISSION

BUDGETARY COMPARISON STATEMENT
GENERAL FUND

For the year ended June 30, 2014

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Fund balance, July 1	\$ 844,829	\$ 844,829	\$ 844,829	\$ -
Resources (inflows):				
Charges for services:				
Assessments	926,682	926,682	926,682	-
Filing fees	-	-	-	-
Interest	2,500	2,500	2,959	459
Other	-	-	1,207	1,207
Transfers in	-	-	6,111	6,111
Total resources (inflows)	<u>929,182</u>	<u>929,182</u>	<u>936,959</u>	<u>7,777</u>
Charges to appropriations (outflows):				
Current:				
General government:				
Salaries and benefits	631,820	631,820	471,019	160,801
Services and supplies	384,145	384,145	304,881	79,264
Total charges to appropriations (outflows)	<u>1,015,965</u>	<u>1,015,965</u>	<u>775,900</u>	<u>240,065</u>
Excess of resources over (under) charges to appropriations	<u>(86,783)</u>	<u>(86,783)</u>	<u>161,059</u>	<u>247,842</u>
Fund balance, June 30	<u>\$ 758,046</u>	<u>\$ 758,046</u>	<u>\$ 1,005,888</u>	<u>\$ 247,842</u>

See Independent Auditors' Report and Notes to the Basic Financial Statements.

ORANGE COUNTY
LOCAL AGENCY FORMATION COMMISSION
NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2014

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Orange County Local Agency Formation Commission (Commission) conform to generally accepted accounting principles as applicable to governments. The following is a summary of the significant policies.

A. Description of the Reporting Entity:

Following the end of World War II, California entered a new era of demographic growth and diversity, and economic development. With this growth came the need for housing, jobs and public services. To provide for these services, California experienced a wave of newly formed cities and special districts, but with little forethought as to how the new agencies should plan for services. The lack of coordination and adequate planning for future governance led to a multitude of overlapping, inefficient jurisdictional and service boundaries.

In 1963, the State Legislature created Local Agency Formation Commissions (Commissions) to help direct and coordinate California's growth in a logical, efficient, and orderly manner. Each county within California is required to have a Commission. The Commissions are charged with the responsibility of making difficult decisions on proposals for new cities and special districts, spheres of influence, consolidations, and annexations.

Prior to July 1, 2001, the Commission was a department of the County of Orange (County). The Commission has separated from the County and is now independent. The Commission's governing board consists of seven appointed board members. Two members are selected by the Orange County Board of Supervisors from their own membership, two are selected by the cities in the County, two are selected from special districts by the independent special district selection committee and one member is selected to represent the general public, who is appointed by the other members of the Commission.

Funding for the Commission operations is equally shared by the County, the 34 Orange County cities and the 27 independent special districts. Although the County of Orange contributes one-third of the Commission funding, the Commission is an independent agency and its budget is not subject to County approval. The Commission is staffed by a total of 4 full-time staff.

See Independent Auditors' Report.

ORANGE COUNTY
LOCAL AGENCY FORMATION COMMISSION

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2014

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED):

B. Government-wide and Fund 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. Use of money and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The Commission reports the following major governmental funds:

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

The Special Revenue Fund is used to account for resources derived from the specific revenue sources which are usually required by law or administrative regulation to be accounted for in separate funds. The Commission utilizes this fund to account for the different special projects.

C. Measurement Focus, Basis of Accounting, and Financial Statements Presentation:

“Measurement focus” is a term used to describe *which* transactions are recorded within the various financial statements. “Basis of accounting” refers to *when* transactions are recorded regardless of the measurement focus applied.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the economic resources measurement focus all assets, deferred outflows of resources, liabilities, and deferred inflows of resources (whether current or noncurrent) associated with these activities are included on the Statement of Net Position. The Statement of Activities presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of the related cash flows.

See Independent Auditors’ Report.

ORANGE COUNTY
LOCAL AGENCY FORMATION COMMISSION

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2014

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED):

C. Measurement Focus, Basis of Accounting, and Financial Statements Presentation (Continued):

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the current financial resources measurement focus, only current assets and current liabilities are generally included on the balance sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized when measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Commission considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences are not recognized until paid.

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. All other revenue items are considered to be measurable and available only when cash is received by the government.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include charges to members. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include interest earnings and miscellaneous revenues.

D. New Accounting Pronouncements by the Government Accounting Standards Board (GASB):

Current Year Standards:

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

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

See Independent Auditors’ Report.

ORANGE COUNTY
LOCAL AGENCY FORMATION COMMISSION

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2014

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED):

D. New Accounting Pronouncements by the Government Accounting Standards Board (GASB)
(Continued):

Pending Accounting Standards:

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

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

E. Deferred Outflows/Inflows of Resources:

In addition to assets, the statement of net position and governmental funds balance sheet 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 and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Commission has no deferred outflows of resources.

In addition to liabilities, the statement of net position and governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. The Commission has no deferred inflows of resources.

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ORANGE COUNTY
LOCAL AGENCY FORMATION COMMISSION

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2014

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED):

F. Cash and Investments:

The Commission's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Investments are stated at fair value (the value at which a financial instrument could be exchanged, other than in a forced or liquidation sale).

G. Prepaid Costs and Deposits:

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid costs in both government-wide and fund financial statements.

H. Capital Assets:

Capital assets are reported in the governmental activities column of the government-wide financial statements. Capital assets are defined by the Commission as assets with an initial cost of more than \$500 and a useful life of greater than one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets of the Commission are depreciated using the straight-line method over the following estimated useful lives:

Furniture and fixtures	10 years
Equipment	2 to 5 years
Leasehold improvements	Life of lease
Software	3 Years

See Independent Auditors' Report.

ORANGE COUNTY
LOCAL AGENCY FORMATION COMMISSION

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2014

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED):

I. Net Position and Fund Balances:

The net position reported on the Statement of Net Position in the government-wide financial statements consist of the following three categories:

Net Investment in Capital Assets - This component of net positions consists of capital assets, net of accumulated depreciation and reduced by any outstanding debt outstanding against the acquisition, construction or improvement of those assets.

Restricted Net Position - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

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

The fund balances reported on the governmental fund statements consist of the following categories:

Non-spendable Fund Balance - This includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted Fund Balance - This includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

Committed Fund Balance - This includes amounts that can be used only for the specific purposes determined by a formal action of the Commissioners.

ORANGE COUNTY
LOCAL AGENCY FORMATION COMMISSION

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2014

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED):

I. Net Position and Fund Balances (Continued):

Fund Balance Categories (Continued):

Assigned Fund Balance - This includes amounts that are designated by the Commissioners for specific purposes. The Commission has designated the fund balance for the following purposes:

Litigation - Funds assigned for costs related to agency legal challenges.

Unfunded Liabilities - Funds assigned to offset anticipated future agency liabilities (i.e., employee vacation and administrative leave payouts).

Unassigned Fund Balance - This is the residual classification that includes all spendable amounts not contained in the other classifications. The Commission has designated \$100,000 of the unassigned fund balance to be available for contingencies, such as unforeseen future agency losses and/or urgencies (e.g. property or equipment damage, loss or theft).

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available, the Commission's policy is to apply restricted fund balance first.

When expenditure is incurred for purposes for which committed, assigned or unassigned fund balances are available, the Commission's policy is to apply committed fund balance first, then assigned fund balance, and finally unassigned fund balance.

J. Budgets and Budgetary Accounting:

The Commission established accounting control through formal adoption of an annual budget for the General Fund. The budget is prepared on a basis consistent with generally accepted accounting principles. 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 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 Commission's management to review the budget monthly and provide quarterly updates to the Commission. A budget is not prepared for the Special Revenue Fund.

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ORANGE COUNTY
LOCAL AGENCY FORMATION COMMISSION

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2014

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED):

K. Use of Estimates:

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

2. CASH AND INVESTMENTS:

Cash and Investments

Cash and investments at June 30, 2014 are classified in the accompanying Statement of Net Position as follows:

Cash and investments	\$ <u>923,598</u>
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Cash and investments held at June 30, 2014 consisted of the following:

Demand deposits	\$ 432,418
Orange County Investment Fund	470,818
LAIIF investments	<u>20,362</u>
Total Cash and Investments	\$ <u>923,598</u>

See Independent Auditors' Report.

ORANGE COUNTY
LOCAL AGENCY FORMATION COMMISSION

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2014

2. CASH AND INVESTMENTS (CONTINUED):

Investments Authorized by the Commission’s Investment Policy

The Commission's investment policy is reviewed and adopted by the Commission each year. Regarding allowable investment types, the investment policy is more conservative and restrictive than the investment vehicles authorized by Section 53600.5 of the California Government Code. Investment vehicles not specifically identified in the Commission’s investment policy are not authorized unless the policy is amended by the Board of Commissioners. Investments are limited to:

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
United States Government Sponsored Agency Securities	5 years	None	40%
Negotiable Certificates of Deposit*	5 years	30%	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Orange County Investment Pool (Orange County Investment Fund)	N/A	None	None

N/A - Not Applicable

* - Issued by a nationally or state chartered bank, a state or federal savings and loan association, or savings bank with ratings equivalent by Fitch to be F 1 or better

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Commission manages its exposure to interest rate risk is by investing in the portfolio of the State Local Agency Investment Fund and the Orange County Investment Fund which purchase a combination of shorter term and longer term investments. As of June 30, 2014, the Commission had investments in the Local Agency Investment Fund and the Orange County Investment Fund that act as demand deposits and are not exposed to any interest rate risk as described above.

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ORANGE COUNTY
LOCAL AGENCY FORMATION COMMISSION

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2014

2. CASH AND INVESTMENTS (CONTINUED):

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Local Agency Investment Fund and the Orange County Investment Fund are not subject to credit rating.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investments or collateral securities that are in the possession of another party. Deposits may be covered by federal deposit insurance. The California Government Code and the Commission's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the government unit). The market value of the pledged securities in the collateral pool must equal at 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure Commission deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. Any deposits in excess of depository insurance limits at the end of the year are collateralized by securities held at the depository financial institution's trust department.

With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF and Orange County Investment Fund).

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ORANGE COUNTY
LOCAL AGENCY FORMATION COMMISSION

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2014

2. CASH AND INVESTMENTS (CONTINUED):

Investment in State Investment Pool

The Commission is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the Commission's investment in this pool is reported in the accompanying financial statements at amounts based upon the Commission'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.

Investment in County Investment Fund

The Commission voluntarily invests in the Orange County Investment Fund, which is maintained by the County Treasurer for the purpose of benefiting from economies of scale through pooled investment activities. The fair value of the Commission's investment in this pool is reported in the accompanying financial statements at amounts based upon the Commission's pro rata share of the fair value provided by the Orange County Investment Fund for the entire County pooled portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County, which are recorded on an amortized cost basis.

ORANGE COUNTY
LOCAL AGENCY FORMATION COMMISSION

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2014

3. CAPITAL ASSETS:

A summary of changes in capital assets for the year ended June 30, 2014 is as follows:

Governmental Activities

	<u>Balance at</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at</u> <u>June 30, 2014</u>
Capital assets, being depreciated:				
Furniture and fixtures	\$ 31,795	\$ -	\$ (1,194)	\$ 30,601
Equipment	46,113	2,353	(14,027)	34,439
Leasehold improvements	40,361	-	-	40,361
Software	<u>1,899</u>	<u>-</u>	<u>-</u>	<u>1,899</u>
 Total capital assets, being depreciated	 <u>120,168</u>	 <u>2,353</u>	 <u>(15,221)</u>	 <u>107,300</u>
Less accumulated depreciation for:				
Furniture and fixtures	(30,772)	-	171	(30,601)
Equipment	(40,059)	(2,770)	14,027	(28,802)
Leasehold improvements	(40,361)	-	-	(40,361)
Software	<u>(1,266)</u>	<u>(633)</u>	<u>-</u>	<u>(1,899)</u>
 Total accumulated depreciation	 <u>(112,458)</u>	 <u>(3,403)</u>	 <u>14,198</u>	 <u>(101,663)</u>
 Governmental activities capital assets, net	 <u>\$ 7,710</u>	 <u>\$ (1,050)</u>	 <u>\$ (1,023)</u>	 <u>\$ 5,637</u>

Depreciation expense of \$3,403 was charged to services and supplies.

4. INSURANCE:

Insurance is provided on behalf of the Commission by the County of Orange's insurance policy. The Commission pays its pro-rata share of insurance costs to the County. For coverage limits see the County of Orange Comprehensive Annual Financial Report. This report can be obtained at the Auditor-Controller County of Orange office located at Hall of Finance and Records, 12 Civic Center Plaza, Room 202, Santa Ana, CA 92702.

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ORANGE COUNTY
LOCAL AGENCY FORMATION COMMISSION

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2014

5. LONG-TERM LIABILITIES:

The following is a summary of changes in long-term liabilities of the Commission for the year ended June 30, 2014:

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2014</u>
Compensated absences	\$ 24,297	\$ 11,551	\$ (16,779)	\$ 19,069
	<u>Due</u> <u>Within</u> <u>One Year</u>	<u>Due in</u> <u>More Than</u> <u>One Year</u>		
Compensated absences	\$ 12,713	\$ 6,356		

6. RETIREMENT PLANS:

Plan Descriptions

The Commission participates in the 2.7% at 55, 1.62% at 65 (2012 Pre-PEPRA) and 1.62% at 65 (2013 Post-PEPRA) cost-sharing multiple-employer defined benefit pension plans of the Orange County Employees' Retirement System (OCERS). OCERS was established in 1945 under the provisions of the County Employees Retirement Law of 1937, and provides members with retirement, death, disability, and cost-of-living benefits. The Commission's prepaid estimated payroll used to determine OCERS contributions were \$413,000 and \$413,591 for the years ended June 30, 2014 and 2013, respectively. OCERS issues a publicly available financial report that includes financial statements and required supplementary information. The report can be obtained from OCERS at 2223 Wellington Avenue, Santa Ana, CA 92701.

The California Public Employees' Pension Reform Act (PEPRA) became effective January 1, 2013 and caused changes in the plans available to future employees of the Commission. The Commission has approved closing the 2.7% at 55 plan to all new hires as of December 12, 2012. All members of this plan are classified by PEPRA as classic members. Employees hired after January 1, 2013 that have reciprocity or are already in the pension system, will join the 1.62% at 65 (2012 Pre-PEPRA) plan. The members of this plan are classified by PEPRA as legacy members. Employees hired after January 1, 2013 that are not subject to reciprocity and are not in the pension system will join the 1.62% at 65 (2013 Post-PEPRA) plan. PEPRA refers to these members as new members. There is one active member of the 1.62% at 65 (2012 Pre-PEPRA) plan. There are no active members of the 1.62% at 65 (2013 Post-PEPRA) plan.

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ORANGE COUNTY
LOCAL AGENCY FORMATION COMMISSION

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2014

6. RETIREMENT PLANS (CONTINUED):

Funding

The OCERS pension plans cover substantially all full-time and part-time employees (over 20 hours per pay period) of the Commission, the County of Orange, and several other cities and special districts within the County. Each of the participating entities share proportionally in all risks and costs. One actuarial valuation is performed of OCERS as a whole, and the same contribution rates apply to each participating entity. For fiscal year 2013-2014, the Commission's required contribution was 31.13%, 25.89% and 27.18% for the 2.7% at 55, 1.62% at 65 (2012 Pre-PEPRA) and 1.62% at 65 (2013 Post-PEPRA) plans, respectively. For fiscal year 2012-2013, the Commission's required contribution was 26.61%, 21.94% and 22.62% for the 2.7% at 55, 1.62% at 65 (2012 Pre-PEPRA) and 1.62% at 65 (2013 Post-PEPRA) plans, respectively. The funding policy for participating agencies is to make periodic contributions to OCERS in amounts such that, when combined with employees' contributions and with investments income, will fully provide for all employees' retirement benefits by the time they retire.

Benefits

All of the Commission's full-time employees participate in OCERS. Employees who retire at or after age 50 with ten or more years of service are entitled to an annual retirement allowance. The amount of the retirement allowance is based upon the member's age at retirement, the member's "final compensation" as defined in Section 31462 of the Retirement Law of 1937, the total years of service under OCERS, and the employee's classification as a Tier I and Tier II member. Benefits fully vest on reaching five years of service. OCERS also provides death and disability benefits.

Contributions

The Commission pays the County of Orange for its pro-rata share of OCERS coverage. The total amount of OCERS contributions prepaid for the 2.7% at 55 plan by the Commission for the year ended June 30, 2014, was \$128,575. The total amount of OCERS contributions prepaid for the 1.62% at 65 (2012 Pre-PEPRA) was \$8,981. There have been no contributions for the 1.62% at 65 (2013 Post-PEPRA) plans since there are no active members.

Three-Year Trend Information for the Plans

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage APC Contributed</u>
6/30/12	\$ 91,915	100%
6/30/13	81,348	100%
6/30/14	102,589	100%

See Independent Auditors' Report.

ORANGE COUNTY
LOCAL AGENCY FORMATION COMMISSION

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2014

7. OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN:

Plan Description

The Commission's employees participate in a Retiree Medical Plan (Plan), a cost-sharing multiple-employer defined benefit postemployment healthcare plan. The plan is offered and administered by the County of Orange. The County identifies this plan as a single-employer plan, as it is considered the primary plan participant and the other participating entities are considered immaterial to the plan as a whole. The plan assists retirees with the cost of retiree health insurance premiums and/or Medicare premiums. The County has the authority to establish and amend benefit provisions to the Retiree Medical Plan. The County issues a publicly available financial report that includes financial statements and required supplementary information for the Retiree Medical Plan. That report may be obtained by writing Auditor-Controller's Office; County of Orange, 12 Civic Center Plaza, Santa Ana, California 92702 or you can access its website at <http://www.ac.ocgov.com>.

Funding

The plan covers full time employees of the Commission and is administered through the County of Orange Retiree Medical Plan. An actuarial valuation is performed for the County of Orange which includes the Commission's employees. The Commission shares proportionally in the plan and the same contribution rates apply for its employees.

The Commission is contractually required to contribute at a rate assessed each year by the Plan. For fiscal year 2013-2014 the annual required contribution was 3.99% of annual covered payroll which was equal to the contribution made by the Commission. The employer contribution rate based on the annual required contribution of the employers (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. The purpose of the contributions is to fund the plan in order to cover the future costs of benefits as employees' retire. Currently, contributions are not required from plan members.

In order to more adequately fund the benefits under the Plan, the County adopted the County of Orange Retiree Medical Trust (Trust) effective July 2, 2007. The Trust is an Internal Revenue Code section 115 trust. In addition the County and OCERS have entered into agreements for OCERS to establish an Internal Revenue code section 401(h) account, invest monies of the 401(h) account and the Trust and to act as paying agent for benefits under the Retiree Medical Plan (except for the lump sum payment).

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ORANGE COUNTY
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NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2014

7. OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (CONTINUED):

Benefits

All of the Commission's full-time employees participate in the plan. Employees who retire at or after age 50 with ten or more years of service, or have 30 years of service with no age requirement are entitled to a monthly grant to be used to offset the cost of OPEB. The monthly grant is calculated as a dollar amount multiplied by years of service at retirement.

The grant dollar amount is adjusted annually by a cost-of-living-adjustment based on the average percentage change in health care premiums.

Contributions

The Commission pays the County of Orange for its pro-rata share of OPEB costs as determined by the County. The total amount of contributions by the Commission for the year ended June 30, 2014, was \$11,742.

Information on the annual OPEB costs, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the three years ended June 30, 2014, 2013, and 2012, are presented below:

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/12	\$ 10,081	100%	\$ -
6/30/13	12,595	100%	-
6/30/14	11,742	100%	-

See Independent Auditors' Report.

ORANGE COUNTY
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NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2014

8. COMMITMENTS:

The Commission is obligated under operating lease agreements for the rental of office space and various equipment. Future minimum lease payments for office space and various equipment under these operating leases are as follows:

Fiscal Year	Amount
2015	\$ 8,007
2016	1,284
	\$ 9,291

The rental agreement, which is included in the County Services Agreement between the County of Orange and the Commission, may be terminated by either party at any time. The total amount of rental payments for office space and equipment for the year ended June 30, 2014 was \$44,630.

9. RELATED PARTY TRANSACTIONS:

The Commission and the County of Orange (County) entered into a County Services Agreement to provide office space (see Note 8), liability and workers' compensation insurance, employee benefits administration, payroll, information technology support, and billing and collection services. The total amount paid by the Commission to the County for the year ended June 30, 2014, was \$66,448.

10. SUBSEQUENT EVENTS:

The Authority entered into a lease on September 16, 2014 for office space in Santa Ana, California. The lease begins when the property is ready for occupancy and will continue for a term of 64 months. Future minimum lease payments for office space under this lease are as follows:

Fiscal Year	Amount
2015	\$ 62,969
2016	64,907
2017	66,844
2018	68,782
2019	70,719
2020	72,980
	\$ 407,201

Events occurring after June 30, 2014 have been evaluated for possible adjustments to the financial statements or disclosure as of October 22, 2014, which is the date these financial statements were available to be issued.

See Independent Auditors' Report.