

**ORANGE COUNTY
LOCAL AGENCY FORMATION COMMISSION**

FINANCIAL STATEMENTS

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

JUNE 30, 2012

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, 2012, which collectively comprise the Commission's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express opinions 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 basic financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Accounting principles generally accepted in the United States of America require certain disclosures regarding *Other Post-employment Benefit Plans*. Management has omitted several of these disclosures. As described in Note 8 to the financial statements, the Commission participates in a Plan administered by the County of Orange. Certain disclosures regarding the portion of the Plan pertaining to the Commission have been omitted because they have not been segregated from the County's Plan as a whole.

In our opinion, except for the effects of not providing the disclosures described in the preceding paragraph, 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, 2012, and the respective changes in financial position thereof, and the budgetary comparison of the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated September 27, 2012 on our consideration of the Commission's internal control over financial reporting and 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 and should be considered in assessing the results of our audit.

The management's discussion and analysis, identified as required supplementary information in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. Such information although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the management's discussion and analysis in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the management's discussion and analysis because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

White Nelson Dick Evans LLP

Irvine, California
September 27, 2012

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

For the year ended June 30, 2012

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, 2012. 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 Assets 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 Assets 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, 2012

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Reporting the Commission as a Whole (Continued)

These two statements report the Commission's net assets and changes in them. You can think of the Commission's net assets - 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 assets 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 Assets 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, 2012

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

Table 1
 Net Assets - Governmental Activities
 June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>	<u>Change</u>
Assets:			
Current assets	\$ 1,039,094	\$ 1,055,137	\$ (16,043)
Capital assets, net	<u>8,440</u>	<u>13,501</u>	<u>(5,061)</u>
Total Assets	<u>1,047,534</u>	<u>1,068,638</u>	<u>(21,104)</u>
Liabilities:			
Current liabilities	59,265	78,348	(19,083)
Long-term liabilities	<u>8,516</u>	<u>7,261</u>	<u>1,255</u>
Total Liabilities	<u>67,781</u>	<u>85,609</u>	<u>(17,828)</u>
Net Assets:			
Invested in capital assets	8,440	13,501	(5,061)
Unrestricted	<u>971,313</u>	<u>969,528</u>	<u>1,785</u>
Net Assets	<u>\$ 979,753</u>	<u>\$ 983,029</u>	<u>\$ (3,276)</u>

See Independent Auditors' Report.

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

For the year ended June 30, 2012

GOVERNMENT-WIDE FINANCIAL STATEMENTS (CONTINUED)

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

Table 2
 Changes in Net Assets - Governmental Activities
 Years ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>	<u>Change</u>
Revenues:			
Program revenues:			
Charges for services	\$ 936,925	\$ 938,577	\$ (1,652)
General revenues:			
Interest	4,748	7,000	(2,252)
Other	<u>1,006</u>	<u>569</u>	<u>437</u>
Total Revenues	<u>942,679</u>	<u>946,146</u>	<u>(3,467)</u>
Expenses:			
Program expenses:			
Salaries and benefits	601,989	593,652	8,337
Services and supplies	<u>343,966</u>	<u>484,228</u>	<u>(140,262)</u>
Total Expenses	<u>945,955</u>	<u>1,077,880</u>	<u>(131,925)</u>
Change in net assets	(3,276)	(131,734)	128,458
Net assets, beginning of year	<u>983,029</u>	<u>1,114,763</u>	<u>(131,734)</u>
Net assets, end of year	<u>\$ 979,753</u>	<u>\$ 983,029</u>	<u>\$ (3,276)</u>

The increase or decrease in net assets can provide an indication as to whether the overall financial position of the Commission improved or deteriorated during the year. Net assets of the Commission decreased by \$3,276.

See Independent Auditors' Report.

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

For the year ended June 30, 2012

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 \$601,989. Salaries and benefits increased \$8,337 (1.40%) due to the filling of a vacant position and increases in health insurance expenses associated with changes to employee coverage.

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 \$595,407 compared to \$791,868 in fiscal year ended June 30, 2011. Total fund balance in the General Fund at June 30, 2012 was \$1,038,671 which is a \$6,543 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 \$68,433 because the filling of vacant positions with entry level staff and use of student interns (paid and unpaid) for administrative and less complex projects. Some savings were also achieved through prepayment of retirement expenses.
- Services and supplies were less than the budget by \$152,173 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, 2012

CAPITAL ASSETS

Capital Assets - Governmental Activities
 (net of depreciation)
 Years ended June 30, 2012 and 2011

	2012	2011	Change
Equipment	\$ 7,174	\$ 9,464	\$ (2,290)
Leasehold improvements	-	4,037	(4,037)
Software	1,266	-	1,266
Total	\$ 8,440	\$ 13,501	\$ (5,061)

There were only minor additions to capital assets for the year ended June 30, 2012. 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, 2012 and 2011

	2012	2011	Change
Compensated absences	\$ 25,549	\$ 21,783	\$ 3,766

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 ASSETS

June 30, 2012

	<u>Governmental Activities</u>
ASSETS:	
Cash and investments	\$ 906,336
Receivables, net:	
Accounts	10,294
Accrued interest	506
Prepaid costs	121,958
Capital assets, net of depreciation	<u>8,440</u>
 TOTAL ASSETS	 <u>1,047,534</u>
LIABILITIES:	
Accounts payable	17,801
Accrued liabilities	24,426
Due to other governments	5
Noncurrent liabilities:	
Due within one year	17,033
Due in more than one year	<u>8,516</u>
 TOTAL LIABILITIES	 <u>67,781</u>
NET ASSETS:	
Invested in capital assets	8,440
Unrestricted	<u>971,313</u>
 TOTAL NET ASSETS	 <u>\$ 979,753</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, 2012

Functions/programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:					
General government:					
Salaries and benefits	\$ 601,989	\$ 936,925	\$ -	\$ -	\$ 334,936
Services and supplies	343,966	-	-	-	(343,966)
Total governmental activities	\$ 945,955	\$ 936,925	\$ -	\$ -	(9,030)
General revenues:					
					4,748
					1,006
					5,754
					(3,276)
					983,029
					\$ 979,753

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

ORANGE COUNTY
LOCAL AGENCY FORMATION COMMISSION

BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2012

	General Fund	Special Revenue Fund	Total Governmental Funds
ASSETS			
Cash and investments	\$ 906,336	\$ -	\$ 906,336
Receivables:			
Accounts	10,294	-	10,294
Accrued interest	506	-	506
Prepaid costs	121,958	-	121,958
Due from other funds	41,809	-	41,809
	<u>\$ 1,080,903</u>	<u>\$ -</u>	<u>\$ 1,080,903</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	\$ 17,801	\$ -	\$ 17,801
Accrued liabilities	24,426	-	24,426
Due to other governments	5	-	5
Due to other funds	-	41,809	41,809
	<u>42,232</u>	<u>41,809</u>	<u>84,041</u>
FUND BALANCES (DEFICIT):			
Nonspendable:			
Prepaid costs	121,958	-	121,958
Assigned for:			
Refunds to members	200,000	-	200,000
Special projects	16,306	-	16,306
Litigation	75,000	-	75,000
Unfunded liability	30,000	-	30,000
Unassigned	595,407	(41,809)	553,598
	<u>1,038,671</u>	<u>(41,809)</u>	<u>996,862</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,080,903</u>	<u>\$ -</u>	<u>\$ 1,080,903</u>

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 ASSETS

June 30, 2012

Fund balances - total governmental funds	\$ 996,862
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets net of depreciation have not been included as financial resources in governmental fund activity	8,440
Long-term debt and compensated absences have not been included in the governmental fund activity:	
Compensated absences	<u>(25,549)</u>
Net assets of governmental activities	<u>\$ 979,753</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, 2012

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total Governmental Funds</u>
REVENUES:			
Charges for services:			
Assessments	\$ 926,683	\$ -	\$ 926,683
Filing fees	-	10,242	10,242
Interest	4,748	-	4,748
Other	1,006	-	1,006
	<u>932,437</u>	<u>10,242</u>	<u>942,679</u>
EXPENDITURES:			
Current:			
General government:			
Salaries and benefits	589,467	8,756	598,223
Services and supplies	336,427	2,478	338,905
	<u>925,894</u>	<u>11,234</u>	<u>937,128</u>
NET CHANGE IN FUND BALANCES	6,543	(992)	5,551
FUND BALANCES (DEFICIT) - BEGINNING OF YEAR	<u>1,032,128</u>	<u>(40,817)</u>	<u>991,311</u>
FUND BALANCES (DEFICIT) - END OF YEAR	<u>\$ 1,038,671</u>	<u>\$ (41,809)</u>	<u>\$ 996,862</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, 2012

Net change in fund balances - total governmental funds		\$	5,551
Amounts reported for governmental activities in the Statement of Activities are different because:			
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.			
Capital outlay		\$	2,933
Depreciation expense			<u>(7,994)</u>
			(5,061)
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			<u>(3,766)</u>
Change in net assets of governmental activities		\$	<u>(3,276)</u>

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, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Fund balance, July 1	\$ 1,032,128	\$ 1,032,128	\$ 1,032,128	\$ -
Resources (inflows):				
Charges for services:				
Assessments	926,683	926,683	926,683	-
Interest	8,200	8,200	4,748	(3,452)
Other	-	-	1,006	1,006
Total resources (inflows)	<u>934,883</u>	<u>934,883</u>	<u>932,437</u>	<u>(2,446)</u>
Charges to appropriations (outflows):				
Current:				
General government:				
Salaries and benefits	657,900	657,900	589,467	68,433
Services and supplies	488,600	488,600	336,427	152,173
Total charges to appropriations (outflows)	<u>1,146,500</u>	<u>1,146,500</u>	<u>925,894</u>	<u>220,606</u>
Excess of resources over (under) charges to appropriations	<u>(211,617)</u>	<u>(211,617)</u>	<u>6,543</u>	<u>218,160</u>
Fund balance, June 30	<u>\$ 820,511</u>	<u>\$ 820,511</u>	<u>\$ 1,038,671</u>	<u>\$ 218,160</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, 2012

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 5 full-time staff.

See Independent Auditors' Report.

ORANGE COUNTY
LOCAL AGENCY FORMATION COMMISSION

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2012

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 assets 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 project areas.

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

The government-wide financial statements are reported using the economic resources measurement focus and 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.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, 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 government 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.

See Independent Auditors' Report.

ORANGE COUNTY
LOCAL AGENCY FORMATION COMMISSION

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2012

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

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

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.

When both restricted and unrestricted resources are available for use, it is the Commission's policy to use restricted resources first, and then use unrestricted resources as needed.

D. 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), in accordance with Government Accounting Standards Board (GASB) Statement 31.

E. 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.

F. 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.

See Independent Auditors' Report.

ORANGE COUNTY
LOCAL AGENCY FORMATION COMMISSION

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2012

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

F. Capital Assets (Continued):

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

G. Net Assets and Fund Balances:

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

Invested in Capital Assets - This amount consists of capital assets, net of accumulated depreciation.

Restricted Net Assets - This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted Net Assets - This amount is all net assets that do not meet the definition of "invested in capital assets " or "restricted net 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.

See Independent Auditors' Report.

ORANGE COUNTY
LOCAL AGENCY FORMATION COMMISSION

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2012

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

G. Net Assets and Fund Balances (Continued):

Fund Balance Categories (Continued):

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

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:

Refunds to Members - Funds assigned to reimburse allocations to the Commission's funding agencies in 2013.

Special Projects - Funds assigned to account for project deposits that are to be used for future specific project purposes.

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

Unfunded Liability - 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.

See Independent Auditors' Report.

ORANGE COUNTY
LOCAL AGENCY FORMATION COMMISSION

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2012

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

H. 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. Budgets are not prepared for the Special Revenue Fund.

I. Use of Estimates:

The preparation of financial statements in conformity 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, 2012 are classified in the accompanying Statement of Net Assets as follows:

Cash and investments	\$ <u>906,336</u>
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Cash and investments held at June 30, 2012 consisted of the following:

Demand deposits	\$ 646,383
LAIF investments	<u>259,953</u>

Total Cash and Investments	\$ <u>906,336</u>
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See Independent Auditors' Report.

ORANGE COUNTY
LOCAL AGENCY FORMATION COMMISSION

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2012

2. CASH AND INVESTMENTS (CONTINUED):

Investments Authorized by the Commission's Investment Policy

The Commission's investment policy authorizes investments in the under-mentioned agencies/institutions:

- State Local Agency Investment Fund (LAIF).
- U.S. Government and Agencies obligations
- Negotiable Certificates of Deposit 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.
- Orange County Investment Pool (Orange County Fund)

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 Fund which purchase a combination of shorter term and longer term investments.

As of June 30, 2012, the Commission had investments in the form of a bank savings account and as such it was not exposed to any interest rate risk as described above.

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 bank balances are not subject to credit rating.

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ORANGE COUNTY
LOCAL AGENCY FORMATION COMMISSION

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2012

2. CASH AND INVESTMENTS (CONTINUED):

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.

At June 30, 2012, the Commission's deposits with financial institutions were within the federal depository insurance limits.

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).

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.

See Independent Auditors' Report.

ORANGE COUNTY
LOCAL AGENCY FORMATION COMMISSION

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2012

3. CAPITAL ASSETS:

A summary of changes in capital assets for the year ended June 30, 2012 is as follows:

Governmental Activities

	<u>Balance at</u> <u>July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at</u> <u>June 30, 2012</u>
Capital assets, being depreciated:				
Furniture and fixtures	\$ 30,601	\$ -	\$ -	\$ 30,601
Equipment	42,693	1,034	-	43,727
Leasehold improvements	40,361	-	-	40,361
Software	-	1,899	-	1,899
	<u>113,655</u>	<u>2,933</u>	<u>-</u>	<u>116,588</u>
Total capital assets, being depreciated				
Less accumulated depreciation for:				
Furniture and fixtures	(30,601)	-	-	(30,601)
Equipment	(33,229)	(3,324)	-	(36,553)
Leasehold improvements	(36,324)	(4,037)	-	(40,361)
Software	-	(633)	-	(633)
	<u>(100,154)</u>	<u>(7,994)</u>	<u>-</u>	<u>(108,148)</u>
Total accumulated depreciation				
Governmental activities capital assets, net	<u>\$ 13,501</u>	<u>\$ (5,061)</u>	<u>\$ -</u>	<u>\$ 8,440</u>

Depreciation expense of \$7,994 was charged to services and supplies.

4. INSURANCE:

Insurance is provided on behalf of the Commission by the County of Orange 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.

See Independent Auditors' Report.

ORANGE COUNTY
LOCAL AGENCY FORMATION COMMISSION

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2012

5. LONG-TERM LIABILITIES:

The following is a summary of changes in long-term liabilities of the Commission for the year ended June 30, 2012:

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012
Compensated absences	\$ 21,783	\$ 24,634	\$ (20,868)	\$ 25,549
	Due Within One Year	Due in More Than One Year		
Compensated absences	\$ 17,033	\$ 8,516		

6. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS:

The composition of interfund balances as of June 30, 2012, is as follows:

Due From/To Other Funds:

Receivable Fund	Payable Fund	Amount
General Fund	Special Revenue Fund	\$ 41,809

Due to the General Fund of \$41,809 is to cover negative cash in the Special Revenue Fund at June 30, 2012.

7. RETIREMENT PLAN:

Plan Description

The Commission participates in the Orange County Employees' Retirement System (OCERS), a cost-sharing multiple-employer defined benefit pension plan. 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 payroll of employees covered by OCERS was \$413,591 for the year ended June 30, 2012; the Commission's total payroll was \$381,005 in fiscal year 2011-2012. 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.

See Independent Auditors' Report.

ORANGE COUNTY
LOCAL AGENCY FORMATION COMMISSION

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2012

7. RETIREMENT PLAN (CONTINUED):

Funding

The OCERS pension plan covers substantially all full-time and part-time employees (over 20 hours per pay period) of the Orange County Local Agency Formation Commission, the County of Orange, and several other cities and special districts within the County. Each of the participating entities shares 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 2011-2012, the Commission's required contribution was 26.61%. 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' 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 their pro-rata share of OCERS coverage. The total amount of OCERS contributions prepaid by the Commission for the year ended June 30, 2012, was \$88,916.

Three-Year Trend Information for the Plan:

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage APC Contributed</u>
6/30/10	\$ 82,573	100%
6/30/11	86,410	100%
6/30/12	88,916	100%

See Independent Auditors' Report.

ORANGE COUNTY
LOCAL AGENCY FORMATION COMMISSION

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2012

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

Plan Description

The Commission provides other post-employment benefits (OPEB) through a multiple-employer defined benefit healthcare plan by providing a monthly grant to eligible employees which is used to offset the cost of County-provided healthcare and/or Medicare Part B premiums. Additional information may be obtained by reviewing the County of Orange Financial Statement footnotes.

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. Certain required disclosures relating to the actuarial valuation were not available for this report. The Commission shares proportionally in the plan and the same contribution rates apply for its employees. For fiscal year 2011-2012 the annual required contribution was 2.5% of payroll which was equal to the contribution for the Commission. The purpose of the contribution was to fund the plan in order to cover the future costs of benefits as employees' retire. Currently, contributions are not required from plan members.

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 COLA 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. The total amount of contributions by the Commission for the year ended June 30, 2012, was \$10,081.

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ORANGE COUNTY
LOCAL AGENCY FORMATION COMMISSION

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2012

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

Contributions (Continued)

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, 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>
6/30/10	\$ 11,477	100%	\$ -
6/30/11	9,637	100%	-
6/30/12	10,081	100%	-

9. 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:

<u>Fiscal Year</u>	<u>Amount</u>
2013	\$ 43,502
2014	40,145
2015	6,723
	<u>\$ 90,370</u>

Additionally, 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, 2012 was \$45,278.

10. RELATED PARTY TRANSACTIONS:

The Commission and the County of Orange (County) entered into a County Services Agreement to provide office space (see Note 9), 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, 2012, was \$63,896.

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

June 30, 2012

11. DEFICIT FUND BALANCE:

The Special Revenue Fund reported a deficit of \$41,809 at June 30, 2012, which will be eliminated by transfers from the General Fund.