

ORANGE COUNTY LOCAL AGENCY
FORMATION COMMISSION

Basic Financial Statements

For the Year Ended June 30, 2019

(With Independent Auditors' Report Thereon)

ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION

Basic Financial Statements

For the Year Ended June 30, 2019

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Independent Auditor's Report

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

Report on the Financial Statements

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, 2019, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers 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 opinions.

Opinions

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

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2019 on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Commission's internal control over financial reporting and compliance.



Irvine, California
October 29, 2019

ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended June 30, 2019

The following management's 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, 2019. Please read it in conjunction with the financial statements identified in the accompanying table of contents.

Using the Accompanying Financial Statements

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

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.

ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

For the year ended June 30, 2019

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 other special 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.

ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

For the year ended June 30, 2019

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

Table 1
Statements of Net Position
For the Fiscal Year Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>	<u>Change</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES:			
Current assets	\$ 1,487,250	\$ 1,420,231	\$ 67,019
Capital assets, net	31,640	51,017	(19,377)
Total Assets	<u>1,518,890</u>	<u>1,471,248</u>	<u>47,642</u>
Deferred Outflows of Resources	<u>483,214</u>	<u>453,148</u>	<u>30,066</u>
LIABILITIES, DEFERED INFLOWS OF RESOURCES AND NET POSITION:			
LIABILITIES:			
Current liabilities	42,653	78,489	(35,836)
Long-term liabilities	<u>1,763,917</u>	<u>1,463,076</u>	<u>300,841</u>
Total Liabilities	<u>1,806,570</u>	<u>1,541,565</u>	<u>265,005</u>
Deferred Inflows of Resources	<u>265,885</u>	<u>475,632</u>	<u>(209,747)</u>
NET POSITION:			
Net investment in capital assets	31,640	51,017	(19,377)
Restricted for special projects	-	-	-
Unrestricted	<u>(101,991)</u>	<u>(143,818)</u>	<u>41,827</u>
Total Net Position	<u>\$ (70,351)</u>	<u>\$ (92,801)</u>	<u>\$ 22,450</u>

A closer examination reveals that Net Position between the years increased by \$22,450. This increase is a result of the Commission receiving more income from charges for services than expenses for the fiscal year ending June 30, 2019.

The other major financial accounts, mainly cash & investments, prepaid expenses, and accounts payable, ended the year relatively consistent with the prior year.

ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

For the year ended June 30, 2019

GOVERNMENT-WIDE FINANCIAL STATEMENTS (CONTINUED)

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

Table 2
Statement of Activities
June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>	<u>Change</u>
REVENUES:			
Assessments	\$ 1,091,777	\$ 1,070,400	\$ 21,377
Charges for Services	30,380	144,260	(113,880)
Interest and Other Revenues	33,398	18,389	15,009
Total Revenues	<u>1,155,555</u>	<u>1,233,049</u>	<u>(77,494)</u>
EXPENSES:			
General Government	1,133,105	1,183,244	(50,139)
Other Expenses	-	-	-
Total Expenditures	<u>1,133,105</u>	<u>1,183,244</u>	<u>(50,139)</u>
Net Income	<u>22,450</u>	<u>49,805</u>	<u>(27,355)</u>
Net Position - Beginning of Year	(92,801)	(19,902)	(72,899)
GASB 75 Adjustment	-	(122,704)	122,704
Net Position - End of Year	<u>\$ (70,351)</u>	<u>\$ (92,801)</u>	<u>\$ 22,450</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 \$22,450 overall as the Commission receiving more income from charges for services than expenses for the fiscal year ending June 30, 2019.

Total revenues decreased primarily due to a \$(113,880) decrease in charges for services for application filings compared to the prior year. Total expenses decreased primarily due to a decrease in expenses associated with the application filings compared to the prior year.

ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

For the year ended June 30, 2019

GENERAL FUND BUDGET

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

- Total general fund revenues were slightly higher than budgeted due to an increase in interest revenues from higher interest rates and other revenues received.
- Several pension and retiree health year end calculations are not budgeted for and are prepared mainly for audited financial statement presentation.
- Total expenditures were less than budget by approximately \$117,540 mainly due to lower than expected expenditures for professional services, professional development, and travel.

CAPITAL ASSETS

**Capital Assets - Governmental Activities
Years Ended June 30, 2019 and 2018**

	<u>2019</u>	<u>2018</u>	<u>Change</u>
Capital assets:			
Furniture and fixtures	\$ 19,531	\$ 19,531	\$ -
Equipment	43,623	39,488	4,135
Leasehold improvements	89,017	89,017	-
Software	1,899	1,899	-
Total capital assets	154,070	149,935	4,135
Accum. depreciation	(122,430)	(98,918)	(23,512)
Capital assets, net	<u>\$ 31,640</u>	<u>\$ 51,017</u>	<u>\$ (19,377)</u>

Asset additions consists of new office equipment including a new computer and Xerox printer. There were no disposals to capital assets in fiscal year 2019. Additional information on capital assets may be found in Note 3 of the notes to financial statements.

ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

For the year ended June 30, 2019

LONG-TERM LIABILITIES

Long-term Liabilities
Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>	<u>Change</u>
Compensated absences	\$ 40,857	\$ 34,296	\$ 6,561

The compensated absences liability represents the value of unused vacation pay that employees have accrued as of the end of the fiscal year. 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 2677 North Main Street, Suite 1050, Santa Ana, CA 92705.

ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION
Statement of Net Position
June 30, 2019

	Governmental Activities
Assets:	
Cash and investments (note 2)	\$ 1,300,154
Due from other governments	1,587
Accounts receivable	1,000
Interest receivable	3,781
Prepaid costs	180,728
Capital assets, net (note 3)	31,640
Total assets	1,518,890
Deferred outflow of resources:	
Deferred amounts from pension (note 6)	469,088
Deferred amounts from OPEB (note 7)	14,126
Total deferred outflow of resources	483,214
Liabilities:	
Accounts payable	22,177
Accrued liabilities	16,437
Unearned revenue	4,039
Noncurrent liabilities:	
Deferred lease incentive (note 3)	13,909
Net pension liability (note 6)	1,582,703
Net OPEB liability (note 7)	126,448
Due within one year (note 5)	22,864
Due in more than one year (note 5)	17,993
Total liabilities	1,806,570
Deferred inflow of resources:	
Deferred amounts from pension (note 6)	259,339
Deferred amounts from OPEB (note 7)	6,546
Total deferred inflow of resources	265,885
Net position (deficit):	
Investment in capital assets	31,640
Unrestricted	(101,991)
Total net position (deficit)	\$ (70,351)

See accompanying notes to the basic financial statements

ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION
Statement of Activities
For the Fiscal Year Ended June 30, 2019

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:					
General government	\$ 1,133,105	30,380	-	-	(1,102,725)
Total governmental activities	<u>\$ 1,133,105</u>	<u>30,380</u>	<u>-</u>	<u>-</u>	<u>(1,102,725)</u>
General revenues:					
					1,091,777
					31,801
					<u>1,597</u>
					<u>1,125,175</u>
					22,450
					<u>(92,801)</u>
					<u>\$ (70,351)</u>

See accompanying notes to the basic financial statements

ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION
Governmental Funds
Balance Sheet
June 30, 2019

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total Governmental Funds</u>
<u>Assets</u>			
Cash and investments	\$ 1,296,115	4,039	1,300,154
Accounts receivable	1,000	-	1,000
Due from other governments	1,587	-	1,587
Interest receivable	3,781	-	3,781
Prepaid costs	<u>180,728</u>	<u>-</u>	<u>180,728</u>
Total assets	<u>\$ 1,483,211</u>	<u>4,039</u>	<u>1,487,250</u>
<u>Liabilities and Fund Balance</u>			
Liabilities:			
Accounts payable	\$ 22,177	-	22,177
Accrued liabilities	16,437	-	16,437
Unearned revenue	<u>-</u>	<u>4,039</u>	<u>4,039</u>
Total liabilities	<u>38,614</u>	<u>4,039</u>	<u>42,653</u>
Fund balance:			
Nonspendable:			
Prepaid costs	180,728	-	180,728
Assigned for:			
Contingency	100,000	-	100,000
Litigation	75,000	-	75,000
Unfunded liabilities	30,000	-	30,000
Unassigned	<u>1,058,869</u>	<u>-</u>	<u>1,058,869</u>
Total fund balance	<u>1,444,597</u>	<u>-</u>	<u>1,444,597</u>
Total liabilities and fund balance	<u>\$ 1,483,211</u>	<u>4,039</u>	<u>1,487,250</u>

See accompanying notes to the basic financial statements

ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION
Governmental Funds
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
June 30, 2019

Fund balances of governmental funds \$ 1,444,597

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

Capital Related Items

Capital assets and depreciation have not been included as financial resources in the government fund statements:

Capital assets	154,070
Accumulated depreciation	(122,430)

Long-Term Liability Transactions

Long-term liabilities are not due and payable in the current period and, accordingly, are not reported in the government fund statements:

Net pension liability	(1,582,703)
Net OPEB liability	(126,448)
Deferred lease incentive	(13,909)
Compensated absences	(40,857)

Deferred Outflows and Inflows of Resources

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

Deferred outflows - deferred amounts from pensions	469,088
Deferred outflows - deferred amounts from OPEB	14,126
Deferred inflows - deferred amounts from pensions	(259,339)
Deferred inflows - deferred amounts from OPEB	(6,546)

Net position (deficit) of governmental activities	\$ (70,351)
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ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Fiscal Year Ended June 30, 2019

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total Governmental Funds</u>
Revenues:			
Assessments	\$ 1,091,777	-	1,091,777
Filing fees	-	30,380	30,380
Interest	31,801	-	31,801
Other	<u>1,597</u>	-	<u>1,597</u>
Total revenues	<u>1,125,175</u>	<u>30,380</u>	<u>1,155,555</u>
Expenditures:			
General government:			
Salaries and benefits	699,677	7,410	707,087
Service and supplies	<u>322,643</u>	<u>22,970</u>	<u>345,613</u>
Total expenditures	<u>1,022,320</u>	<u>30,380</u>	<u>1,052,700</u>
Excess (deficiency) of revenues over (under) expenditures	<u>102,855</u>	<u>-</u>	<u>102,855</u>
Net change in fund balances	102,855	-	102,855
Fund balances at beginning of year	<u>1,341,742</u>	<u>-</u>	<u>1,341,742</u>
Fund balances at end of year	<u>\$ 1,444,597</u>	<u>-</u>	<u>1,444,597</u>

See accompanying notes to the basic financial statements

ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION
 Governmental Funds
 Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
 to the Statement of Activities
 For the Fiscal Year Ended June 30, 2019

Net changes in fund balances - total governmental funds \$ 102,855

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

Capital Related Items

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

Capital expenditures and disposals	4,135
Depreciation expense	(23,512)

Long-Term Liability Transactions

Some expenses reported in the Statement of Activities do not require the use of current financial resources:

Net change in compensated absences	(6,561)
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Pension expense reported in the governmental funds includes the actual contributions made in the fiscal year. Pension expense reported in the Statement of Activities includes the changes in the net pension liability and pension related deferred outflows/inflows of resources.

Net change in net pension liability	(78,144)
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OPEB expense reported in the governmental funds includes the actual contributions made in the fiscal year. OPEB expense reported in the Statement of Activities includes the changes in the net OPEB liability and OPEB related deferred outflows/inflows of resources.

Net change in net OPEB liability	6,987
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When a lessor pays for leasehold improvements a deferred lease incentive is recognized in the Statement of Net Position. The deferred lease incentive is amortized over the lease term. Amortization of this amount reduces rent expense in the Statement of Activities.

Amortization of deferred lease incentive	16,690
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Change in net position of governmental activities	\$ 22,450
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See accompanying notes to the basic financial statements

(1) Summary of Significant Accounting Policies

The financial statements of the Orange County Local Agency Formation Commission (Commission) have been prepared in conformity with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

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 (LAFCO) to help direct and coordinate California's growth in a logical, efficient, and orderly manner. Each county within California is required to have a LAFCO. 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, and four alternates. 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.

B. Basis of Accounting and Measurement Focus

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

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

(1) Summary of Significant Accounting Policies, (Continued)

B. Basis of Accounting and Measurement Focus, (Continued)

Government-wide Financial Statements

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

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

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

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as expenditures.

Fund Financial Statements

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

Charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period to the extent normally collected within the availability period.

(1) Summary of Significant Accounting Policies, (Continued)

B. Basis of Accounting and Measurement Focus, (Continued)

Other revenue items are considered to be measurable and available when cash is received from the government.

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

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

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

Governmental Fund Balances

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

Nonspendable Fund Balance

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

Spendable Fund Balance

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

(1) Summary of Significant Accounting Policies, (Continued)

B. Basis of Accounting and Measurement Focus, (Continued)

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

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

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

Net Position Flow Assumption – 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.

Fund Balance Flow Assumption – When an 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.

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

The Commission reports the following major governmental funds:

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

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.

(1) Summary of Significant Accounting Policies, (Continued)

C. Cash and Investments

Cash and cash equivalents include amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the government. Investments are reported in the accompanying balance sheet at fair value.

D. Fair Value Measurements

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

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

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

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

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

(1) Summary of Significant Accounting Policies, (Continued)

E. 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 \$2,000 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 acquisition 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

F. Compensated Absences

All regular full-time and regular part-time Commission employees earn from 15 to 20 vacation days a year, depending upon their length of employment, and 9 to 12 sick days a year. Employees can carry forward up to 240 hours in earned but unused vacation days. Upon termination or retirement, employees are entitled to receive compensation at their current base salary for all unused vacation leave. There is no payout for unused accumulated sick leave and as such is not accrued for at year-end.

G. Pensions

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

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

(1) Summary of Significant Accounting Policies, (Continued)

G. Pensions, (Continued)

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

Valuation Date (VD)	December 31, 2017
Measurement Date (MD)	December 31, 2018
Measurement Period (MP)	December 31, 2017 to December 31, 2018

H. Other Post-Employment Benefits (OPEB)

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

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

Valuation Date (VD)	June 30, 2017
Measurement Date (MD)	December 31, 2018
Measurement Period (MP)	January 1, 2018 to December 31, 2018

I. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Commission reports deferred outflows related to pensions and OPEB resulting from actuarial calculations.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Commission reports deferred inflows related to pensions and OPEB resulting from actuarial calculations.

(1) Summary of Significant Accounting Policies, (Continued)

J. Estimates

The presentation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

(2) Cash and Investments

Cash and investments held at June 30, 2019 consisted of the following:

Demand deposits	\$	528,623
Orange County Investment Pool		483,214
Local Agency Investment Fund		<u>288,317</u>
Total cash and investments	\$	<u>1,300,154</u>

Investments Authorized by the Commission's Investment Policy

The Commission's investment policy is reviewed 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>Percentage of Portfolio</u>	<u>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	N/A	None	None
Orange County Investment Pool	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 F1 or better.

(2) Cash and Investments, (Continued)

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 (LAIF) and the Orange County Investment Pool which purchase a combination of shorter term and longer term investments.

<u>Investment Type</u>	<u>Total</u>	<u>Remaining Maturity (in Months)</u>
		<u>12 Months Or Less</u>
County investment pool	\$ 483,214	483,214
State investment pool	<u>288,317</u>	<u>288,317</u>
Total	<u>\$ 771,531</u>	<u>771,531</u>

Disclosure 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.

<u>Investment Type</u>	<u>Total</u>	<u>Minimum Legal Rating</u>	<u>AAA</u>	<u>Not Rated</u>
County investment pool	\$ 483,214	N/A	483,214	-
State investment pool	<u>288,317</u>	N/A	<u>-</u>	<u>288,317</u>
Total	<u>\$ 771,531</u>		<u>483,214</u>	<u>288,317</u>

(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 least 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 the Orange County Investment Pool).

Fair Value Measurement

The Commission is a participant in the County Treasurer's Orange County Investment Pool (OCIP). The OCIP is an external investment pool and is rated and registered with the Securities and Exchange Commission (SEC). The County Treasury Oversight Committee conducts OCIP oversight. Cash on deposit in the OCIP at June 30, 2019, is stated at fair value. The OCIP values participant shares on an amortized cost basis during the year and adjusts to fair value at year-end. For further information regarding the OCIP, refer to the County of Orange Comprehensive Annual Financial Report.

The fair value of the Commission's investment 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 is reported 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.

(3) Capital Assets

A summary of changes in capital assets follows:

	Balance at June 30, 2018	Additions	Deletions	Balance at June 30, 2019
Capital assets, being depreciated:				
Furniture and fixtures	\$ 19,531	-	-	19,531
Equipment	39,488	4,135	-	43,623
Leasehold improvements	89,017	-	-	89,017
Software	<u>1,899</u>	<u>-</u>	<u>-</u>	<u>1,899</u>
 Total capital assets, being depreciated	 <u>149,935</u>	 <u>4,135</u>	 <u>-</u>	 <u>154,070</u>
 Less accumulated depreciation for:				
Furniture and fixtures	(11,344)	(2,129)	-	(13,473)
Equipment	(27,225)	(4,681)	-	(31,906)
Leasehold improvements	(58,450)	(16,702)	-	(75,152)
Software	<u>(1,899)</u>	<u>-</u>	<u>-</u>	<u>(1,899)</u>
 Total accumulated depreciation	 <u>(98,918)</u>	 <u>(23,512)</u>	 <u>-</u>	 <u>(122,430)</u>
 Capital assets, net	 <u>\$ 51,017</u>	 <u>(19,377)</u>	 <u>-</u>	 <u>31,640</u>

Depreciation expense of \$23,512 was included in general government expense on the statement of activities.

In January 2015 the Commission's landlord provided leasehold improvements totaling \$89,017 that are amortized over the term of the lease. The leasehold improvements are shown as a capital asset and a deferred lease incentive in the Statement of Net Position. Amortization of the deferred lease incentive for the year ended June 30, 2019 was \$13,909.

(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.

(5) Long Term Liabilities

The following is a summary of changes in long-term liabilities for the year ended June 30, 2019:

	<u>Balance</u> <u>July 1, 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2019</u>	<u>Due</u> <u>Within</u> <u>One Year</u>
Compensated absences	<u>\$ 34,296</u>	<u>37,995</u>	<u>(31,434)</u>	<u>40,857</u>	<u>22,864</u>

(6) Retirement Plan

Plan Description

All qualified full-time employees are eligible to participate in the Commission's General Employee Pension Plan, a cost-sharing multiple employer defined benefit pension plan administered by the Orange County Employees Retirement System (OCERS). Benefit provisions under the Plans are established by State statute and Commission resolution. OCERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions, and membership information that can be found on the OCERS website.

Benefits Provided

OCERS provides service retirement, disability, death, and survivor benefits to eligible employees. All regular full-time employees of the Commission who work a minimum of 20 hours per week become members of OCERS effective on the first day of employment in an eligible position. New members employed after January 1, 2013 are designated as PEPPRA subject to the provisions of California Government Code 7522 et seq. and AB 197. Members hired prior to January 1, 2013 are eligible to retire once they attain the age of 50 and have acquired 10 or more years of retirement service credit. A member with 30 years of service is eligible to retire regardless of age. Members who are hired on or after January 1, 2013 are eligible to retire once they have attained the age of 52, and have acquired 5 years of retirement service credit. All members can also retire at the age of 70 regardless of service. The retirement benefit the member will receive is based upon age at retirement, final average compensation, years of retirement service credit, and retirement plan and tier. OCERS provides an annual cost-of-living benefit to all retirees that is based upon the Consumer Price Index for All Urban Consumers for the Los Angeles-Riverside-Orange County Area, and is capped at 3.0%.

(6) Retirement Plan (Continued)

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

Hire date	<u>Prior to December 12, 2012</u>	<u>After December 12, 2012 (Legacy OCERS Members) Plan P</u>	<u>On or After January 1, 2013 (New OCERS Members) Plan T PERPA Compliant</u>
Benefit formula	2.7%@55	1.62%@65	1.62%@65
Benefit vesting schedule	10 years of service	10 years of service	10 years of service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50 - 55	50 - 65	50-65
Monthly benefits, as a % of eligible	2.0% to 2.7%	0.79% to 1.62%	0.79% to 1.62%
Required employee contribution rates	9-16%	6-11%	6-9%
Required employer contribution rates	30.80%%	25.14%	26.19%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for all Plans are determined annually on an actuarial basis as of December 31 by OCERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Commission is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

Actuarial Methods and Assumptions used to determine Total Pension Liability

The Net Pension Liability was measured as of December 31, 2018. The plan's Fiduciary Net Position (plan assets) was valued as of the measurement date while the Total Pension Liability was determined based on rolling forward the actuarial valuation as of December 31, 2017.

(6) Retirement Plan (Continued)

Actuarial Methods and Assumptions used to determine Total Pension Liability (Continued)

The following actuarial assumptions were applied to the December 31, 2018 measurement date:

Actuarial Cost Method	Entry-Age in accordance with the requirements of GASB Statement No. 68
Inflation	2.75%
Salary increases	General: 4.25% to 12.25%, vary by service, including inflation
Investment rate of return	7.00% net of pension plan investment expenses, including inflation

Discount Rate

The discount rate used to measure the Total Pension Liability was 7.00% as of December 31, 2018. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rates and that employer contributions will be made at rates equal to the actuarially determined contribution rates. For this purpose, only employer contributions that are intended to fund benefits for current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability as of December 31, 2018.

The long-term expected rate of return on pension plan investments, was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation and deducting expected investment expenses. The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected investment rate of return assumptions are summarized as:

(6) Retirement Plan, (Continued)

Discount Rate (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	35.0%	6.38%
Core Bonds	13.0%	1.03%
High Yield Bonds	4.0%	3.52%
Bank Loan	2.0%	2.86%
TIPS	4.0%	0.96%
Emerging Market Debt	4.0%	3.78%
Real Estate	10.00%	4.33%
Core Infrastructure	2.0%	5.48%
Natural Resources	10.0%	7.86%
Risk Mitigation	5.0%	4.66%
Mezzanine/Distressed Debts	3.0%	6.53%
Private Equity	8.0%	9.48%
Total	<u>100.0%</u>	

Allocation of Net Pension Liability

The proportion of the net pension liability was based on a projection of the Commission's long term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The following table shows the Commission's proportionate share of the net pension liability over the measurement period:

	<u>Total Pension Liability</u>
Balance at: December 31, 2017	\$1,268,133
Balance at: December 31, 2018	1,582,703
Net change during 2018	314,570

The Commission's proportionate share of the net pension liability for the Plan was as follows:

Proportion - December 31, 2017	0.026%
Proportion - December 31, 2018	0.021%
Change - Increase (Decrease)	(0.005%)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Plan as of the Measurement Date, calculated using the discount rate of 7.00 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.00 percent) or 1 percentage-point higher (8.00 percent) than the current rate:

(6) Retirement Plan, (Continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate (Continued)

	Discount Rate – <u>1% (6.00%)</u>	Current Discount Rate (7.00%)	Discount Rate + <u>1% (8.00%)</u>
Actuarially-Determined Net Pension Liability	<u>\$ 2,282,962</u>	<u>1,582,703</u>	<u>1,013,468</u>

Amortization of Deferred Outflows and Deferred Inflows of Resources

Under GASB 68, deferred inflows and deferred outflows of resources related to pensions are recognized in pension expense systematically over time.

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

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

Difference between projected and actual earnings	5 year straight-line amortization
All other amounts	Straight-line amortization over the average expected remaining service lives of all members that are provided with benefits (active, inactive, and retired as of the beginning of the measurement period).

Pension Expense and Deferred Outflows and Deferred Inflows of Resources
Related to Pensions

For the measurement period ending December 31, 2018 (the measurement date), the Commission recognized a pension expense of \$193,144 for the Plan.

As of the December 31, 2018 measurement date, the Commission reports other amounts for the Plan as deferred outflow and deferred inflow of resources related to pensions as follows:

(6) Retirement Plan, (Continued)

Pension Expense and Deferred Outflows and Deferred Inflows of Resources
Related to Pensions (Continued)

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between Actual Contributions and Proportionate Share of Contributions	\$ 204,067	134,872
Differences between Expected and Actual Experience	-	103,944
Change of Assumptions	134,169	20,523
Net Difference between Projected and Actual Earnings on Pension Plan Investments	<u>130,852</u>	<u>-</u>
Total	<u>\$ 469,088</u>	<u>259,339</u>

Amounts reported as deferred outflows and deferred inflows of resources in the previous chart will be recognized in future pension expense as follows:

<u>Measurement Period Ended December 31</u>	<u>Deferred (Outflows) Inflows of Resources</u>
2020	\$ 50,250
2021	7,729
2022	68,962
2023	84,409
2024	(1,601)

(7) Other Post-Employment Benefits

Plan Description

The Commission's employees participate in a Retiree Medical Plan (Plan), a cost-sharing multiple-employer defined benefit post-employment 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 accessed at its website: <http://www.ac.ocgov.com>.

(7) Other Post-Employment Benefits (Continued)

Benefits Provided

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.

Employees Covered

As of the December 31, 2018 measurement date, the following current and former employees were covered by the benefit terms under the Retiree Healthcare Plan:

Active employees	5
Inactive employees or beneficiaries currently receiving benefits	1
Inactive employees entitled to, but not yet receiving benefits	-
Total	<u>6</u>

Contributions

Contribution requirements of the Commission are established by the County of Orange. The Commission's contractually required contribution rate for the year-ended June 30, 2019 was 4.00 percent of covered payroll, actuarially determined as an amount that is expected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. Contributions to the OPEB plan from the Commission were \$17,440 for the fiscal year ended June 30, 2019. Currently, contributions are not required from plan members.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2019, the Commission reported a liability of \$126,448 for its proportionate share of the collective net OPEB liability. The collective net OPEB liability was measured as of December 31, 2018, and the total OPEB liability used to calculate the collective net OPEB liability was determined by an actuarial valuation as of June 30, 2017. The Commission's proportion of the collective net OPEB liability was based on a projection of the Commission's share of contributions to the OPEB plan relative to the project contributions of all participating employers, actuarially determined. At December 31, 2018, the Commission's proportion was 0.0305% percent, which is a (0.0019) change to its proportion measure as of December 31, 2017 (0.0324% percent).

(7) Other Post-Employment Benefits (Continued)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (continued)

For the fiscal year ended June 30, 2019, the Authority recognized OPEB expense of \$11,754. As of fiscal year ended June 30, 2019, the Authority reported deferred outflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
OPEB contributions subsequent to measurement date	\$ 10,852	\$ -
Change in proportion	-	6,546
Net difference between projected and actual earnings on OPEB plan investments	<u>3,274</u>	<u>-</u>
Total	<u>\$ 14,126</u>	<u>\$ 6,546</u>

The \$10,852 reported as deferred outflows of resources related to contributions subsequent to the December 31, 2018 measurement date will be recognized as a reduction of the net OPEB liability during the fiscal year ending June 30, 2019. Other amounts reported as deferred inflows of resources related to OPEB will be recognized as expense as follows:

<u>Measurement Period Ended December 31</u>	<u>Deferred Outflows/ (Inflows) of Resources</u>
2019	\$ (354)
2020	(354)
2021	(354)
2022	748
2023	(897)
Thereafter	(2,061)

Actuarial Assumptions

The Commission's total OPEB liability was determined by an actuarial valuation as of June 30, 2017 using the following actuarial methods and assumptions:

Discount Rate	7.00%
Long-Term Expected Rate of Return on Investments	7.00%, net of investment expenses
Inflation	2.75%
Salary Increases	3.25%, per annum, in aggregate
Grant Increase Rate	AFSCME – lesser of 5% and Medical Trend Non-AFSCME – lesser of 3% and Medical Trend
Medical Trend	Pre-Medicare – 7.5% for 2019, decreasing to 4.0% for 2076 and later Medicare – 6.5% for 2019, decreasing to 4.0% for 2076 and later

(7) Other Post-Employment Benefits (Continued)

Actuarial Assumptions (Continued)

Mortality rates were based on the OCERS 2014-2016 Experience Study, as appropriate, with adjustments for mortality improvements based on Scale MP-16.

The target asset allocation and expected long term rate of return were based on Segal Consulting's 2014-2016 Experience Study for OCERS. The long term expected real rate of return assumptions are presented as arithmetic means as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Global Equities	35%	6.38%
Core Bonds	13%	1.03%
High Yield Bonds	4%	3.52%
Bank Loan	2%	2.86%
TIPS	4%	0.96%
Emerging Market Debt	4%	3.78%
Real Estate	10%	4.33%
Core Infrastructure	2%	5.48%
Natural Resources	10%	7.86%
Risk Mitigation	5%	4.66%
Mezzanine/Distressed Debt	3%	6.53%
Private Equity	<u>8%</u>	9.48%
Assumed Long-term Rate of Inflation		2.75%
Total	<u>100%</u>	

Discount Rate

The discount rate used to measure the total OPEB liability was 7.00 percent. The projection of cash flows used to determine the discount rate assumed that Authority contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued OCERS financial report.

(7) Other Post-Employment Benefits (Continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the Plan as of the Measurement Date, calculated using the discount rate of 7.00 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.00 percent) or 1 percentage-point higher (8.00 percent) than the current rate:

	Discount Rate - 1% (6.00%)	Current Discount Rate (7.00%)	Discount Rate + 1% (8.00%)
Commission's proportionate share of the Net OPEB Liability	<u>\$152,887</u>	<u>126,448</u>	<u>104,341</u>

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the net OPEB liability of the Commission if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current rate, for measurement period ended December 31, 2018:

	1% decrease 6.5%/5.5% decreasing to 3%	Current Healthcare Cost Trend Rate 7.5%/6.5% decreasing to 4%	1% increase 8.5%/7.5% decreasing to 5%
Commission's proportionate share of the Net OPEB Liability	<u>\$122,710</u>	<u>126,448</u>	<u>130,263</u>

(8) Related Party Transactions

The Commission and the County entered into a County Services Agreement to provide 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, 2019 was \$25,288.

(9) Commitments

The Commission is obligated under operating lease agreements for the rental of office space and various equipment entered into beginning 2014 and expiring through 2024. Future minimum lease payments for office space and various equipment under these operating leases are as follows:

<u>Year Ending June 30</u>	<u>Minimum Lease Payments</u>
2020	\$ 41,660
2021	5,160
2022	5,160
2023	5,160
2024	<u>4,300</u>
Total	<u>\$61,440</u>

REQUIRED SUPPLEMENTARY INFORMATION

	<u>Measurement Date</u>				
	<u>December 31, 2018</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Proportion of the Collective Net Pension Liability	0.026%	0.026%	0.026%	0.020%	0.026%
Proportionate Share of the Collective Net Pension Liability	\$1,582,703	1,267,133	1,340,888	1,156,534	1,303,484
Covered Payroll	\$ 419,538	394,760	374,792	287,698	334,804
Proportionate Share of the Collective Net Pension Liability as percentage of covered payroll	377.25%	320.99%	357.77%	402.00%	389.33%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	67.06%	74.93%	68.69%	64.73%	67.15%

Notes to Schedule:

Benefit Changes – There were no changes in benefits

Changes in Assumptions – The discount rate was reduced from 7.25% as of December 31, 2016 to 7.00% as of December 31, 2017. The inflation rate was reduced from 3.00% as of December 31, 2016 to 2.75% as of December 31, 2017. Salary increases were increased from 4.50% to 13.50% as of December 31, 2016 to 4.25% to 12.25% as of December 31, 2017.

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

	Fiscal Year <u>2018-19</u>	Fiscal Year <u>2017-18</u>	Fiscal Year <u>2016-17</u>	Fiscal Year <u>2015-16</u>	Fiscal Year <u>2014-15</u>
Actuarially Determined Contribution	\$120,000	116,000	115,921	93,000	104,000
Contributions in Relation to the Actuarially Determined Contribution	<u>120,000</u>	<u>116,000</u>	<u>115,921</u>	<u>93,000</u>	<u>104,000</u>
Contribution Deficiency (Excess)	\$ <u> -</u>	<u> -</u>	<u> -</u>	<u> -</u>	<u> -</u>
Covered Payroll	\$441,308	405,196	389,422	340,997	352,758
Contributions as a Percentage of Covered Payroll	27.19%	28.63%	29.77%	27.27%	29.48%

Notes to Schedule:

Fiscal Year End: June 30, 2019
Valuation Date: December 31, 2017

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry Age
Amortization Method	Level Percent of Payroll
Asset Valuation Method	5-year smooth market
Discount Rate	7.00%
Projected Salary Increase	4.25% to 12.25% depending on age, service, and type of employment
Inflation	2.75%
Payroll Growth	2.75%
Individual Salary Growth	4.25%

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

	Measurement Date	
	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Proportion of the Collective Net OPEB Liability	0.0305%	0.0324%
Proportionate Share of the Collective Net OPEB Liability	\$126,448	\$130,408
Covered-Employee Payroll	\$407,000	\$387,000
Proportionate Share of the Collective Net OPEB Liability as a Percentage of Covered-Employee Payroll	31.07%	33.70%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	42.55%	42.30%

Notes to Schedule:

Benefit Changes – There were no changes in benefits.

Changes in Assumptions – There were no changes in assumptions.

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

	Fiscal Year <u>2018-19</u>	Fiscal Year <u>2017-18</u>
Actuarially Determined Contribution	\$ 17,440	\$ 16,354
Contributions in Relation to the Actuarially Determined Contribution	<u>17,440</u>	<u>16,354</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
Covered-Employee Payroll	\$ 440,000	\$ 396,000
Contributions as a Percentage of Covered-Employee Payroll	4.06%	4.13%

Notes to Schedule:

Fiscal Year End: June 30, 2019
Valuation Date: June 30, 2017

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry Age
Amortization Method	Level Percent of Payroll
Asset Valuation Method	5-year smooth market
Discount Rate	7.25%
Inflation	3.25%
Mortality	CalPERS 1997-2011 Experience Study, MP-14
Medical Trend	Pre-Medicare – 7.0% for 2017, decreasing to 5.0% for 2021 and later Medicare – 7.2% for 2017, decreasing to 5.0% for 2021 and later

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

ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION
General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
For the Fiscal Year Ended June 30, 2019

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Assessments	\$ 1,091,777	1,091,777	1,091,777	-
Interest	14,500	14,500	31,801	17,301
Other	-	-	1,597	1,597
Total revenues	<u>1,106,277</u>	<u>1,106,277</u>	<u>1,125,175</u>	<u>18,898</u>
Expenditures:				
General government:				
Salaries and benefits	700,430	700,430	699,677	753
Service and supplies	439,430	439,430	322,643	116,787
Total expenditures	<u>1,139,860</u>	<u>1,139,860</u>	<u>1,022,320</u>	<u>117,540</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(33,583)</u>	<u>(33,583)</u>	<u>102,855</u>	<u>(98,642)</u>
Net change in fund balances	(33,583)	(33,583)	102,855	(98,642)
Fund balances at beginning of year	<u>1,341,742</u>	<u>1,341,742</u>	<u>1,341,742</u>	<u>-</u>
Fund balances at end of year	<u>\$ 1,308,159</u>	<u>1,308,159</u>	<u>1,444,597</u>	<u>(98,642)</u>

See accompanying notes to the required supplementary information

(1) Budgetary Reporting

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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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the Orange County Local Agency Formation Commission (the Commission), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated October 29, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Commission's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was

Board of Commissioners
Orange County Local Agency Formation Commission
Page Two

not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Commission's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Irvine, California
October 29, 2019