

**8a** | Commission  
Discussion

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Special District Member

VICE CHAIR

**Donald P. Wagner**

County Member

IMMEDIATE PAST CHAIR

**Derek J. McGregor**

Public Member

**Lisa Bartlett**

County Member

**Wendy Bucknum**

City Member

**James Fidler**

Special District Member

**Mike Posey**

City Member

**ALTERNATES**

**Katrina Foley**

County Member

**Kathryn Freshley**

Special District Member

**Peggy Huang**

City Member

**Lou Penrose**

Public Member

**STAFF**

**Carolyn Emery**

Executive Officer

**Scott Smith**

General Counsel

November 10, 2021

**TO:** Local Agency Formation Commission  
of Orange County

**FROM:** Executive Officer  
Assistant Executive Officer  
Accountant

**SUBJECT:** Fiscal Year 2020-2021 OC LAFCO Audited Financial  
Statements

**BACKGROUND**

The Fiscal Year 2020-2021 OC LAFCO Audited Financial Statements, which is provided as Attachment 2, consists of seven parts:

- **Independent Auditor's Report:** An audit report cover letter from Davis Farr outlining the auditor's professional responsibilities, accounting basis, and opinion on whether the financial statements comply with Generally Accepted Accounting Practices. (Pages 1-2)
- **Management's Discussion and Analysis:** This section summarizes the financial statements and explains any major changes from the prior fiscal year to the current fiscal year. (Pages 3-7)
- **OC LAFCO Government Wide Financial Statements:** These two statements are different from the rest of the financial statements in that they include the long-term assets and long-term liabilities of the Commission. (Pages 8-9)
- **OC LAFCO Financial Statements:** A depiction of the agency's government activities and each major fund for FY 2020-2021. These statements differ from the government wide statements in that they have a current resource/budgetary focus and, as such, exclude the long-term assets and liabilities. (Pages 10-13)
- **Notes to the Basic Financial Statements:** The footnotes provide information in greater detail on OC LAFCO's financial policies, accounting, retirement plan, other post-employment benefits, and other financial matters. (Pages 14-36)

- Required Supplementary Information and Notes: Schedules and notes for the agency's net pension liability, plan contributions for the defined contribution plan and post-employment benefits, and revenues, expenditures, and changes in fund balances. (Page 37-44)
- Auditor Report on Internal Controls: A report identifying and disclosing any material weaknesses or significant deficiencies in internal controls. (Pages 45-46)

In preparation for and during the audit, OC LAFCO's staff and accountant jointly prepared materials and worked directly with the team from the independent auditor's firm, Davis Farr LLP. In addition to a review of these documents, the audit team performed fieldwork at the OC LAFCO office to complete the audit process.

### **OC LAFCO'S FISCAL YEAR 2020-2021 AUDITED FINANCIAL STATEMENTS**

The auditor found OC LAFCO's financial reporting to be in compliance with Generally Accepted Accounting Principles and issued an Unqualified Opinion, which is the highest level of opinion an entity can receive. Additionally, the Report on Internal Controls noted that OC LAFCO had no significant deficiencies or material weaknesses in internal controls. Further, the auditor noted no transactions that were both significant and unusual were identified during the audit.

### **RECOMMENDED ACTION**

Staff recommends that the Commission:

1. Receive and file OC LAFCO's Fiscal Year 2020-2021 audited financial statements prepared by Davis Farr LLP.

Respectfully submitted,

  
\_\_\_\_\_  
CAROLYN EMERY

  
\_\_\_\_\_  
RAYMOND BARRAGAN

  
\_\_\_\_\_  
CINDY BYERUM

Attachments:

1. Auditor Communications to Those in Governance
2. OC LAFCO Audited Financial Statements for Fiscal Year 2020-2021

To the Board of Commissioners  
Orange County Local Agency Formation Commission

We have audited the financial statements of the governmental activities, and each major fund of the Orange County Local Agency Formation Commission ("Commission") for the year ended June 30, 2021. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 10, 2021. Professional standards also require that we communicate to you the following information related to our audit.

### Significant Audit Findings

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Commission are described in Note 1 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during the year ended June 30, 2021. We noted no transactions entered into by Commission during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimate affecting the Commission's financial statements was judgements involving the funded status of the pension and OPEB liabilities. We evaluated the key factors and assumptions used to develop the amounts by the actuary and determined that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were Footnote 6: Retirement Plan and Footnote 7: Other Post-Employment Benefits.

The financial statement disclosures are neutral, consistent, and clear.

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. We detected one material entry that was corrected by management to correct long-term liabilities related to the deferred lease incentive.

Board of Commissioners  
Page Two

### *Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated October 27, 2021.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### Other Matters

We applied certain limited procedures to the *Management's Discussion and Analysis*, the *Schedule of the Plan's Proportionate Share of the Net Pension Liability and Related Ratios*, the *Schedule of Pension Plan Contributions*, the *Schedule of the Proportionate Share of the Net OPEB Liability and Related Ratios*, the *Schedule of Contributions – OPEB*, and the *Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual*, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

This information is intended solely for the use of Board of Commissioners and management of the Orange County Local Agency Formation Commission and is not intended to be, and should not be, used by anyone other than these specified parties.

DavisFarr LLP

Irvine, California  
October 27, 2021

**ORANGE COUNTY LOCAL AGENCY  
FORMATION COMMISSION**

**Basic Financial Statements**

**Year ended June 30, 2021**

**ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION****Basic Financial Statements****Year ended June 30, 2021****TABLE OF CONTENTS**

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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, 2021, 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.

Board of Commissioners  
Orange County Local Agency Formation Commission  
Page Two

### *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, 2021, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Report on Summarized Comparative Information*

**We have previously audited the Commission's 2020** financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 24, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020 is consistent, in all material respects, with the audited financial statements from which it has been derived.

### *Other Matters*

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis, Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund, the Schedule of the Plan's Proportionate Share of the Net Pension Liability and Related Ratios of the Measurement Date, the Schedule of Plan Contributions – Defined Benefit Pension Plan, the Schedule of the Proportionate Share of the Net OPEB Liability and Related Ratios of the Measurement Date, and the Schedule of Contributions – 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 27, 2021 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 solely 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.**

**DavisFarrLLP**

Irvine, California  
October 27, 2021



## Management's Discussion and Analysis

Year ended June 30, 2021

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, 2021. 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.

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.

**Management's Discussion and Analysis**

**Year ended June 30, 2021**

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

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.

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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

**Table 1  
Statements of Net Position  
June 30, 2021 and 2020**

|                                  | <b>2021</b>  | <b>2020</b> | <b>Change</b> |
|----------------------------------|--------------|-------------|---------------|
| <b>Assets:</b>                   |              |             |               |
| Current assets                   | \$ 1,770,046 | 1,584,983   | 185,063       |
| Capital assets, net              | 17,068       | 10,990      | 6,078         |
| Total assets                     | 1,787,114    | 1,595,973   | 191,141       |
| Deferred outflow of resources    | 338,165      | 370,076     | (31,911)      |
| <b>Liabilities:</b>              |              |             |               |
| Current liabilities              | 91,954       | 52,322      | 39,632        |
| Non-current liabilities          | 1,463,329    | 1,653,404   | (190,075)     |
| Total liabilities                | 1,555,283    | 1,705,726   | (150,443)     |
| Deferred inflows of resources    | 450,027      | 309,387     | 140,640       |
| <b>Net position:</b>             |              |             |               |
| Net investment in capital assets | 17,068       | 10,990      | 6,078         |
| Unrestricted                     | 102,901      | (60,054)    | 162,955       |
| Total net position               | \$ 119,969   | (49,064)    | 169,033       |

**Management's Discussion and Analysis**

**Year ended June 30, 2021**

**GOVERNMENT-WIDE FINANCIAL STATEMENTS (CONTINUED)**

A closer examination reveals that Net Position between the years increased by \$169,033. This increase is caused by an increase to Net Position of \$1,367,668 due to higher assets and lower liabilities, which was offset by a decrease to Net Position from the changes of \$172,551 in the deferred outflows and inflows of resources.

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

**Table 2  
Statement of Activities  
Years ended June 30, 2021 and 2020**

|                                  | <b>2021</b>  | <b>2020</b> | <b>Change</b> |
|----------------------------------|--------------|-------------|---------------|
| Revenues:                        |              |             |               |
| Assessments                      | \$ 1,124,500 | 1,124,500   | -             |
| Charges for Services             | 51,306       | 25,091      | 26,215        |
| Capital Grants and Contributions | 14,152       | -           | 14,152        |
| Interest and Other Revenues      | 9,613        | 36,558      | (26,945)      |
| Total revenues                   | 1,199,571    | 1,186,149   | 13,422        |
| Expenses:                        |              |             |               |
| General Government               | 1,030,538    | 1,164,862   | (134,324)     |
| Total expenditures               | 1,030,538    | 1,164,862   | (134,324)     |
| Changes in net position          | 169,033      | 21,287      | 147,746       |
| Beginning net position           | (49,064)     | (70,351)    | 21,287        |
| Ending net position              | \$ 119,969   | (49,064)    | 169,033       |

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. In fiscal year 2021, the Commission saw increased charges for services that was offset by decreased interest revenue. Net income increased due to the increase in capital contributions of \$14,162 coupled with a \$134,324 decrease in expenses primarily due to pension expense adjustments.

**Management's Discussion and Analysis**

**Year ended June 30, 2021**

**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 charges for services offset by decreased interest.
- 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 \$254,676 mainly due to lower than expected expenditures for professional services, rents/maintenance and travel.

**CAPITAL ASSETS**

**Capital Assets - Governmental Activities  
Years ended June 30, 2021 and 2020**

|                          | <b>2021</b> | <b>2020</b> | <b>Change</b> |
|--------------------------|-------------|-------------|---------------|
| Capital assets:          |             |             |               |
| Furniture and fixtures   | \$ 19,531   | 19,531      | -             |
| Equipment                | 43,623      | 43,623      | -             |
| Leasehold improvements   | 103,169     | 89,017      | 14,152        |
| Software                 | 1,899       | 1,899       | -             |
| Total capital assets     | 168,222     | 154,070     | 14,152        |
| Accumulated depreciation | (151,154)   | (143,080)   | (8,074)       |
| Capital assets, net      | \$ 17,068   | 10,990      | 6,078         |

There was a new asset addition to leasehold improvements in fiscal year 2021. There were no disposals to capital assets in fiscal year 2021. Additional information on capital assets may be found in Note 3 of the notes to financial statements.

**Management’s Discussion and Analysis**

**Year ended June 30, 2021**

**LONG-TERM LIABILITIES**

**Long-term Liabilities  
Years ended June 30, 2021 and 2020**

|                          | <b>2021</b> | <b>2020</b> | <b>Change</b> |
|--------------------------|-------------|-------------|---------------|
| Compensated Absences     | \$ 37,861   | 36,161      | 1,700         |
| Deferred Lease Incentive | 67,741      | 17,075      | 50,666        |
| Total Liabilities        | \$ 105,602  | 53,236      | 52,366        |

The compensated absences liability represents the value of unused vacation pay that employees have accrued as of the end of the fiscal year. The deferred lease incentive represents the amortization of the leased office space. 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, 2021  
(with comparative information for prior year)**

|  | Governmental Activities |           |
|--|-------------------------|-----------|
|  | 2021                    | 2020      |
| Assets:                                |                         |           |
| Cash and investments (note 2)          | \$ 1,517,245            | 1,375,057 |
| Due from other governments             | 2,224                   | 1,560     |
| Accounts receivable                    | -                       | 9         |
| Interest receivable                    | 635                     | 1,741     |
| Prepaid costs                          | 249,942                 | 206,616   |
| Capital assets, net (note 3)           | 17,068                  | 10,990    |
| Total assets                           | 1,787,114               | 1,595,973 |
| Deferred outflow of resources:         |                         |           |
| Deferred amounts from pension (note 6) | 322,469                 | 358,226   |
| Deferred amounts from OPEB (note 7)    | 15,696                  | 11,850    |
| Total deferred outflow of resources    | 338,165                 | 370,076   |
| Liabilities:                           |                         |           |
| Accounts payable                       | 27,350                  | 25,588    |
| Accrued liabilities                    | 29,601                  | 19,240    |
| Unearned revenue                       | 35,003                  | 7,494     |
| Noncurrent liabilities:                |                         |           |
| Due within one year:                   |                         |           |
| Compensated absences (note 5)          | 25,241                  | 27,238    |
| Due in more than one year:             |                         |           |
| Compensated absences (note 5)          | 12,620                  | 8,923     |
| Deferred lease incentive               | 67,741                  | 17,075    |
| Net pension liability (note 6)         | 1,248,133               | 1,489,642 |
| Net OPEB liability (note 7)            | 109,594                 | 110,526   |
| Total liabilities                      | 1,555,283               | 1,705,726 |
| Deferred inflow of resources:          |                         |           |
| Deferred amounts from pension (note 6) | 433,790                 | 295,378   |
| Deferred amounts from OPEB (note 7)    | 16,237                  | 14,009    |
| Total deferred inflow of resources     | 450,027                 | 309,387   |
| Net position (deficit):                |                         |           |
| Investment in capital assets           | 17,068                  | 10,990    |
| Unrestricted                           | 102,901                 | (60,054)  |
| Total net position (deficit)           | \$ 119,969              | (49,064)  |

See accompanying notes to the basic financial statements

## ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION

## Statement of Activities

Year ended June 30, 2021  
(with comparative information for prior year)

| 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                           |             |
|                               |              |                      |                                    |   | 2021  | 2020        |
| Governmental activities:      |              |                      |                                    |   |   |             |
| General government            | \$ 1,030,538 | 51,306               | -                                  | 14,152                                    | (965,080)   | (1,139,771) |
| Total governmental activities | \$ 1,030,538 | 51,306               | -                                  | 14,152                                    | (965,080)   | (1,139,771) |
|                               |              | General revenues:    |                                    |   |   |             |
|                               |              |                      |                                    |   | 1,124,500   | 1,124,500   |
|                               |              |                      |                                    |   | 9,235   | 36,402      |
|                               |              |                      |                                    |   | 378   | 156         |
|                               |              |                      |                                    | Total general revenues                    | 1,134,113   | 1,161,058   |
|                               |              |                      |                                    | Change in net position                    | 169,033   | 21,287      |
|                               |              |                      |                                    | Net position (deficit), beginning of year | (49,064)  | (70,351)    |
|                               |              |                      |                                    | Net position (deficit), end of year       | \$ 119,969  | (49,064)    |

## ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION

## Balance Sheet - Governmental Funds

**June 30, 2021**  
**(with comparative information for prior year)**

|                                     | General Fund        | Special<br>Revenue Fund | Total Governmental<br>Funds |                  |
|-------------------------------------|---------------------|-------------------------|-----------------------------|------------------|
|                                     |                     |                         | 2021                        | 2020             |
| <u>Assets</u>                       |                     |                         |                             |                  |
| Cash and investments                | \$ 1,482,242        | 35,003                  | 1,517,245                   | 1,375,057        |
| Accounts receivable                 | -                   | -                       | -                           | 9                |
| Due from other governments          | 2,224               | -                       | 2,224                       | 1,560            |
| Interest receivable                 | 635                 | -                       | 635                         | 1,741            |
| Prepaid costs                       | 249,942             | -                       | 249,942                     | 206,616          |
| Total assets                        | <u>\$ 1,735,043</u> | <u>35,003</u>           | <u>1,770,046</u>            | <u>1,584,983</u> |
| <u>Liabilities and Fund Balance</u> |                     |                         |                             |                  |
| Liabilities:                        |                     |                         |                             |                  |
| Accounts payable                    | \$ 27,350           | -                       | 27,350                      | 25,588           |
| Accrued liabilities                 | 29,601              | -                       | 29,601                      | 19,240           |
| Unearned revenue                    | -                   | 35,003                  | 35,003                      | 7,494            |
| Total liabilities                   | <u>56,951</u>       | <u>35,003</u>           | <u>91,954</u>               | <u>52,322</u>    |
| Fund balance:                       |                     |                         |                             |                  |
| Nonspendable:                       |                     |                         |                             |                  |
| Prepaid costs                       | 249,942             | -                       | 249,942                     | 206,616          |
| Assigned for:                       |                     |                         |                             |                  |
| Contingency                         | 100,000             | -                       | 100,000                     | 100,000          |
| Litigation                          | 75,000              | -                       | 75,000                      | 75,000           |
| Unfunded liabilities                | 30,000              | -                       | 30,000                      | 30,000           |
| Unassigned                          | 1,223,150           | -                       | 1,223,150                   | 1,121,045        |
| Total fund balance                  | <u>1,678,092</u>    | <u>-</u>                | <u>1,678,092</u>            | <u>1,532,661</u> |
| Total liabilities and fund balance  | <u>\$ 1,735,043</u> | <u>35,003</u>           | <u>1,770,046</u>            | <u>1,584,983</u> |

See accompanying notes to the basic financial statements



**ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION**

**Reconciliation of the Balance Sheet of Governmental Funds  
to the Statement of Net Position**

**June 30, 2021**

|   |                   |
|---|-------------------|
| Fund balances of governmental funds   | \$ 1,678,092      |
| Amounts reported for governmental activities in the Statement of Net Position<br>are different because:   |                   |
| <i>Capital Related Items</i>  |                   |
| Capital assets and depreciation have not been included as financial resources<br>in the government fund statements:   |                   |
| Capital assets  | 168,222           |
| Accumulated depreciation  | (151,154)         |
| <i>Long-Term Liability Transactions</i>   |                   |
| Long-term liabilities are not due and payable in the current period and,<br>accordingly, are not reported in the government fund statements:  |                   |
| Net pension liability   | (1,248,133)       |
| Net OPEB liability  | (109,594)         |
| Deferred lease incentive  | (67,741)          |
| Compensated absences  | (37,861)          |
| <i>Deferred Outflows and Inflows of Resources</i>   |                   |
| Certain deferred outflows and inflows of resources are not due and payable in<br>the current period and are not current assets or financial resources, therefore<br>these items are not reported in the governmental funds: |                   |
| Deferred outflows - pensions  | 322,469           |
| Deferred outflows - OPEB  | 15,696            |
| Deferred inflows - pensions   | (433,790)         |
| Deferred inflows - OPEB   | <u>(16,237)</u>   |
| Net position (deficit) of governmental activities   | \$ <u>119,969</u> |

See accompanying notes to the basic financial statements

## ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION

Statement of Revenues, Expenditures, and Changes in  
Fund Balances - Governmental FundsYear ended June 30, 2021  
(with comparative information for the prior year)

|  | General Fund        | Special<br>Revenue Fund | Total Governmental<br>Funds |                  |
|--|---------------------|-------------------------|-----------------------------|------------------|
|  |                     |                         | 2021                        | 2020             |
| Revenues:  |                     |                         |                             |                  |
| Assessments  | \$ 1,124,500        | -                       | 1,124,500                   | 1,124,500        |
| Capital Contributions  | 14,152              | -                       | 14,152                      | -                |
| Filing fees  | -                   | 51,306                  | 51,306                      | 25,091           |
| Interest   | 9,235               | -                       | 9,235                       | 36,402           |
| Other  | 378                 | -                       | 378                         | 156              |
| Total revenues   | <u>1,148,265</u>    | <u>51,306</u>           | <u>1,199,571</u>            | <u>1,186,149</u> |
| Expenditures:  |                     |                         |                             |                  |
| General government:  |                     |                         |                             |                  |
| Salaries and benefits  | 710,902             | 27,135                  | 738,037                     | 799,155          |
| Service and supplies   | 291,932             | 23,299                  | 315,231                     | 298,930          |
| Refund of unused deposits                                    | -                   | 872                     | 872                         | -                |
| Total expenditures   | <u>1,002,834</u>    | <u>51,306</u>           | <u>1,054,140</u>            | <u>1,098,085</u> |
| Excess (deficiency) of revenues<br>over/(under) expenditures | <u>145,431</u>      | <u>-</u>                | <u>145,431</u>              | <u>88,064</u>    |
| Net change in fund balances                                  | 145,431             | -                       | 145,431                     | 88,064           |
| Fund balances at beginning of year                           | <u>1,532,661</u>    | <u>-</u>                | <u>1,532,661</u>            | <u>1,444,597</u> |
| Fund balances at end of year                                 | <u>\$ 1,678,092</u> | <u>-</u>                | <u>1,678,092</u>            | <u>1,532,661</u> |

See accompanying notes to the basic financial statements

**ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION**

**Reconciliation of the Statement of Revenues, Expenditures, and  
Changes in Fund Balance of Governmental Funds to the Statement of Activities**

**Year ended June 30, 2021**

Net changes in fund balances - total governmental funds \$ 145,431

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.

Depreciation expense (8,074)

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 (1,700)

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 67,340

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 2,550

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 (50,666)

Change in net position of governmental activities \$ 169,033

See accompanying notes to the basic financial statements

**ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION****Notes to the Basic Financial Statements****Year ended June 30, 2021****(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 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

**ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION****Notes to the Basic Financial Statements****Year ended June 30, 2021****(Continued)****(1) Summary of Significant Accounting Policies (Continued)**

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.

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.

**ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION****Notes to the Basic Financial Statements****Year ended June 30, 2021****(Continued)****(1) Summary of Significant Accounting Policies (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.

**(c) Fund Classifications**

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

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.

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.

**ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION****Notes to the Basic Financial Statements****Year ended June 30, 2021****(Continued)****(1) Summary of Significant Accounting Policies (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.

**ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION****Notes to the Basic Financial Statements****Year ended June 30, 2021****(Continued)****(1) Summary of Significant Accounting Policies (Continued)****(d) 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.

**(e) 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.



**ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION****Notes to the Basic Financial Statements****Year ended June 30, 2021****(Continued)****(1) Summary of Significant Accounting Policies (Continued)****(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 \$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       |

**(g) 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.

**(h) 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.

**ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION****Notes to the Basic Financial Statements****Year ended June 30, 2021****(Continued)****(1) Summary of Significant Accounting Policies (Continued)**

Generally accepted accounting principles require 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, 2019                      |
| Measurement Date (MD)   | December 31, 2020                      |
| Measurement Period (MP) | December 31, 2019 to December 31, 2020 |

**(i) 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, 2019                        |
| Measurement Date (MD)   | December 31, 2020                    |
| Measurement Period (MP) | January 1, 2020 to December 31, 2020 |

**(j) 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.

**ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION****Notes to the Basic Financial Statements****Year ended June 30, 2021****(Continued)****(1) Summary of Significant Accounting Policies (Continued)****(k) 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.

**(l) Comparative Data**

Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the government's prior year financial statements, from which this selected financial data was derived.

**(2) Cash and Investments**

Cash and investments held at June 30, 2021 consisted of the following:

|                                |                         |
|--------------------------------|-------------------------|
| Demand deposits                | \$ 607,780              |
| Orange County Investment Pool  | 499,207                 |
| Local Agency Investment Fund   | <u>410,258</u>          |
| <br>Total cash and investments | <br><u>\$ 1,517,245</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:

## ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION

## Notes to the Basic Financial Statements

Year ended June 30, 2021

(Continued)

(2) Cash and Investments (Continued)

| <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                           | None                            |
| 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.

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 | \$ 499,207        | 499,207                               |
| State investment pool  | <u>410,258</u>    | <u>410,258</u>                        |
| Total                  | <u>\$ 909,465</u> | <u>909,465</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.

**ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION****Notes to the Basic Financial Statements****Year ended June 30, 2021****(Continued)****(2) Cash and Investments (Continued)**

| <u>Investment Type</u> | <u>Total</u>      | Minimum<br>Legal<br><u>Rating</u> | <u>AAA</u>     | <u>Not Rated</u> |
|------------------------|-------------------|-----------------------------------|----------------|------------------|
| County investment pool | \$ 499,207        | N/A                               | 499,207        | -                |
| State investment pool  | <u>410,258</u>    | N/A                               | <u>-</u>       | <u>410,258</u>   |
| Total                  | <u>\$ 909,465</u> |                                   | <u>499,207</u> | <u>410,258</u>   |

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).

## ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION

## Notes to the Basic Financial Statements

Year ended June 30, 2021

(Continued)

**(2) Cash and Investments (Continued)**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, 2021, 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<br><u>July 1, 2020</u> | <u>Additions</u> | <u>Deletions</u> | Balance at<br><u>June 30, 2021</u> |
|---|-----------------------------------|------------------|------------------|------------------------------------|
| Capital assets, being depreciated:      |                                   |                  |                  |                                    |
| Furniture and fixtures                  | \$ 19,531                         | -                | -                | 19,531                             |
| Equipment                               | 43,623                            | -                | -                | 43,623                             |
| Leasehold improvements                  | 89,017                            | 14,152           | -                | 103,169                            |
| Software                                | <u>1,899</u>                      | <u>-</u>         | <u>-</u>         | <u>1,899</u>                       |
| Total capital assets, being depreciated | <u>154,070</u>                    | <u>14,152</u>    | <u>-</u>         | <u>168,222</u>                     |
| Less accumulated depreciation for:      |                                   |                  |                  |                                    |
| Furniture and fixtures                  | (15,602)                          | (2,129)          | -                | (17,731)                           |
| Equipment                               | (36,565)                          | (4,659)          | -                | (41,224)                           |
| Leasehold improvements                  | (89,014)                          | (1,286)          | -                | (90,300)                           |
| Software                                | <u>(1,899)</u>                    | <u>-</u>         | <u>-</u>         | <u>(1,899)</u>                     |
| Total accumulated depreciation          | <u>(143,080)</u>                  | <u>(8,074)</u>   | <u>-</u>         | <u>(151,154)</u>                   |
| Capital assets, net                     | <u>\$ 10,990</u>                  | <u>6,078</u>     | <u>-</u>         | <u>17,068</u>                      |

## ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION

## Notes to the Basic Financial Statements

Year ended June 30, 2021

(Continued)

**(3) Capital Assets (Continued)**

Depreciation expense of \$8,074 was included in general government expense on the statement of activities.

**(4) Insurance**

Worker's Compensation 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.

The Commission has an insurance policy with the California Association of Mutual Water Companies Joint Powers Risk and Insurance Management Authority (JPRIMA) for excess liability insurance and property insurance. For general liability, the Commission maintains excess insurance coverage of \$10,000,000 with a self-insured retention of \$1,000,000 per occurrence.

**(5) Long Term Liabilities**

The following is a summary of changes in long-term liabilities for the year ended June 30, 2021:

|                             | Balance<br><u>July 1, 2020</u> | <u>Additions</u> | <u>Deletions</u> | Balance<br><u>June 30, 2021</u> | Due<br>Within<br><u>One Year</u> |
|-----------------------------|--------------------------------|------------------|------------------|---------------------------------|----------------------------------|
| Compensated<br>absences     | \$ 36,161                      | 28,037           | (26,337)         | 37,861                          | 25,241                           |
| Deferred lease<br>incentive | <u>17,075</u>                  | <u>129,127</u>   | <u>(78,461)</u>  | <u>67,741</u>                   | <u>-</u>                         |
| Total                       | <u>\$ 53,236</u>               | <u>130,486</u>   | <u>(102,989)</u> | <u>80,733</u>                   | <u>25,241</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.

**ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION****Notes to the Basic Financial Statements****Year ended June 30, 2021****(Continued)****(6) Retirement Plan (Continued)**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 PEPRAs 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%.

The Plans' provisions and benefits in effect at June 30, 2021 are summarized as follows:

| Hire date                               | Prior to<br><u>December 12, 2012</u> | After<br>December 12, 2012<br>(Legacy OCERS<br>Members) Plan P | On or After<br>January 1, 2013<br>(New OCERS<br>Members) Plan T<br><u>PEPRA Compliant</u> |
|---|--------------------------------------|--|---|
| Benefit formula                         | 2.7%@55                              | 1.62%@65   | 1.62%@65  |
| Benefit vesting<br>schedule             | 10 years of<br>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  | 52-65   |
| Monthly benefits,<br>as a % of eligible | 2.0% to 2.7%                         | 0.79% to 1.62%   | 0.79% to 1.62%  |
| Required employee<br>contribution rates | 10-16%                               | 7-12%  | 5-9%  |
| Required employer<br>contribution rates | 39.41%                               | 27.27%   | 32.17%  |

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.



**ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION****Notes to the Basic Financial Statements****Year ended June 30, 2021****(Continued)****(6) Retirement Plan (Continued)**

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, 2020. 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, 2019.

The following actuarial assumptions were applied to the December 31, 2020 measurement date:

|                           |  |
|---------------------------|--|
| Actuarial Cost Method     | Entry-Age in accordance with the requirements of GASB Statement No. 68 |
| Inflation                 | 2.50%  |
| Salary increases          | General: 4.00% to 11.00%, 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, 2020. 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, 2020.

## ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION

## Notes to the Basic Financial Statements

Year ended June 30, 2021

(Continued)

**(6) Retirement Plan (Continued)**

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, 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 and a risk margin.

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:

| <u>Asset Class</u>                | <u>Target Allocation</u> | <u>Long-Term Expected<br/>Real Rate of Return</u> |
|-----------------------------------|--------------------------|---|
| Large Cap Equity                  | 23.10%                   | 5.43%   |
| Small Cap Equity                  | 1.90%                    | 6.21%   |
| International Developed Equity    | 13.00%                   | 6.67%   |
| Emerging Markets Equity           | 9.00%                    | 8.58%   |
| Core Bonds                        | 9.00%                    | 1.10%   |
| High Yield Bonds                  | 1.50%                    | 2.91%   |
| TIPS                              | 2.00%                    | 0.65%   |
| Emerging Market Debt              | 2.00%                    | 3.25%   |
| Corporate Credit                  | 1.00%                    | 0.53%   |
| Long Duration Fixed Income        | 2.50%                    | 1.44%   |
| Real Estate                       | 3.01%                    | 4.42%   |
| Private Equity                    | 13.00%                   | 9.41%   |
| Value Added Real Estate           | 3.01%                    | 7.42%   |
| Opportunistic Real Estate         | 0.98%                    | 10.18%  |
| Energy                            | 2.00%                    | 9.68%   |
| Infrastructure (Core Private)     | 1.50%                    | 5.08%   |
| Infrastructure (Non-Core Private) | 1.50%                    | 8.92%   |
| CTA – Trend Following             | 2.50%                    | 2.38%   |
| Global Macro                      | 2.50%                    | 2.13%   |
| Private Credit                    | 2.50%                    | 5.47%   |
| Alternative Risk Premia           | <u>2.50%</u>             | 2.50%   |
| 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:

## ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION

## Notes to the Basic Financial Statements

Year ended June 30, 2021

(Continued)

**(6) Retirement Plan (Continued)**

| The  | <u>Net Pension Liability</u> |
|--|------------------------------|
| Balance at: December 31, 2019  | \$1,489,642                  |
| Balance at: December 31, 2020  | 1,248,133                    |
| Net change during 2020   | (241,509)                    |
| Commission's proportionate share of the net pension liability for the Plan was as follows: |                              |
| Proportion – December 31, 2019   | 0.029%                       |
| Proportion – December 31, 2020   | 0.030%                       |
| Change – Increase (Decrease)   | 0.001%                       |

*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:

|   | <u>Discount Rate –<br/>1% (6.00%)</u> | <u>Current Discount<br/>Rate (7.00%)</u> | <u>Discount Rate +<br/>1% (8.00%)</u> |
|---|---------------------------------------|--|---------------------------------------|
| Actuarially-Determined<br>Net Pension Liability | <u>\$ 2,012,326</u>                   | <u>1,248,133</u>                         | <u>625,198</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). |

## ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION

## Notes to the Basic Financial Statements

Year ended June 30, 2021

(Continued)

## (6) Retirement Plan (Continued)

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

For the measurement period ending December 31, 2020 (the measurement date), the Commission recognized a pension expense of \$71,659 for the Plan.

As of the December 31, 2020 measurement date, the Commission reports other amounts for the Plan as deferred outflow and deferred inflow of resources related to pensions as follows:

|   | <u>Deferred<br/>Outflows of<br/>Resources</u> | <u>Deferred<br/>Inflows of<br/>Resources</u> |
|---|---|--|
| Differences between Actual Contributions and Proportionate Share of Contributions | \$ 159,107                                    | 132,905                                      |
| Differences between Expected and Actual Experience                                | 26,744  | 32,275                                       |
| Change of Assumptions   | 136,618                                       | -  |
| Net Difference between Projected and Actual Earnings on Pension Plan Investments  | -   | 268,610                                      |
| Total   | <u>\$ 322,469</u>                             | <u>433,790</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<br/>Ended December 31</u> | <u>Deferred (Outflows)<br/>Inflows of Resources</u> |
|---|---|
| 2021  | \$ (24,951)   |
| 2022  | 39,056  |
| 2023  | 61,377  |
| 2024  | (35,256)  |
| 2025  | (151,547)   |

**ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION****Notes to the Basic Financial Statements****Year ended June 30, 2021****(Continued)****(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>.

*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, 2020 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 | -               |
| Inactive employees entitled to, but not yet receiving benefits   | -               |
| Total  | <u><u>5</u></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, 2021 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.

## ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION

## Notes to the Basic Financial Statements

Year ended June 30, 2021

(Continued)

**(7) Other Post-Employment Benefits (Continued)**

Contributions to the OPEB plan from the Commission were \$16,056 for the fiscal year ended June 30, 2021. 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, 2021, the Commission reported a liability of \$109,594 for its proportionate share of the collective net OPEB liability. The collective net OPEB liability was measured as of December 31, 2020, and the total OPEB liability used to calculate the collective net OPEB liability was determined by an actuarial valuation as of June 30, 2019. 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, 2020, the Commission's proportion was 0.0328% percent, which is a 0.0017 change to its proportion measure as of December 31, 2019 (0.0311% percent).

For the fiscal year ended June 30, 2021, the Commission recognized OPEB expense of \$10,051. As of fiscal year ended June 30, 2021, the Commission reported deferred outflows of resources related to OPEB from the following sources:

|   | <u>Deferred Outflows<br/>of Resources</u> | <u>Deferred Inflows<br/>of Resources</u> |
|---|---|--|
| OPEB contributions subsequent to measurement date                             | \$ 8,474                                  | \$ -                                     |
| Changes of assumptions  | -   | 4,120                                    |
| Change in proportion  | 7,222                                     | 4,179                                    |
| Difference between expected and actual experience                             | -   | 2,498                                    |
| Net difference between projected and actual earnings on OPEB plan investments | <u>-</u>                                  | <u>5,440</u>                             |
| Total   | <u>\$ 15,696</u>                          | <u>\$ 16,237</u>                         |

## ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION

## Notes to the Basic Financial Statements

Year ended June 30, 2021

(Continued)

**(7) Other Post-Employment Benefits (Continued)**

The \$8,474 reported as deferred outflows of resources related to contributions subsequent to the December 31, 2020 measurement date will be recognized as a reduction of the net OPEB liability during the fiscal year ending June 30, 2022. Other amounts reported as deferred inflows of resources related to OPEB will be recognized as expense as follows:

| <u>Measurement Period<br/>Ended December 31</u> | <u>Deferred Outflows/<br/>(Inflows) of Resources</u> |
|---|--|
| 2021  | \$ (1,843)   |
| 2022  | (1,843)  |
| 2023  | (3,160)  |
| 2024  | (1,802)  |
| 2025  | (802)  |
| Thereafter                                      | 435  |

Actuarial Assumptions

The Commission's total OPEB liability was determined by an actuarial valuation as of June 30, 2019 using the following actuarial methods and assumptions:

|   |  |
|---|--|
| Discount Rate                                       | 7.00%  |
| Long-Term Expected Rate of<br>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<br>Non-AFSCME – lesser of 3% and Medical<br>Trend  |
| Medical Trend                                       | Pre-Medicare – 7.5% for 2020, decreasing<br>to 4.0% for 2076 and later<br>Medicare – 6.5% for 2020, decreasing to<br>4.0% for 2076 and later |

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

## ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION

## Notes to the Basic Financial Statements

Year ended June 30, 2021

(Continued)

(7) Other Post-Employment Benefits (Continued)

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<br/>Real Rate of Return</u> |
|--------------------------------------|--------------------------|---|
| Large Cap Equity                     | 23.10%                   | 5.43%   |
| Small Cap Equity                     | 1.90%                    | 6.21%   |
| International Developed Equity       | 13.00%                   | 6.67%   |
| Emerging Markets Equity              | 9.00%                    | 8.58%   |
| Core Bonds                           | 9.00%                    | 1.10%   |
| High Yield Bonds                     | 1.50%                    | 2.91%   |
| TIPS                                 | 2.00%                    | 0.65%   |
| Emerging Market Debt                 | 2.00%                    | 3.25%   |
| Corporate Credit                     | 1.00%                    | 0.53%   |
| Long Duration Fixed Income           | 2.50%                    | 1.44%   |
| Real Estate                          | 3.01%                    | 4.42%   |
| Private Equity                       | 13.00%                   | 9.41%   |
| Value Added Real Estate              | 3.01%                    | 7.42%   |
| Opportunistic Real Estate            | 0.98%                    | 10.18%  |
| Energy                               | 2.00%                    | 9.68%   |
| Infrastructure (Core Private)        | 1.50%                    | 5.08%   |
| Infrastructure (Non-Core Private)    | 1.50%                    | 8.92%   |
| CTA – Trend Following                | 2.50%                    | 2.38%   |
| Global Macro                         | 2.50%                    | 2.13%   |
| Private Credit                       | 2.50%                    | 5.47%   |
| Alternative Risk Premia              | <u>2.50%</u>             | 2.50%   |
| Total                                | <u>100.0%</u>            |   |
| Assumed Long-term Rate of Inflation  |                          | 2.50%   |
| Expected Long-term Rate of Inflation |                          | 7.00%   |

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.



## ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION

## Notes to the Basic Financial Statements

Year ended June 30, 2021

(Continued)

**(7) Other Post-Employment Benefits (Continued)***OPEB Plan Fiduciary Net Position*

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

*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<br>Rate - 1%<br>(6.00%) | Current<br>Discount Rate<br>(7.00%) | Discount<br>Rate + 1%<br>(8.00%) |
|---|----------------------------------|-------------------------------------|----------------------------------|
| Commission's proportionate share<br>of the Net OPEB Liability | <u>\$138,189</u>                 | <u>109,594</u>                      | <u>85,585</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, 2020:

|   | 1%<br>decrease<br>6.5%/5.5%<br>decreasing<br>to 3% | Current<br>Healthcare Cost<br>Trend Rate<br>7.5%/6.5%<br>decreasing to<br>4% | 1%<br>increase<br>8.5%/7.5%<br>decreasing<br>to 5% |
|---|--|--|--|
| Commission's proportionate<br>share of the Net OPEB Liability | <u>\$105,933</u>                                   | <u>109,594</u>   | <u>113,384</u>                                     |

**(8) Related Party Transactions**

The Commission and the County entered into a County Services Agreement to provide 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, 2021 was \$11,082.

**ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION****Notes to the Basic Financial Statements****Year ended June 30, 2021****(Continued)****(9) Commitments**

The Commission is obligated under operating lease agreements for the rental of office space and various equipment entered into in 2019 and expiring through 2030. Future minimum lease payments for office space and equipment under these operating leases are as follows:

| <u>Year Ending June 30</u> | <u>Minimum<br/>Lease Payments</u> |
|----------------------------|-----------------------------------|
| 2022                       | \$ 94,562                         |
| 2023                       | 97,502                            |
| 2024                       | 100,442                           |
| 2025                       | 103,436                           |
| 2026                       | 106,648                           |
| Thereafter                 | <u>479,399</u>                    |
| Total                      | <u>\$ 981,989</u>                 |

REQUIRED SUPPLEMENTARY INFORMATION

**ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION****Schedule of the Plan's Proportionate Share of the Net Pension Liability and Related Ratios as of the Measurement Date****Last Ten Fiscal Years \***

|  | <u>Measurement Date</u>      |                              |                              |                              |
|--|------------------------------|------------------------------|------------------------------|------------------------------|
|  | <u>December<br/>31, 2020</u> | <u>December<br/>31, 2019</u> | <u>December<br/>31, 2018</u> | <u>December<br/>31, 2017</u> |
| Proportion of the Collective Net Pension Liability   | 0.030%                       | 0.029%                       | 0.026%                       | 0.026%                       |
| Proportionate Share of the Collective Net Pension Liability                                  | \$1,248,133                  | 1,489,642                    | 1,582,703                    | 1,267,133                    |
| Covered Payroll  | \$ 463,507                   | 475,099                      | 419,538                      | 394,760                      |
| Proportionate Share of the Collective Net Pension Liability as percentage of covered payroll | 269.28%                      | 313.54%                      | 377.25%                      | 320.99%                      |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability                   | 76.95%                       | 73.18%                       | 67.06%                       | 74.93%                       |

## 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 seven years are shown.*

## ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION

**Schedule of the Plan's Proportionate Share of the Net Pension Liability and Related Ratios as of the Measurement Date**

**Last Ten Fiscal Years \***

**(Continued)**

Measurement Date

|  | December<br><u>31, 2016</u> | December<br><u>31, 2015</u> | December<br><u>31, 2014</u> |
|--|-----------------------------|-----------------------------|-----------------------------|
| Proportion of the Collective Net Pension Liability   | 0.026%                      | 0.020%                      | 0.026%                      |
| Proportionate Share of the Collective Net Pension Liability                                  | 1,340,888                   | 1,156,534                   | 1,303,484                   |
| Covered Payroll  | 374,792                     | 287,698                     | 334,804                     |
| Proportionate Share of the Collective Net Pension Liability as percentage of covered payroll | 357.77%                     | 402.00%                     | 389.33%                     |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability                   | 68.69%                      | 64.73%                      | 67.15%                      |

**ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION****Schedule of Plan Contributions – Defined Benefit Pension Plan****Last Ten Fiscal Years \***

|  | Fiscal Year<br><u>2020-21</u> | Fiscal Year<br><u>2019-20</u> | Fiscal Year<br><u>2018-19</u> | Fiscal Year<br><u>2017-18</u> |
|--|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| Actuarially<br>Determined<br>Contribution  | \$145,000                     | 139,000                       | 120,000                       | 116,000                       |
| Contributions in<br>Relation to the<br>Actuarially<br>Determined<br>Contribution | <u>145,000</u>                | <u>139,000</u>                | <u>120,000</u>                | <u>116,000</u>                |
| Contribution<br>Deficiency<br>(Excess)   | <u>\$ -</u>                   | <u>-</u>                      | <u>-</u>                      | <u>-</u>                      |
| Covered Payroll  | \$445,095                     | 488,943                       | 441,308                       | 405,196                       |
| Contributions as<br>a Percentage of<br>Covered Payroll                           | 32.58%                        | 28.43%                        | 27.19%                        | 28.63%                        |

## Notes to Schedule:

Fiscal Year End: June 30, 2021  
Valuation Date: December 31, 2019

## 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<br>of employment |
| Inflation                 | 2.75%  |
| Payroll Growth            | 3.25%  |
| Individual Salary Growth  | 4.25%  |

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

**ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION****Schedule of Plan Contributions – Defined Benefit Pension Plan****Last Ten Fiscal Years \*****(Continued)**

|  | Fiscal Year<br><u>2016-17</u> | Fiscal Year<br><u>2015-16</u> | Fiscal Year<br><u>2014-15</u> |
|--|-------------------------------|-------------------------------|-------------------------------|
| Actuarially<br>Determined<br>Contribution  | 115,921                       | 93,000                        | 104,000                       |
| Contributions in<br>Relation to the<br>Actuarially<br>Determined<br>Contribution | <u>115,921</u>                | <u>93,000</u>                 | <u>104,000</u>                |
| Contribution<br>Deficiency<br>(Excess)   | <u>          -</u>            | <u>          -</u>            | <u>          -</u>            |
| Covered Payroll  | 389,422                       | 340,997                       | 352,758                       |
| Contributions as<br>a Percentage of<br>Covered Payroll                           | 29.77%                        | 27.27%                        | 29.48%                        |

## ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION

Schedule of the Proportionate Share of the Net OPEB Liability and Related Ratios  
as of the Measurement Date

## Last Ten Fiscal Years \*

|  | <u>Measurement Date</u>      |                              |                              |                              |
|--|------------------------------|------------------------------|------------------------------|------------------------------|
|  | <u>December<br/>31, 2020</u> | <u>December<br/>31, 2019</u> | <u>December<br/>31, 2018</u> | <u>December<br/>31, 2017</u> |
| Proportion of the Collective Net OPEB Liability  | 0.0328%                      | 0.0311%                      | 0.0305%                      | 0.0324%                      |
| Proportionate Share of the Collective Net OPEB Liability   | \$109,593                    | 110,526                      | 126,448                      | 130,408                      |
| Covered-Employee Payroll   | \$440,000                    | 435,000                      | 407,000                      | 387,000                      |
| Proportionate Share of the Collective Net OPEB Liability as a Percentage of Covered-Employee Payroll | 24.91%                       | 25.41%                       | 31.07%                       | 33.70%                       |
| Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability                              | 54.93%                       | 51.87%                       | 42.55%                       | 42.30%                       |

## Notes to Schedule:

Benefit Changes – There were no changes in benefits.

Changes in Assumptions – Participation at Retirement assumption was updated based on April 2019 participation experience study. Spouse Participation at Retirement assumption was updated based on recent plan experience for retirees under age 65.

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



## ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION

## Schedule of Contributions – OPEB Plan

Year ended June 30, 2021

|  | Fiscal Year<br><u>2020-21</u> | Fiscal Year<br><u>2019-20</u> | Fiscal Year<br><u>2018-19</u> | Fiscal Year<br><u>2017-18</u> |
|--|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| Actuarially Determined Contribution                                  | \$ 14,000                     | 18,000                        | 17,440                        | 16,354                        |
| Contributions in Relation to the Actuarially Determined Contribution | <u>14,000</u>                 | <u>18,000</u>                 | <u>17,440</u>                 | <u>16,354</u>                 |
| Contribution Deficiency (Excess)                                     | <u>\$ -</u>                   | <u>-</u>                      | <u>-</u>                      | <u>-</u>                      |
| Covered-Employee Payroll   | \$ 433,000                    | 483,000                       | 440,000                       | 396,000                       |
| Contributions as a Percentage of Covered-Employee Payroll            | 3.23%                         | 3.73%                         | 4.06%                         | 4.13%                         |

## Notes to Schedule:

Fiscal Year End: June 30, 2021  
Valuation Date: June 30, 2019

## 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%  |
| Inflation              | 2.75%  |
| Mortality              | OCERS 2014-2016 experience study   |
| Medical Trend          | Pre-Medicare – 7.0% for 2020, decreasing to an ultimate rate 4.0% in 2076<br>Medicare – 6.5% for 2020, decreasing to an ultimate rate 4.0% in 2076 |

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

## ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION

Schedule of Revenues, Expenditures, and Changes in Fund Balance  
Budget and Actual - General FundYear ended June 30, 2021  
(with comparative information for the prior year)

|  | Budgeted Amounts    |                  | Actual           | Variance with<br>Final Budget<br>Positive<br>(Negative) | Prior<br>Year<br>Actual |
|--|---------------------|------------------|------------------|---|-------------------------|
|  | Original            | Final            |                  |   |                         |
| Revenues:  |                     |                  |                  |   |                         |
| Assessments  | \$ 1,124,500        | 1,124,500        | 1,124,500        | -   | 1,124,500               |
| Capital Contributions  | -                   | -                | 14,152           | 14,152  | -                       |
| Interest   | 18,000              | 18,000           | 9,235            | (8,765)   | 36,402                  |
| Other  | -                   | -                | 378              | 378   | 156                     |
| Total revenues   | <u>1,142,500</u>    | <u>1,142,500</u> | <u>1,148,265</u> | <u>5,765</u>  | <u>1,161,058</u>        |
| Expenditures:  |                     |                  |                  |   |                         |
| General government:  |                     |                  |                  |   |                         |
| Salaries and benefits  | 875,100             | 875,100          | 710,902          | 164,198   | 788,509                 |
| Service and supplies   | <u>382,410</u>      | <u>382,410</u>   | <u>291,932</u>   | <u>90,478</u>   | <u>284,485</u>          |
| Total expenditures   | <u>1,257,510</u>    | <u>1,257,510</u> | <u>1,002,834</u> | <u>254,676</u>  | <u>1,072,994</u>        |
| Excess (deficiency) of revenues<br>over (under) expenditures | <u>(115,010)</u>    | <u>(115,010)</u> | <u>145,431</u>   | <u>260,441</u>  | <u>88,064</u>           |
| Net change in fund balances                                  | (115,010)           | (115,010)        | 145,431          | 260,441   | 88,064                  |
| Fund balances at beginning of year                           | <u>1,532,661</u>    | <u>1,532,661</u> | <u>1,532,661</u> | -   | <u>1,444,597</u>        |
| Fund balances at end of year                                 | <u>\$ 1,417,651</u> | <u>1,417,651</u> | <u>1,678,092</u> | <u>260,441</u>  | <u>1,532,661</u>        |

See accompanying notes to the required supplementary information

**ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION****Notes to Required Supplementary Information****Year ended June 30, 2021****(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, 2021, 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 27, 2021.

#### 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) as a basis for designing 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 financial statement amounts.

Board of Commissioners  
Orange County Local Agency Formation Commission  
Page Two

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

#### Purpose of this Report

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

DavisFarrLLP

Irvine, California  
October 27, 2021