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STAFF**Luis Tapia**

Interim Executive Officer

Scott Smith

General Counsel

MEETING DATE: May 14, 2025**TO:** Local Agency Formation Commission
of Orange County**FROM:** Interim Executive Officer**SUBJECT:** Transfer to Public Trust Account**BACKGROUND**

In October 2021, the Commission established a Section 115 Public Agencies Post-Employment Benefits Trust (Trust) through an administrative agreement with Public Agency Retirement Services (PARS). The Commission established the Trust to earn investment revenue that can be used to contribute to the payment of pension obligations and other post-employment benefits costs. PARS currently provides investment and costs management, GASB compliant financial reporting, and streamlined transfers and reimbursements involving the OC LAFCO Trust.

In accordance with the Commission's accounting and financial policies delineating the purpose and funding procedures of the Trust (**See Attachment 1, page 3**), transfers to the Trust may be authorized by the Executive Officer when there is excess cash net income at the end of a fiscal year. The policy also provides that the Commission must approve transfers that do not involve excess cash net income. Accordingly, with the Commission's accounting and financial policy and a review of the remaining excess net cash income from FY 2023-24 by OC LAFCO's accountant, Eide Bailly LLP, staff will be transferring \$25,437 to the Trust. The transfer to the Trust is further discussed in the following section of this report.

Transfer to OC LAFCO Trust

In accordance with the Commission's policy, the agency's Trust account has experienced two deposits of \$62,000 in 2001 and \$15,000 in 2024. The deposit in 2001 was the original deposit to start the Trust, and the second deposit in 2024 was completed with the Commission's approval due to the agency not experiencing excess cash net income at the end of fiscal year 2022-23.

In part to prepare the proposed budget for the fiscal year 2025-26, the OC LAFCO accounting team and staff reviewed the option of making a transfer to the Trust. Based on the remaining net cash amount income from FY

2023-24 and the Commission's accounting and financial policies, staff will be making a transfer of funds totaling \$25,437 to the Trust. The transfer would continue planning for long-term post-employment costs, including the Commission's net pension liability. The transfer to the Trust has been included in the three-year projections and will not have a negative effect on the overall budget and reserve funds.

RECOMMENDED ACTION

This is a receive and file report and requires no action by the Commission.

Respectfully Submitted,



LUIS TAPIA

Attachment:

1. OC LAFCO Accounting & Financial Policies (Part 5: Section 2.14D)

**Accounting and Financial Policies of the
Orange County Local Agency Formation Commission**

PART 5 – Policies Pertaining to Specific Asset and Liability Accounts

2.13 CASH AND CASH MANAGEMENT

A. Cash Accounts

The primary operating account provides for routine business check disbursements. All cash and credit card deposits are made to this account. Bank reconciliations are performed by the OC LAFCO accounting firm staff. The following minimum balances shall be maintained in the agency's accounts at all times to ensure there are sufficient funds to cover ongoing operating and payroll expenses:

Savings:	\$205,000
Payroll:	3 Months of Current Payroll Expenses
Checking:	3 Months of Operational Expenses

B. Reserve Policy

OC LAFCO currently has three reserve funds restricted to the agency's savings account. These funds are as follows: (1) Contingency; (2) Litigation; and (3) Unfunded Liability. These accounts are considered "restricted" accounts and are only used for the specific purposes described below:

1. Contingency Reserves – restricted funds to cover any unforeseen future agency loss and/or urgency which includes but is not limited to property or equipment damage, loss or theft. The minimum balance in the Contingency Reserve Account shall be \$100,000.
2. Litigation Reserves – restricted funds for cost related to agency legal challenges. The minimum balance in the Litigation Reserve Account shall be \$75,000.
3. Unfunded Liability Reserve – restricted funds to offset anticipated agency liabilities including employee vacation and administrative leave payouts. The minimum balance in the Unfunded Liability Reserve Account shall be \$30,000.

2.14 INVESTMENTS

A. Authority

In accordance with California Government Code Section 56300 et seq., the authority to invest public funds not required for the immediate needs of the agency is expressly delegated to the Orange County Local Agency Formation Commission (OC LAFCO). The Commission may also delegate this responsibility to the OC LAFCO Executive Committee and the Executive Officer.

The purpose of this section of the policy is to establish investment guidelines for OC LAFCO officials to ensure the stewardship of agency funds. Pursuant to state law, the Commission, Executive Committee, Executive Officer, and Executive Officer Designee, when investing OC LAFCO funds, shall act with care, skill, prudence, and diligence under the circumstance then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency. All investments shall be in conformance with federal, state and other legal requirements.

Investments made pursuant to this policy are limited to those instruments specified by OC LAFCO. The Commission shall review the investment program quarterly.

B. Investment Objectives

The specific objectives for all funds invested as defined by this policy are listed in priority order as follows:

1. Safety of Principal

The preservation of principal is of primary importance. Each transaction shall seek to ensure that capital losses are avoided.

2. Legality

Each transaction and the entire investment program must comply with the California Government Code and OC LAFCO's investment policy as defined herein.

3. Liquidity

The invested funds should remain sufficiently flexible to enable OC LAFCO to meet all operating requirements which may be reasonably anticipated.

The managing of OC LAFCO investments shall be subject to the prudent investor standard, a standard of conduct requiring that any investment be made with care, skill, prudence, and diligence in order to safeguard agency funds and maintain the liquidity needs of the agency.

C. Return on Investment

Investments shall be undertaken to produce an acceptable rate of return after first considering safety of principal and liquidity and the prudent investor standard.

Authority to manage OC LAFCO's investment program is delegated to the OC LAFCO Commission. Management Responsibility is hereby delegated to the Executive Committee and the Executive Officer under the direction of the full OC LAFCO Commission.

D. Authorized Investments

Agency funds are not required for the immediate needs of OC LAFCO but may be invested as follows:

- Investment Funds
Agency funds not required for immediate needs of OC LAFCO may be remitted to the State Local Agency Investment Fund (LAIF) or the Orange County Investment Pool (OC Fund) for the purpose of investment (Government Code Section 16429.1).
- Section 115 Public Agencies Post-Employment Benefits Trust
Agency funds from excess cash net income and not required for immediate needs of OC LAFCO may be deposited to the benefits trust account managed through an agreement with the Public Agency Retirement Services (PARS). The account is established for agency contributions and lowering of the agency's overall net pension expenses. The annual transfer to the benefits trust account must not exceed fifty percent (50%) of the excess cash net income at fiscal year- end, unless approved by the Commission.

- Other Investments

Other investments are permitted by Government Code Section 53600 may be made subject to prior approval of the Commission and may include the following:

- U.S. Government and Agencies Obligations.

- Negotiable Certificates of Deposit issued by a nationally or state-chartered bank, a state or federal savings and loan association, or a savings bank with ratings equivalent by Fitch to F1 or better.

As deemed appropriate, the Commission may, at any time, further restrict the securities approved for investment.

E. Reporting

The Executive Officer shall submit a quarterly report to the Commission showing investment activity, including yield and earnings and the status of cash by depository.

As part of the Commission's annual audit, the independent auditor shall also evaluate investment performance and conduct an operations audit. The purpose of these examinations shall be to obtain suggestions for improved future performance and to verify that investments has been done in accordance with the policy and all applicable laws.

2.15 FIXED ASSET MANAGEMENT

A. Capitalization Policy

Physical assets acquired with unit costs in excess of \$2,000 are capitalized as fixed assets on the financial statements. Items with unit costs below this threshold shall be expensed in the year purchased.

Capitalized fixed assets are accounted for at their historical cost and all such assets, except land, are subject to depreciation over their estimated useful lives, for government-wide financial statements in accordance with GASB Statement No. 34.

B. Contributed Assets

Assets with fair market values in excess of \$2,000 (per unit) that are contributed to OC LAFCO shall be capitalized as fixed assets on the financial statements. Contributed items with market values below this threshold shall be expensed in the year contributed.

Capitalized contributed assets are accounted for at their market value at the time of donation and all such assets, except land, are subject to depreciation for government-wide financial statements.

C. Establishment and Maintenance of a Fixed Asset Listing

All capitalized fixed assets shall be recorded in a property log. This log shall include the following information with respect to each asset:

1. Date of acquisition.
2. Cost
3. Description (including color, model, and serial number)
4. Location of asset
5. Depreciation method
6. Estimated useful life

A physical inventory of all assets capitalized under the preceding policies will be taken on an annual basis by OC LAFCO. This physical inventory shall be reconciled to the property log and adjustments made as necessary. All adjustments resulting from this reconciliation will be approved by the Executive Officer.

D. Depreciation and Useful Lives

All capitalized assets are maintained in the special fixed assets account group. Fixed assets are depreciated over their estimated useful lives using the straight- line method only when presenting government-wide financial statements. Fund financial statements do not include fixed assets or depreciation.

In the year of acquisition, depreciation is recorded based on the number of months the asset is in service, counting the month of acquisition as a full month (Example: an asset purchased on the 15th day of the fifth month shall have eight full months of depreciation (eight-twelfths of one year) recorded for that year).

Estimated useful lives of capitalized assets shall be determined by the Executive Officer. The following is a list of the estimated useful lives of each category of fixed asset for depreciation purposes:

Furniture and fixtures	Up to 10 yrs.
General office equipment	5 yrs.
Computer hardware and peripherals	3-5 yrs.
Computer software	2-3 yrs.
Leased assets	Life of Lease

For accounting and interim financial reporting purposes, depreciation expense will be calculated on an annual basis in conjunction with the annual audit.

E. Repairs of Fixed Assets

Expenditures to repair capitalized assets shall be expensed as incurred if the repairs do not materially add to the value of the property or materially prolong the estimated useful life of the property.

Expenditures to repair capitalized assets shall be capitalized if the repairs increase the value of property, prolong its estimated useful life, or adapt it to a new or different use. Such capitalized repair costs shall be depreciated over the remaining estimated useful life of the property. If the repairs significantly extend the estimated useful life of the property, the original cost of the property shall also be depreciated over its new, extended useful life.

F. Dispositions of Fixed Assets

In the event a non-expendable asset is sold, scrapped, donated or stolen, adjustments need to be made to the fixed asset listing and property log.

2.16 ACCRUED LIABILITIES

A. Identification of Liabilities

The accounting department shall establish a list of commonly incurred expenses that may have to be accrued at the end of an accounting period. Some of the expenses that shall be accrued by OC LAFCO at the end of an accounting period are:

1. Salaries and wages
2. Payroll taxes
3. Vacation pay
4. Facility expenses payable to the County

In addition, OC LAFCO shall record a liability for deferred revenue (revenue received but not yet earned) in accordance with the revenue recognition policies described elsewhere in this manual.