RIVERSIDE LAFCO

10.
4/27/2017

TO: Local Agency Formation Commission

FROM: George Spiliotis, Executive Officer
Adriana Romo, Local Government Analyst III

SUBJECT: INDEPENDENT AUDITOR'S REPORT FOR FISCAL YEAR 2015-16.

In July of 2016, the firm of Davis Farr, LLP was selected to audit the Commission's financial statements for fiscal years 2015-16, 2016-17, 2017-18, and 2018-19. Davis Farr has completed an audit of our FY 2015-16 financial statements, which is attached.

Davis Farr reports the Commission's financial statements "present fairly, in all material respects, the respective financial position of the governmental activities and general fund of the Commission as of June 30, 2016, and the respective changes in financial position thereof, and the budgetary comparison of the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America". Davis Farr did not identify any changes necessary in the Commission's internal controls nor recommend changes in the practices of the Commission in the report.

Generally, the Commission's net position declined by approximately $33,000. If not for a $198,000 increase in the net pension liability, the Commission's net position would have improved. The factors determining the Commission's net pension liability are almost entirely outside of its control. The Commission net pension liability is a proportionate share of the County's net pension liability. Due to the underperforming investments in the CalPERS system, the County retirement plan liability increased by approximately $252 million. At the same time, our proportionate share of the County plan increased from 0.043% to 0.054%, nearly a 26% increase.

Another contributing factor to the negative net position is the Commission's long-term liability—Compensated Absences (leave balances) accrued by current LAFCO staff. To address this liability, the Commission established a Compensated Absences Liability Reserve (CALR). Additionally, in FY 2015-16 compensated absences were reduced by approximately $18,000 or eight percent of the total balance. It is estimated that the CALR will fully fund the leave balances by the end of FY 2017-18.

In sum, the Commission's financial statements are presented fairly, there were no internal control deficiencies to report, and the financial statements tested were found free of material misstatements.

SPECIFIC RECOMMENDATION:

It is recommended the Committee:

1. Receive and file the attached audit report from Davis Farr, LLP.

Respectfully submitted,

George J. Spiliotis
Executive Officer

Adriana Romo
Local Government Analyst III

DavisFarr
CERTIFIED PUBLIC ACCOUNTANTS

Davis Farr LLP
2301 Dupont Drive | Suite 200 | Irvine, CA 92612
Main: 949.474.2020 | Fax: 949.263.5520

To the Board of Commissioners
Riverside County Local Agency Formation Commission

We have audited the financial statements of the governmental activities, and each major fund of the Riverside County Local Agency Formation Commission ("Commission") for the year ended June 30, 2016. 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 July 11, 2016. 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. During the fiscal year ended June 30, 2016, the Commission implemented GASB Statement No. 72 such that investments are now required to be reported at fair value. 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 liability.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was Footnote 7: Pension Plan.

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. Potentially uncorrected misstatements of the financial statements are summarized below. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. The County of Riverside has a Net OPEB Asset recorded in their financial statements. It is unclear if a portion of this asset should be presented on the Commission's financial statements. As such, no adjustment has been made to the financial statements.

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 March 17, 2017.

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*, *Schedule of the Plan's Proportionate Share of the Net Pension Liability*, the *Schedule of Pension Plan Contributions*, 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 Riverside County Local Agency Formation Commission and is not intended to be, and should not be, used by anyone other than these specified parties.

Davis Farr LLP

Irvine, California
March 17, 2017

RIVERSIDE COUNTY LOCAL AGENCY
FORMATION COMMISSION

Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

(With Independent Auditors' Report Thereon)

RIVERSIDE COUNTY LOCAL AGENCY FORMATION COMMISSION

Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

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Davis Farr
CERTIFIED PUBLIC ACCOUNTANTS

Davis Farr LLP
2301 Dupont Drive | Suite 200 | Irvine, CA 92612
Main: 949.474.2020 | Fax: 949.263.5520

Board of Commissioners
Riverside County Local Agency Formation Commission
Riverside, California

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Riverside County Local Agency Formation Commission (the "Commission"), as of and for the year ended June 30, 2016, 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 opinion.

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, 2016, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, Schedule of the Plan's Proportioned Share of the Net Pension Liability, and the Schedule of Plan Contributions 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 March 17, 2017 on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Commission's internal control over financial reporting and compliance.

Davis Farr LLP

Irvine, California
March 17, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2016

The following discussion and analysis of the financial performance of the Local Agency Formation Commission of Riverside County (Commission) provides an overview of the Commission's financial activities for the fiscal year ended June 30, 2016. 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 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.

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements provide both long-term and short-term information about the Commission's overall financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that provides additional financial and budgetary information.

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. An important question to be 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. Revenues are recognized when they are earned. Expenditures are recognized when the related liability is incurred, regardless of the cash flow.

The statements report the Commission's net position and changes since the previous year. 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 assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other factors, such as changes in the Commission's revenues, to assess the overall health of the Commission. Indeed, a reduction in net assets is sometimes assumed in the budget process, as prior year end fund balance is used as a funding source for the current year budget.

Financial Highlights

Fiscal Year 2015-16 represents the second year of a new financial reporting procedure for all government agencies participating in a "defined benefit plan" or "defined contribution plan" retirement system. The Government Accounting Standards Board (GASB) requirements have been revised to include two additional statements that significantly impact this Commission's financial statements, but do not affect the Commission's financial condition. The two GASB statements are:

> **GASB Statement No. 68**—Accounting and Financial Reporting for Pensions, which requires the recognition of the Commission's proportionate share of net pension liability and a comprehensive disclosure of changes in pension liability and related ratio (i.e. investment returns, discount rates, etc. as described in further detail in the notes section of this report.)
>
> **GASB Statement No. 71**—Pension Transition for Contributions Made Subsequent to the Measurement Date (June 30, 2014), which regulates the Commission's recognition of pension expense in the financial statements.

As a result of implementing GASB 68 and 71, and an increase in the system's liability, the Commission's overall net position has decreased as compared to the prior fiscal year.

<u>Reporting the Commission's Fund Activity</u>

The fund financial statements provide detailed information about the Commission's governmental fund as it operates under a single-program government fund. All of the Commission's basic services are reported in its General Fund. The fund is reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the subject fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments are recorded only when a payment is due.

TABLE 1

STATEMENT OF NET POSITION

June 30, 2016 and 2015

	2016	2015	DIFFERENCE	%
ASSETS				
Current Assets:				
Cash and Cash Equivalents	$ 301,702	$ 245,871	$ 55,831	23%
Interest Receivable	523	178	345	194%
Deferred Outflows of Resources	92,620	72,987	19,633	27%
Capital Assets, Net of Depreciation	9,046	10,469	(1,423)	-14%
Total Assets	403,891	329,505	74,386	23%
LIABILITIES AND NET POSITION				
LIABILITIES				
Current Liabilities:				
Salaries and Benefits Payable	$ 38,965	$ 31,005	$ 7,960	26%
Accounts Payable	3,954	2,883	1,071	37%
Compensated Absences (due within one year)	86,535	95,731	(9,196)	-10%
Long-term Liabilities:				
Net Pension Liability (Effect of GASB 68)	610,895	412,716	198,179	48%
Deferred Inflows of Resources	45,718	139,197	(93,479)	-67%
Compensated Absences (due in more than one year)	128,026	136,977	(8,951)	-7%
Total Liabilities	914,093	818,509	$95,584	12%
NET POSITION				
Invested in Capital Assets	9,046	10,469	(1,423)	-14%
Unrestricted	(519,248)	(499,473)	(19,775)	-4%
Total Net Assets	$ (510,202)	$ (489,004)	$ (21,198)	-4%

The increase in assets is a result of the Commission's efforts to increase reserves. Over the past few years, the Commission has developed a General Reserve target of 25 percent of its operating budget and has established a Compensated Absences Liability Reserve (CALR) to cover accumulated leave balances should an employee separate.

Current liabilities have remained relatively stable. Non-current liabilities, which now include pension related liabilities, can fluctuate significantly from year to year depending on the value of the retirement system's assets, discount rate and actuarial factors. From FYE 2015 to FYE 2016, the pension related liability increased by approximately $198,000. The end result is an approximate $21,000 decrease in the Commission net position.

TABLE 2

STATEMENT OF ACTIVITIES

June 30, 2016 and 2015

	2016	2015	DIFFERENCE	%
REVENUES				
Charges for Services	$ 93,071	$ 119,158	$ (26,087)	-22%
Intergovernmental/Apportionment	742,984	721,362	21,622	3%
Interest	2,524	1,690	834	49%
Total Revenues	838,579	842,210	(3,631)	0%
EXPENDITURES				
General Government	859,777	689,623	170,154	25%
Total Expenditures	859,777	689,623	170,154	25%
Excess of Revenues Over (Under) Expenditures	$ (21,198)	$ 152,587	$ (173,785)	-114%
CHANGES IN NET ASSETS				
Net Position, Beginning of Year, As Restated	(489,004)	(641,591)	152,587	24%
Net Position, End of Year	$ (510,202)	$ (489,004)	$ (21,198)	-4%

An explanation of significant changes in the revenues and expenses of the Commission's governmental activities presented above and in the following financial statements is as follows:

- Charges for services are highly variable and for the most part include fee revenue for changes of organization. Fee revenue received from FYE 2015 to FYE 2016 declined by approximately 22 percent.

- Intergovernmental revenues, also referred to as the Local Agency Share, were increased by a modest three percent. The difference between budgeted expenditures and the sum of budgeted fee revenue and interest income determines the Local Agency Share.

- FY 15-16 marked the first fiscal year employee furloughs were not implemented since FY 09-10. In conjunction with COLAs, this caused an increase to salary and benefit related expenditures of approximately seven percent. The most notable expense was as a result of the change in the net pension liability. Although it was a non-current liability having no immediate impact on the Commission, this is the most significant change in the Commission's financial statements.

- Although the Compensated Absences Liability was reduced by approximately $18,000, it was not sufficient to offset the large net pension liability that is now reported pursuant to the implementation of GASB 68.

- Overall, the Commission's net asset position worsened by approximately four percent.

- Compensated absences for the beginning of FY 14-15 were also restated to account for full pay out of sick leave balances, previously inadvertently accounted for at 50 percent of its value.

CAPITAL ASSETS

Capital Assets — Governmental Activities
Years Ended June 30, 2016 and 2015

	2016	2015	Change
Office Equipment	$ 6,616	$ 7,553	$ (937)
Furniture and fixtures	$ 2,430	$ 2,916	$ (486)
Total	$ 9,046	$ 10,469	$ (1,423)

At the end of fiscal year 2016, the Commission's investment in capital assets amounted to $9,046 (net of accumulated depreciation). This investment in capital assets includes office equipment as well as furniture and fixtures. (See Note 3 for further information.)

Long-term liabilities include compensated absences, which are not due and payable in the current period. Also, not due within one year is the Commission's pension liability, which is its proportionate share of the CalPERS retirement system based on current employees.

LONG-TERM LIABILITIES

	2016	2015	DIFFERENCE
Compensated Absences	$ 128,026	$ 136,977*	$ (8,951)
Net Pension Liability	610,895	412,716	198,179
Total Long-term Liabilities	$ 738,921	$ 549,693	$ 189,228

* An adjustment was made to increase the liability as the sick leave portion was understated in the prior year.

Additional information on the Commission's long-term liabilities can be found in Note 1 to the accompanying financial statements.

Contacting the Commission's Financial Management

This financial report is designed to provide our citizens, public officials, applicants, 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, George Spiliotis at 3850 Vine Street, Suite 240, Riverside CA 92507-4277.

RIVERSIDE LOCAL AGENCY FORMATION COMMISSION
Statement of Net Position
June 30, 2016
(With comparative information for the prior year)

	Governmental Activities
Assets:	
Cash and investments (note 2)	$ 301,702
Interest receivable	523
Capital assets, net (note 3)	9,046
Total assets	311,271
Deferred outflow of resources:	
Deferred outflows - contributions	81,356
Deferred outflows - actuarial	11,264
Total deferred outflow of resources	92,620
Liabilities:	
Accounts payable	3,954
Salaries and benefits payable	38,965
Compensated absences payable:	
Due within one year	86,535
Due in more than one year	128,026
Net pension liability	610,895
Total liabilities	868,375
Deferred inflow of resources:	
Deferred inflows of resources - actuarial	45,718
Net position (deficit):	
Investment in capital assets	9,046
Unrestricted	(519,248)
Total net position	$ (510,202)

See accompanying notes to the basic financial statements

RIVERSIDE LOCAL AGENCY FORMATION COMMISSION
Statement of Activities
For the Fiscal Year Ended June 30, 2016
(With comparative information for the prior year)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets - Governmental Activities
Governmental activities:					
General government	$ 859,777	93,071	-	-	(766,706)
Total governmental activities	$ 859,777	93,071	-	-	(766,706)
General revenues:					
Apportionment					742,984
Investment income					2,524
Total general revenues					745,508
Change in net position					(21,198)
Net position (deficit), beginning of year, as restated, (note 10)					(489,004)
Net position (deficit), end of year					$ (510,202)

See accompanying notes to the basic financial statements

RIVERSIDE LOCAL AGENCY FORMATION COMMISSION
Governmental Funds
Balance Sheet
June 30, 2016

		General Fund
Assets		
Cash and investments	$	301,702
Interest receivable		523
Total assets	$	302,225
Liabilities and Fund Balance		
Liabilities:		
Accounts payable	$	3,954
Salaries and benefits payable		38,965
Total liabilities		42,919
Fund balance:		
Committed for compensated absences		66,000
Unassigned		193,306
Total fund balance		259,306
Total liabilities and fund balance	$	302,225

See accompanying notes to the basic financial statements

RIVERSIDE LOCAL AGENCY FORMATION COMMISSION
Governmental Funds
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
June 30, 2016

Fund balances of governmental funds	$	259,306
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital Related Items		
When capital assets (property, plant, equipment) that are to be used in governmental activities are purchased or constructed, the cost of those assets are reported as expenditures in governmental funds. However, the Statement of Net Position includes those capital assets among the assets of the Commission as a whole.		
Capital assets		19,281
Accumulated depreciation		(10,235)
Long-Term Liability Transactions		
Long-term liabilities applicable to the Commission's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities. All liabilities (both current and long-term) are reported in the Statement of Net Position.		
Compensated absences		(214,561)
Net pension liability		(610,895)
Deferred Outflows and Inflows of Resources		
Certain deferred outflows and inflows of resources are not due and payable in the current period and are not current assets or finanical resources, therefore these items are not reported in the governmental funds.		
Deferred outflows - contributions		81,356
Deferred outflows - actuarial		11,264
Deferred inflows - actuarial		(45,718)
Net position of governmental activities	$	(510,202)

RIVERSIDE LOCAL AGENCY FORMATION COMMISSION
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Fiscal Year Ended June 30, 2016

	General Fund
Revenues:	
Apportionment	$ 742,984
Charges for services	93,071
Investment income	2,524
Total revenues	838,579
Expenditures:	
General government	791,434
Excess (deficiency) of revenues over (under) expenditures	47,145
Net change in fund balances	47,145
Fund balances at beginning of year	212,161
Fund balances at end of year	$ 259,306

See accompanying notes to the basic financial statements

RIVERSIDE LOCAL AGENCY FORMATION COMMISSION
Governmental Funds
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
to the Statement of Activities
For the Fiscal Year Ended June 30, 2016

Net changes in fund balances - total governmental funds	$ 47,145
Amounts reported for governmental activities in the Statement of Activities are different because:	
Capital Related Items	
When capital assets that are to be used in governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in governmental funds. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	
Capital expenditures and disposals	801
Depreciation expense	(2,224)
Long-Term Liability Transactions	
Pension expenses and compensated absences expenses reported in the Statement of Activities do not require the use of current financial resources. Therefore, these expenses are not reported as expenditures in governmental funds. 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	(85,067)
Net change in compensated absences	18,147
Change in net position of governmental activities	$ (21,198)

(1) Summary of Significant Accounting Policies

The financial statements of the Riverside 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.

The Cortese-Knox Local Government Reorganization Act of 1985 regulated the powers and authority of the Commission. Assembly Bill No. 2838 renames the act to Cortese-Knox-Hertzberg Local Governments Reorganization Act of 2000 and amends numerous Government Codes to delete references to the conducting authority, County, or other public agency, and transfer its duties and powers to the Commission. The Commission was operated much like a County of Riverside (County) department until 1989. However, from 1989 through 2001, the Commission was independent in every aspect except for fiscal matters. After July 1, 2001, the Commission separated from the County and is now fiscally independent. The Commission's governing board consists of seven members - two members each from the County of Riverside (County) Board of Supervisors, city governments, and special districts members, and one member from the public. The Commission appoints an Executive Officer and legal counsel and may appoint staff to conduct the operations of the Commission. The Commission is included in the County's financial statements as an agency fund.

Funding for the Commission's operations is equally shared by the County, the twenty-four County Cities and the independent special districts. Although the County contributes 33% of the Commission's funding, the Commission is an independent agency and its budget is not subject to County approval.

The Commission and County entered into a County Services Agreement to provide all accounting, banking/investment, and insurance services for the Commission. The Commission is staffed by a total of five full-time staff.

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

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

Government-wide Financial Statements

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

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

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

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

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

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

Fund Financial Statements

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

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

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.

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

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

Governmental Fund Balances

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

Nonspendable Fund Balance

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

Spendable Fund Balance

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

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 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.

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

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

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.

C. Cash and Cash Equivalents

The Commission's cash from operations is voluntarily deposited in the County Treasury. The County pools its funds with other government agencies in the County and invests them as prescribed by the California Government Code. The Commission's deposits in the County pool may be accessed any time. The Commission is allocated interest income on monies deposited with the County based on its proportional share of the total pool. All pooled investments are carried at fair value. The fair value of a participant's position in the pool is not the same as the value of the pooled shares.

In December 1994, the Board of Supervisors created an Investment Oversight Committee to work with the County Treasurer to oversee County investment policies. The Committee reviews the County's investment strategy and the status of the County's investment and reports its findings to the Board. The Investment Oversight Committee has reviewed and approved investment policies for funds held outside the County Treasury.

D. Fair Value Measurements

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

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

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

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

D. Fair Value Measurements, (Continued)

- 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 input 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.

E. Capital Assets

Capital assets, which include property, plant, equipment used in the operation of the governmental fund, are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than $3,000 and an estimated useful life based on the estimated useful lives and capitalization thresholds.

Such capital assets are valued at historical cost or estimated historical costs if actual historical cost is not available. Donated capital assets are valued at their fair market value on the date donated. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Depreciation of all exhaustible capital assets is charged as an expense against their operations. Depreciation has been provided over the estimated useful lives using the straight-line method.

The estimated useful lives and capitalization thresholds are as follows:

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

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

F. Compensated Absences

The Commission's policy permits non-management employees to accumulate earned but unused vacation, holiday, and sick pay. Management employees however, accumulate earned but unused holiday and annual leave benefits. Management employees do not accumulate sick and vacation pay hours. The rate of pay for all compensated absences is the same rate as that received on the last day worked. Eligibility for compensation of sick pay is available after employees have worked for the Commission for five (5) years. Eligibility for compensation of all other types of absences is available immediately as accumulated.

Upon service retirement, disability, retirement, or death, unused accumulated sick leave for employees with at least five (5) but less than fifteen (15) years of service shall be credited at the rate of fifty percent (50%) of the current salary value thereof provided; however, the total payment shall not exceed a sum equal to 960 hours of full pay. Unused accumulated sick leave for employees with more than fifteen (15) or more years of service shall be credited at the rate of the current salary value provided, however, the total payment shall not exceed a sum equal to 960 hours of full pay. Terminal sick leave pay shall be paid into a Post-Employment Plan account designated by the employee. Qualifying leave balances of a separating employee who does not make an election will default to a Special Pay Account. Upon leave of employment, employees are entitled to one hundred (100) percent of vacation and annual leave benefits with total payments not to exceed sixty (60) days of full pay for vacation and no maximum amount for annual leave.

G. Pensions

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

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

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

Valuation Date (VD)	June 30, 2014
Measurement Date (MD)	June 30, 2015
Measurement Period (MP)	June 30, 2014 to June 30, 2015

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

G. 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 a deferred outflow related to pensions 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 a deferred inflow related to pensions resulting from actuarial calculations.

H. Estimates

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

(2) Cash and Investments

Cash and investments held at June 30, 2016 consisted of the following:

Petty cash	$ 1,000
County of Riverside Treasurer's Pooled Investment Fund	300,702
Total cash and investments	$ 301,702

Investments Authorized by the Commission's Investment Policy

The Commission's investment policy authorizes the following investment types:

- County of Riverside Treasurer's Pooled Investment Fund
- Bankers' Acceptances
- Commercial Papers
- Medium Term Notes
- Mutual Funds
- Repurchase Agreements
- Reverse Repurchase Agreements

(2) Cash and Investments, (Continued)

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer of the maturity of an investment, the greater the sensitivity of the fair value to changes in market interest rates.

As of June 30, 2016, the Commission's cash was invested in the County of Riverside Treasurer's Pooled Investment Fund. The Commission was not exposed to an interest rate risk as described above.

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. The money pooled with the County of Riverside is rated AAA by Fitch.

Custodial Credit Risk

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

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

(2) Cash and Investments, (Continued)

Fair Value Measurement

The Commission categorizes its fair value investments within the fair value hierarchy established by generally accepted accounting principles. The Commission has the following recurring fair value measurements as of June 30, 2016:

	Fair Value Hierarchy			
	Level 1	Level 2	Level 3	Total
County of Riverside Treasurer's Pooled Investment Fund	$ -	301,144	-	301,144

The County of Riverside Treasurer's Pooled Investment Fund is a pooled investment fund program by the Riverside County Board of Supervisors, and is administered by the County Treasurer. Investments in the pool are highly liquid as deposits and withdrawals can be made at any time without penalty. Information on Pool's use of derivative securities in its investment portfolio and the Commission's exposure to credit, market, or legal risk is not available.

(3) Capital Assets

A summary of changes in capital assets follows:

	Balance at July 1, 2015	Additions	Deletions	Balance at June 30, 2016
Capital assets:				
Furniture and fixtures	$ 25,922	801	(7,442)	19,281
Less accumulated depreciation for:				
Furniture and fixtures	(15,453)	(2,224)	7,442	(10,235)
Total capital assets, net	$ 10,469	(1,423)	-	9,046

Depreciation expense of $2,224 was included in general government expense.

(4) Insurance

For fiscal year 2016, the Commission obtained insurance policies for criminal coverage, with a $1,000,000 per loss limit and $25,000 deductible, a property damage policy with limits varying on property type, and general liability coverage (includes E&O and Board insurance) with a $5,000,000 loss limit and a $10,000 deductible. There were no claims for the fiscal year 2016.

(5) Long Term Liabilities

The following is a summary of changes in long-term liabilities for the year ended June 30, 2016:

	Balance July 1, 2015, as restated	Additions	Deletions	Balance June 30, 2016
Compensated absences	$ 232,708	68,388	(86,535)	214,561

The beginning balance was restated to increase the liability as the sick leave portion was understated in prior year. There is no fixed payment schedule for earned but unpaid compensated absences; however, compensated absences expected to be paid within one year is $86,535 at June 30, 2016.

(6) Pension Plan

Plan Description

All qualified permanent and probationary employees are eligible to participate in the County of Riverside's Miscellaneous Employee Pension Plan, agent multiple-employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. The Plan acts as a cost-sharing plan for the Commission since their portion is an allocation of the County's Plan. Benefit provisions under the Plans are established by State statute and the County's resolution. CalPERS 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 CalPERS website.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

(6) Pension Plan, (Continued)

The Plans' provisions and benefits in effect at June 30, 2016, are as follows:

Hire date	Prior to January 1, 2013	On or After January 1,2013
Benefit formula	3% @ 60	2% @ 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 60	52 - 67
Monthly benefits, as a % of eligible compensation	2.0% to 3.0%	1.0% to 2.5%
Required employee contribution rates	8%	8%
Required employer contribution rates	14.527%	0%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for all Plans are determined annually on an actuarial basis as of June 30 by CalPERS. 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 June 30, 2015. 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 June 30, 2014.

The following actuarial assumptions were applied to the June 30, 2015 measurement date:

Actuarial cost method	Entry-Age normal cost method
Discount rate	7.65%
Inflation	2.75%
Salary increases	Varies by entry age and service
Investment rate of return	7.65%
Benefit increase	Contract COLA up to 2.75%
Mortality rate table	Developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details, please refer to the 2014 experience study report

(6) Pension Plan, (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.65 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the current 7.65 percent discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.65 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, staff took into account both short-term and long-term market return expectations as well as the expected pension fund (Public Employees' Retirement Fund) cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the Board effective on July 1, 2014.

Asset Class	**Current Target Allocation**	**Real Return Years 1 - 10**	**Real Return Years 11+**
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	2.0%	(0.55%)	(1.05%)

(6) Pension Plan, (Continued)

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:

	Total Pension Liability
Balance at: 6/30/2015	$412,716
Balance at: 6/30/2016	610,895
Net change during 2016	198,179

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

Proportion – 6/30/2015	0.043%
Proportion – 6/30/2016	0.054%
Change – Increase (Decrease)	0.011%

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 7.65 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 (6.65 percent) or 1 percentage-point higher (8.65 percent) than the current rate:

	Discount Rate – 1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate + 1% (8.65%)
Actuarially-Determined Net Pension Liability	$ 1,072,811	$ 610,895	$ 231,972

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.

(6) Pension Plan, (Continued)

Amortization of Deferred Outflows and Deferred Inflows of Resources (Continued)

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

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

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

For the measurement period ending June 30, 2015 (the measurement date), the Commission recognized a pension expense of $85,066 for the Plan.

As of the June 30, 2015 measurement date, the Commission reports other amounts for the Plan as deferred outflow and deferred inflow of resources related to pensions as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions after the Measurement Date	$ 81,356	-
Differences between Expected and Actual Experience	6,589	-
Change of Assumptions	-	45,718
Net Difference between Projected and Actual Earnings on Pension Plan Investments	4,675	-
Total	$ 92,620	45,718

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

Measurement Period Ended June 30	Deferred Outflows (Inflows) of Resources
2016	$ 61,969
2017	(19,387)
2018	(22,946)
2019	27,766

(7) Other Post-Employment Benefits

Plan Description

The Commission provides other post-employment benefits (OPEB) for retired employees. Additional information may be obtained by reviewing the County of Riverside financial statement footnotes. The Commission treats this plan as a cost-sharing multiple-employer plan.

Funding Policy

An actuarial valuation is performed for the County of Riverside which includes the Commission's employees. The policy of the Commission is to fully contribute an amount at least equal to the Annual Required Contribution (ARC) as determined by the actuarial valuation.

Benefits

All employees who retire from active employment within 120 days of separation are eligible for participation. Participants are eligible for service retirement at or after age 50, or disability retirement at an age younger than 50, with at least 5 years of service. Former employees who become eligible for CalPERS pension benefits more than 120 days after separation are not eligible for retiree health benefits. The benefits provided include access to the same medical coverage as active participants and the County contributes a portion of an eligible retiree's premiums under a County sponsored health plan. Contributions are based on County bargaining unit at the time of retirement.

Contributions

The Commission pays the County of Riverside for its pro-rata share of OPEB as determined by an actuarial valuation. The total amount of contributions by the Commission for the year ended June 30, 2016 was $923. Information for the last three years on annual OPEB costs, percentage of annual OPEB cost contributed, and net OPEB obligation are presented below:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/14	$ 1,366	100%	-
6/30/15	1,224	100%	-
6/30/16	923	100%	-

(9) Commitments and Contingencies

Operating Leases

The Commission entered into non-cancelable operating lease agreements for the rental of office space and office equipment, expiring in various years through 2018. Future minimum lease payments under these operating leases are as follows:

Year Ending June 30	Minimum Lease Payments
2017	$ 34,100
2018	29,700
Total	$ 63,800

Rent expense was $35,647 for the year ended June 30, 2016.

(10) Prior Period Adjustments

Below is a summary of prior period adjustments affecting net position of Governmental Activities:

	Governmental Activities
As previously reported	$ (478,772)
a) Compensated absences	(10,232)
As restated	$ (489,004)

a) An adjustment was made to increase the liability as the sick leave portion was understated in the prior year.

REQUIRED SUPPLEMENTARY INFORMATION

RIVERSIDE 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 *

	Measurement Date	
	6/30/2015	6/30/2014
Proportion of the Collective Net Pension Liability	0.054%	0.043%
Proportionate Share of the Collective Net Pension Liability	$ 610,895	412,716
Covered-Employee Payroll	$ 444,267	414,918
Proportionate Share of the Collective Net Pension Liability as Percentage of Covered-Employee Payroll	137.51%	99.47%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	80.09%	83.16%

Notes to Schedule

Benefit Changes – There were no changes in benefits.

Changes in Assumptions – The discount rate of 7.50 percent used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65 percent used for the June 30, 2015 measurement date is without reduction of the pension plan administrative expenses.

* - Fiscal year 2015 was the 1st year of implementation, therefore only two years are shown.

RIVERSIDE COUNTY LOCAL AGENCY FORMATION COMMISSION

Schedule of Plan Contributions

Last Ten Fiscal Years *

	Fiscal Year 2015-16	Fiscal Year 2014-15
Actuarially Determined Contribution	$ 81,356	$ 72,987
Contributions in Relation to the Actuarially Determined Contribution	81,356	72,987
Contribution Deficiency (Excess)	$ -	$ -
Covered Payroll	$ 444,267	$ 414,918
Contributions as a Percentage of Covered-Employee Payroll	18.31%	17.59%

Notes to Schedule:

Fiscal Year End:	6/30/2016
Valuation Date:	6/30/2013

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry Age
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	24 years
Asset Valuation Method	15-year Smoothed Market
Inflation	2.75%
Salary Increases	3.3% to 14.2% depending on age, service and type of employment
Investment Rate of Return	7.50%
Retirement Age	50 years 3%@ 60 and 52 years 2%@ 62
Mortality	The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

Fiscal year 2015 was the first year of implementation; therefore, only two years are shown.

RIVERSIDE LOCAL AGENCY FORMATION COMMISSION
General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
For the Fiscal Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Apportionment	$ 742,984	742,984	742,984	-
Filing fees	100,953	100,953	93,071	(7,882)
Investment income	1,200	1,200	2,524	1,324
Total revenues	845,137	845,137	838,579	(6,558)
Expenditures:				
General government	834,772	834,772	791,434	43,338
Excess (deficiency) of revenues over (under) expenditures	10,365	10,365	47,145	36,780
Net change in fund balances	10,365	10,365	47,145	36,780
Fund balances at beginning of year	212,161	212,161	212,161	-
Fund balances at end of year	$ 222,526	222,526	259,306	36,780

(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.

Davis Farr LLP
2301 Dupont Drive | Suite 200 | Irvine, CA 92612
Main: 949.474.2020 | Fax: 949.263.5520

INDEPENDENT AUDITORS' 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*

The Commission Members
Riverside County Local Agency Formation Commission
Riverside, 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 Riverside County Local Agency Formation Commission (the Commission), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated March 17, 2017.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Davis Farr LLP

Irvine, California
March 17, 2017