

7. 2/26/2015

TO:

Local Agency Formation Commission

FROM:

George Spiliotis, Executive Officer Adriana Romo, Local Government Analyst

SUBJECT: INDEPENDENT AUDITOR'S REPORT FOR FISCAL YEAR 2013-14.

In April of 2012, the firm of White Nelson Diehl Evans (WNDE) was selected to audit the Commission's financial statements for fiscal years ending 2012, 2013, 2014, and 2015. WNDE has completed its audit for fiscal year ending (FYE) 2014 with financial statements and related documentation, which are attached.

As with the audits for previous fiscal years, the significant finding of the auditor is that the financial statements "present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of the Commission, as of June 30, 2014, 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". WNDE did not identify any changes necessary in the Commission's internal controls or recommended changes in the practices of the Commission in the report. The Commission has successfully implemented procedures recommendation of past auditors, such as the adoption of capital assets and reserve polices, and has developed reconciliation process for the Commission's accounts.

With the decline in revenue since 2007-08, the Commission's net assets status declined over several years and has been negative for some time. As noted the last two years, a significant contributing factor on the liability side is the increasing Compensated Absences (leave balances) accrued by current LAFCO staff. Since the institution of furloughs, the need for employees to use leave has been reduced. Should any employee separate from the agency, those leave balances must be paid out. While not an immediate threat to short-term liquidity, the long-term liability is a remaining concern. In order to address this issue, the Commission adopted a long-term strategy beginning in the current fiscal year that included the establishment of

designated reserve fund for compensated absence liability and incentives to reduce leave balances. While we remain in a negative net asset position, net assets increased slightly from the previous fiscal year. The increase corresponds with a decrease in the long-term compensated absence liability.

SPECIFIC RECOMMENDATION:

It is recommended the Commission:

- 1. Review the attached audit report and accompanying correspondence from WNDE, inclusive of the Management Discussion and Analysis.
- 2. Receive and file the Independent Auditor's Report for FYE 2014.

Respectfully submitted,

Adriana Romo Local Government Analyst



To the Commission Members of the Riverside Local Agency Formation Commission

We have audited the financial statements of the governmental activities and the general fund of the Riverside Local Agency Formation Commission (the "Commission") for the year ended June 30, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in various communications with management and in our letter dated July 11, 2014. 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 the 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 2014. We noted no transactions entered into by the governmental unit 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 estimates affecting the Commission's financial statements were:

Management's estimate regarding the annual required contribution to the retirement plans since these estimates are based on actuarial valuations. We evaluated the key factors and assumptions used to develop the annual required contribution in determining 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:

The disclosure of the retirement plans and other post-employment benefit plans in Notes 7 and 8 to the financial statements, since there are significant estimates involved in these disclosures.

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

2875 Michelle Drive, Suite 300, Irvine, CA 92606 • Tel: 714.978.1300 • Fax: 714.978.7893

Commission Members of the Riverside Local Agency Formation Commission January 28, 2015 Page 2

Significant Audit Findings (Continued)

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. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

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 January 28, 2015.

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.

Commission Members of the Riverside Local Agency Formation Commission January 28, 2015 Page 3

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Other Matters

We applied certain limited procedures to management's discussion and analysis, which is 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.

Restriction on Use

This information is intended solely for the use of the Commission Members and management of the Commission and is not intended to be, and should not be, used by anyone other than these specified parties.

Irvine, California

January 28, 2015

Client:

RIV002 - LAFCO - Riverside County

Engagement:

2014 AUD - Riverside Local Agency Formation Commission

Period Ending:

6/30/2014

Trial Balance:

3100.01 - Trial Balance

Workpaper:

3210.01 - Passed Journal Entries Report

Account	Description	Debit	Credit
Passed Journal B	Entries JE # 300		
To adjust accrued	payroll to actual at		
630/14, including	orior year.		
202100	Salaries & Benefits Payable	6,025.00	
325100	Unreserved Fund Balance		5,234.00
510040	Regular Salaries		791.00
Total	-	6,025.00	6,025.00



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 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 financial statements of the governmental activities and the General Fund of the Riverside Local Agency Formation Commission (the "Commission"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated January 28, 2015.

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 entity'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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Irvine, California

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January 28, 2015

FINANCIAL STATEMENTS

WITH REPORT ON AUDIT BY INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

FOR THE YEAR ENDED JUNE 30, 2014

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INDEPENDENT AUDITORS' REPORT

To the Members of the Commission Riverside Local Agency Formation Commission Riverside, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and General Fund of the Riverside Local Agency Formation Commission (the Commission) as of and for the year ended June 30, 2014, 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 control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these basic financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free 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 auditors' 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 auditors consider internal control relevant to the Commission'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 Commission's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and the General Fund of the Commission, as of June 30, 2014, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the table of contents, 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 management's discussion and analysis in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the 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

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In accordance with Government Auditing Standards, we have also issued our report dated January 28, 2015, 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 the Commission's internal control over financial reporting and compliance.

Irvine, California

January 28, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ended June 30, 2014

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, 2014. Please read it in conjunction with the financial statements identified in the accompanying table of contents.

Using the Accompanying Financial Statements

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Commission as a whole and present a longer 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 Assets and the Statement of Activities report information about the Commission as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting. 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 assets and changes in them. You can think of the Commission's net assets – the difference between assets and liabilities - as one way to measure the Commission's financial health or financial position. Over time, increases and decreases in the Commission's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other 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 relied on as a funding source for the current year budget.

Reporting the Commission's Fund Activity

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
GOVERNMENT-WIDE FINANCIAL STATEMENTS

	2013-14	2012-13	DIFFERENCE
<u>ASSETS</u>			
Current Assets:			
Cash and Cash Equivalents	\$145,306	\$138,461	\$6,845
Interest Receivable	102	120	(\$18)
Capital Assets, Net of Depreciation	3,402	3,888	(\$486)
Total Current Assets	148,810	142,469	6,341
LIABILITIES			
Current Liabilities:			
Salaries and Benefits Payable	27,615	25,148	\$2,467
Accounts Payable	464	1,352	(\$888)
Due to Other Govt.	0	37	(\$37)
Compensated Absences	63,067	58,170	4,897
(due within one year)			
Total Current Liabilities	91,146	84,707	\$6,439
Non-current Liabilities:			
Compensated Absences	184,681	189,333	(4,652)
(due in more than one year)			
Total Liabilities	275,827	274,040	\$1,787
NET ASSETS			
Invested in Capital Assets, net of	2 402	2 000	(496)
unrelated debt	3,402	3,888	(486)
Unrestricted	(130,419)	(135,459)	5,040
Total Net Assets	(127,017)	(131,571)	4,554

TABLE 2

CHANGES IN NET ASSETS – GOVERNMENTAL ACTIVITIES

	2013-14	2012-13	DIFFERENCE
<u>REVENUES</u>			
Charges for Services	\$75,736	\$74,945	\$791
Intergovernmental	638,327	593,116	\$45,211
Interest	1,266	1,391_	(\$125)
Total Revenues	715,329	669,452	45,877
EXPENDITURES			
Salaries and Benefits ¹	581,018	559,765	21,253
Services and Supplies	129,757	154,471	(24,714)
Total Expenditures	710,775	714,236	(3,461)
CHANGES IN NET ASSETS	4,554	(44,784)	49,338
Net Assets, Beginning	(131,571)	(86,787)	(44,784)
Net Assets, Ending 1 Includes Commission Expenses	(127,017)	(131,571)	4,554

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:

- Intergovernmental revenues, also referred to as the Local Agency Share, were increased by 7.6 percent. The difference between budgeted expenditures and budgeted fee revenue and interest income determines the Local Agency Share. The increase in this net cost, Local Agency Share, was largely due to carryover significantly decreased from prior year's fund balance (\$35,000 compared to the \$104,000 from FY 11-12).
- Increased expenditures in the Salaries and Benefits category are due to the scheduled salary increases as approved by the County's Management Resolution, which governs Commission staff compensation.
- The most significant cost saving measure in the Services and Supplies category is the relocation and reduction of office space.
- Although the net asset position remains negative, net assets have improved slightly. The small increase in net assets corresponds with the reduction in Compensated Absences Liability. That reduction is due to increased leave buy-down by staff.

Non-current liabilities include compensated absences, which are not due and payable in the current period.

LONG-TERM LIABILITIES

-	2013-14	2012-13	DIFFERENCE
Compensated Absences*	<u>\$184,681</u>	<u>\$189,333</u>	<u>\$(4,652)</u>

^{*}Reclassified to remove current liabilities—compensated absences due within one 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.

STATEMENT OF NET POSITION

June 30, 2014

	Governmental Activities
ASSETS:	
Cash and investments	\$ 145,306
Receivables:	
Accrued interest	102
Capital assets, net of accumulated depreciation	3,402
TOTAL ASSETS	148,810
LIABILITIES:	
Accounts payable	464
Salaries and benefits payable	27,615
Compensated absences payable:	
Due within one year	63,067
Due in more than one year	184,681
TOTAL LIABILITIES	275,827
NET POSITION:	
Net investment in capital assets	3,402
Unrestricted (Deficit)	(130,419)
TOTAL NET POSITION	\$ (127,017)

STATEMENT OF ACTIVITIES

		. 0, 0,0	your one			am Revenue	S		Rev Chan Pe	Expense) enue and ges in Net osition rimary vernment
				Charges	C	perating	Ca	pital		
				for	G	rants and	Gran	its and	Gove	ernmental
Functions/programs	E	Expenses	S	ervices	Co	ntributions	Contri	ibutions	A	ctivities
Governmental activities:										-
General government	\$	710,775	\$	75,736	_\$_	638,327	\$	-	\$	3,288
Total governmental activities	\$	710,775		75,736	\$	638,327	\$	-		3,288
		(General 1	evenues:						
			Investr	nent income	Э				h	1,266
			Change	e in net posi	ition					4,554
Net position - Beginning of Year									(131,571)	
]	Net posit	ion - End of	f Year	r			\$	(127,017)

BALANCE SHEET GOVERNMENTAL FUND

June 30, 2014

		General Fund
Cash and investments Receivables:	ASSETS	\$ 145,306
Accrued interest		 102
TOTAL ASSETS		\$ 145,408
	LIABILITIES AND FUND BALANCE	
LIABILITIES: Accounts payable Salaries and benefits payable		\$ 464 27,615
TOTAL LIABILITIES		28,079
FUND BALANCE: Unassigned		 117,329
TOTAL LIABILITIES ANI	D FUND BALANCE	\$ 145,408

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET TO THE STATEMENT OF NET POSITION

June 30, 2014

Fund balance for the governmental fund		\$	117,329
Amounts reported for governmental activities in the Statement of Net Position are different because:			
Capital assets and accumulated depreciation, have not been included as financial resources in governmental fund activity: Capital assets Accumulated depreciation	\$ 17,972 (14,570)		3,402
Compensated absences payable that have not been included in the governmental fund activity.		-	(247,748)
Net position of governmental activities		\$	(127,017)

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE GOVERNMENTAL FUND

·	General Fund	
REVENUES: Intergovernmental	\$	638,327
Charges for services		75,736
Investment income		1,266
TOTAL REVENUES		715,329
EXPENDITURES:		
Current:		
General government		710,044
NET CHANGE IN FUND BALANCE		5,285
FUND BALANCE - BEGINNING OF YEAR		112,044
FUND BALANCE - END OF YEAR	\$	117,329

RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES

Net change in fund balance - total governmental fund		\$ 5,285
Amounts reported for governmental activities in the Statement of Activities are different because:		
The governmental fund reports capital outlay as expenditures. However in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period: Capital outlay Depreciation expense \$	(486)	(486)
Compensated absences expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental fund		 (245)
Change in net position of governmental activities		\$ 4,554

BUDGETARY COMPARISON STATEMENT GENERAL FUND

		Budgeted Amounts Original Final				Actual	Variance wit Final Budge Positive (Negative)	
							(1.1	-gavito)
Fund balance, July 1	\$	112,044		112,044		112,044	\$	-
Resources (inflows):								
Intergovernmental		638,327		638,327		638,327		-
Charges for services		80,000		80,000		75,736		(4,264)
Investment income	·····	499		499		1,266		767
Amounts Available for								
Appropriation		718,826		718,826		715,329		(3,497)
Charges to appropriations (outflows): General government:								
Salaries and benefits		577,904		577,904		580,773		(2,869)
Services and supplies		158,253		158,253		129,271		28,982
Contingency and reserves		12,975		12,975		-		12,975
Total charges to								
appropriations (outflows)	***************************************	749,132		749,132		710,044		39,088
Excess of resources over (under) charges to appropriations		(30,306)		(30,306)		5,285		35,591
Fund balance, June 30	\$	81,738		81,738	\$	117,329	\$	35,591

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Riverside Local Agency Formation Commission (the Commission) conform to generally accepted accounting principles as applicable to governments. The following is a summary of the significant policies.

a. 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 to help direct and coordinate California's growth in a logical, efficient, and orderly manner. Each county within California is required to have a Commission. The Commission's decisions strive to balance the competing needs for efficient services, affordable housing, economic opportunity, and conservation of natural resources.

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

a. Reporting Entity (Continued):

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.

This report has been prepared in conformity with accounting principles generally accepted in the United States as promulgated by the Governmental Accounting Standards Board (GASB).

b. 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 specific function or segment. Program revenues include charges for services and other governmental aid that are restricted to meeting the operational or capital requirements of a particular function or segment. Investment income and other items not properly included among program revenues are reported instead as general revenues.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis accounting. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows.

c. Fund Financial Statements:

The accounts of the Commission are organized on a fund basis. The operations of the Commission's general fund are accounted for by providing a separate self-balancing set of accounts that comprises its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund balance, revenues, and expenditures. The general fund is used to account for resources traditionally associated with the government, which are not required legally or by sound financial management to be accounted for in another fund.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

d. Measurement Focus, Basis of Accounting, and Financial Statement Presentation:

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The general fund is accounted for using a current financial resources measurement focus. With this measurement focus, only current assets, deferred outflows of resources, current liabilities, and deferred inflows of resources generally are included on the balance sheet. Operating statements present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in fund balance.

The modified accrual basis of accounting is followed for the general fund. Under the modified accrual basis of accounting, revenues are recognized when they become susceptible to accrual; that is, when they become both measurable and available to finance expenditures of the current or soon enough thereafter to be used to pay liabilities of the current period. Those revenues susceptible to accrual include interest on investments and charges for services, if they have been remitted within 60 days of the year-end. Expenditures are generally recorded when the related fund liability is incurred. However, expenditures related to compensated absences are not recognized until paid.

Unassigned fund balance includes the residual amounts that have not been restricted, committed, or assigned to specific purposes.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available, the Commission's policy is to apply restricted fund balance first.

When 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.

e. New Accounting Pronouncements:

Current Year Standards:

The following statements from the Governmental Accounting Standards Board (GASB) became effective during the current year:

- GASB 66 "Technical Corrections, an amendment of GASB Statement No. 10 and Statement No. 62", required to be implemented in the current fiscal year did not impact the Commission.
- GASB 70 "Accounting and Financial Reporting for Nonexchange Financial Guarantees", required to be implemented in the current fiscal year did not impact the Commission.

See independent auditors' report.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

e. New Accounting Pronouncements (Continued):

Pending Accounting Standards:

GASB has issued the following statements which may impact the Commission's financial reporting requirements in the future:

- GASB 68 "Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27", effective for the fiscal years beginning after June 15, 2014.
- GASB 69 "Government Combinations and Disposals of Government Operations", effective for periods beginning after December 15, 2013.
- GASB 71 "Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement No. 68", effective for the periods beginning after June 15, 2014.

f. Deferred Outflows/Inflows of Resources:

In addition to assets, the statement of net position and the governmental fund balance sheet 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 future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Commission does not have any deferred outflows of resources to report.

In addition to liabilities, the statement of net position and the governmental fund balance sheet 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 future periods and will not be recognized as an inflow of resources (revenue) until that time. The Commission does not have any deferred inflows of resources to report.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

g. 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.

h. 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	Up to 15 Years
General office equipment	5 Years
Computer hardware and peripherals	3-5 Years
Computer software	2-3 Years

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

i. Employee 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 retirement, disability, or death of an employee, unused accumulated sick leave is paid to the employee or the employee's estate at a total amount of fifty (50) percent of their current accumulated time and limited to no more than one hundred and twenty (120) days of full pay. 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.

i. Fund Balance Classifications:

In the fund financial statements, government funds report the following fund balance classifications:

Nonspendable includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

<u>Restricted</u> includes amounts that are constrained on the use of resources by either (a) external creditors, grantors, contributors, or laws of regulations of other governments or (b) by law through constitutional provisions or enabling legislation.

<u>Committed</u> includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest authority, the Members of the Commission.

<u>Assigned</u> includes amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed.

<u>Unassigned</u> includes the residual amounts that have not been restricted, committed, or assigned to specific purposes.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

j. Fund Balance Classifications (Continued):

An individual governmental fund could include nonspendable resources and amounts that are restricted or unrestricted (committed, assigned, or unassigned) or any combination of those classifications.

k. Use of Estimates:

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

Budgets and Budgetary Accounting:

The Commission established accounting controls through formal adoption of an annual operating budget for its General Fund. The operating budget is prepared on a basis consistent with generally accepted accounting principles. The adopted budget can be amended by the Commission's Board to change both appropriations and estimated revenues as unforeseen circumstances come to management's attention. Increases and decreases in revenue and appropriations require Commission approval. Expenditures may not exceed total appropriations at the fund level. It is the practice of the Commission's management to review the budget mid-year.

3. CASH AND INVESTMENTS:

Cash and investments as of June 30, 2014 consist of the following:

Petty cash	\$ 1,000
County of Riverside Treasurer's Pooled Investment Fund	 144,306
Total Cash and Investments	\$ 145.306

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2014

3. CASH AND INVESTMENTS (CONTINUED):

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

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, 2014, 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.

Disclosures Relating to Credit Risk:

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The money pooled with the County of Riverside is not subject to a credit rating.

The County of Riverside Treasurer's Pooled Investment Fund is a pooled investment fund program governed 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. The Commission's fair value of its share in the pool is the same value of the pool shares, which amounted to \$144,306. Information on pool's use of derivative securities in its investment portfolio and its and the Commission's exposure to credit, market, or legal risk is not available.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2014

3. CASH AND INVESTMENTS (CONTINUED):

Custodial Credit Risk:

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Commission's investment policy do not contain legal or policy requirements, other than the following provision for deposits. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental 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. As of June 30, 2014, the Commission had all of its cash and investments pooled with the County of Riverside Treasurer; therefore, the Commission was not exposed to any custodial credit risk as described above.

With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit 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).

4. CAPITAL ASSETS:

The Commission has reported all capital assets in the Government-Wide Statement of Net Assets. A summary of changes in capital assets is as follows:

Governmental Activities:	 ance at 1, 2013		Additions Del	etions		lance at 30, 2014
Capital Assets: Furniture and fixtures	\$ 17,972	\$	- \$	-	\$	17,972
Less accumulated depreciation for: Furniture and fixtures	 (14,084)	• • • •	(486)	_		(14,570)
Total capital assets, net	\$ 3,888	\$	(486) \$		<u>\$</u>	3,402

Depreciation expense of \$486 was charged to the general government function.

See independent auditors' report.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2014

5. COMPENSATED ABSENCES:

Changes in compensated absences payable for fiscal year ended June 30, 2014, were as follows:

Compensated absences payable at July 1, 2013	\$ 247,503
Compensated absences earned	63,312
Compensated absences used	 (63,067)

Compensated absences payable at June 30, 2014

\$ 247,748

There is no fixed payment schedule for earned but unpaid compensated absences. Compensated absences expected to be paid within one year is \$63,067 at June 30, 2014.

6. INSURANCE:

For fiscal year 2014, 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 2014.

7. RETIREMENT PLAN:

Plan Description:

The Commission contributes to the California Public Employees Retirement System (CalPERS), under the County of Riverside's single-employer public employee defined benefit pension plan. The Commission treats this plan as a cost-sharing multiple-employer plan as they are engaged in a special funding situation with the County of Riverside as it relates to this plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. State statutes within the Public Employees Retirement Law have established a menu of benefit provisions as well as other requirements. The County, on behalf of the Commission, selects optional benefit provisions from the benefit menu offered by CalPERS and adopts those benefits through local ordinance. CalPERS issues a separate comprehensive annual financial report. However, a report for the Commission's plan within CalPERS is not available. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office- 400 P Street, Sacramento, California 95814.

The California Public Employees' Pension Reform Act (PEPRA) was effective as of January 1, 2013, and caused changes in the plans available to future employees of the Commission. Under PEPRA, employees hired after January 1, 2013 will join the 2% at 62 plan. As of June 30, 2014, there were no active members of the 2% at 62 plan.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2014

7. RETIREMENT PLAN (CONTINUED):

Funding Policy:

Active plan members in the CalPERS are required to contribute 8% of their annual covered salary for fiscal year 2014. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. For fiscal year 2014, the employer contribution rate was 15.001%. State statute establishes the contribution requirements of the plan members and the employer contribution rate is established and may be amended by CalPERS.

Annual Pension Costs:

For the year ended June 30, 2014, the Commission's annual pension cost of \$73,467 for CalPERS was equal to the Commissions required and actual contributions. There have been no contributions to the 2% at 62 plan since there are currently no eligible members. The required contribution was determined as part of the June 30, 2011, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service and (c) 3.25% per year cost-of-living adjustments.

Both (a) and (b) included an inflation component of 2.75%. The actuarial value of PERS assets was determined using techniques that smooth the effect of short-term volatility in the market value of investments over a three-year period (smoothed market value). PERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2014, is 24 years for miscellaneous employees.

The Commission's contributions to CalPERS for the past three years, which were equal to the required contribution each year, were as follows:

	 Miscellaneous Risk Pool			
	Tier 1		Tier 3	
Fiscal Year	 3% at 60		2% at 62	
June 30, 2012	\$ 81,117	\$		
June 30, 2013	67,846			_
June 30, 2014	73,467			_

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2014

7. RETIREMENT PLAN (CONTINUED):

Annual Pension Costs (Continued):

The Commission participates in risk pooling. Risk pooling consists of combining assets and liabilities across employers to produce large groups where the impact of a catastrophic demographic event is shared among all employers of the same risk pool. Participation in risk pools is mandatory for all rate plans with less than 100 active members. Mandated participation in risk pools was initially based on the active membership of each rate plan as of June 30, 2003. The implementation of risk pools was done in a way that minimizes the impact on employer contribution rates. The first year in risk pools, the employer contribution rates are almost identical to what the rates would have been outside the pools. Future rates will be based on the experience of each pool. Pooling will reduce the volatility of future employer rates.

8. 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:

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2014

8. OTHER POST-EMPLOYMENT BENEFITS (CONTINUED):

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, 2014 was \$781. Information for the last three years on annual OPEB costs, percentage of annual OPEB cost contributed, and net OPEB obligation are presented below:

			Annual		
		Annual	OPEB Cost	Net	OPEB
Fiscal Year	O	PEB Cost	<u>Contributed</u>	Obli	gation
June 30, 2012	\$	1,459	100%	\$	-
June 30, 2013		747	100%		-
June 30, 2014		781	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	Amount
2015	\$ 33,649
2016	34,28
2017	34,086
2018	28,154
Total	\$ 130,17

Rent expense was \$34,857 for the year ended June 30, 2014.

Legal Matters:

In the ordinary course of business, the Commission is subject to certain lawsuits and other potential legal actions. As of June 30, 2014, the Commission was named in certain matters that are being handled by the County of Riverside, Office of County Counsel. The Commission has a potential liability for legal fees; however an accurate estimate cannot be determined as of the date of this report.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2014

10. SUBSEQUENT EVENTS:

Events occurring after June 30, 2014 have been evaluated for possible adjustments to the financial statements or disclosure as of January 28, 2015, which is the date these financial statements were available to be issued.