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2/24/2022

TO: Local Agency Formation Commission

FROM: Gary Thompson, Executive Officer

SUBJECT: INDEPENDENT AUDITOR'S REPORT FOR FISCAL YEAR 2020-21

The annual audit for the fiscal year ending June 30, 2021 (FY 2020/21) of Riverside LAFCO has been completed by our auditors, Davis Farr, LLP. The results of the audit and the accompanying financial statements and other information 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 each major fund of the Commission, as of June 30, 2021, 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". 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.

In general, the Commission's overall cash position is solid with over \$625,000 in cash on hand and interest receivables at the end of the fiscal year, with an approximate \$54,000 in short-term liabilities. The cash on hand includes funds held in reserves and end of year budget surplus carryover revenue. Additionally, for the second year in a row, the total "net position" of LAFCO (assets minus liabilities) was positive, although it has decreased by 69% from the previous fiscal year.

Although LAFCO's pension liability remains the most significant concern regarding long term liabilities, a significant reduction of 56.5% has been estimated for this year's adjustment. The OPEB has increased by 436%, although this liability is rather small. Overall, the combined pension and OPEB liability has decreased by 48.9%. Although this is a very positive reduction, it remains to be seen how it evolves year after year as the variables for computing these liabilities can change dramatically each year.

In summary, 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.

A representative from Davis Farr, LLP will be in attendance at the Commission meeting to provide any highlights of the audit and is available to respond to any questions that may arise.

SPECIFIC RECOMMENDATION:

It is recommended the Commission:

1. Receive and file the attached audit report for Fiscal Year Ending June 30, 2021 from Davis Farr, LLP.

Respectfully submitted,



Gary Thompson
Executive Officer

Attachment: FY 2020-21 Audit Report & Related Correspondence

**FY 2020-21 AUDIT REPORT
AND RELATED
CORRESPONDENCE**

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, 2021. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated November 4, 2021. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

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

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

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

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

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. There were no material misstatements as a result of the audit. There was one uncorrected misstatement to accounts payable for work performed in June that was not accrued due to the timing of financial reporting to the County. 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 December 3, 2021.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

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

This information is intended solely for the use of Board of Commissioners and management of the 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
December 3, 2021

**RIVERSIDE COUNTY LOCAL AGENCY
FORMATION COMMISSION**

BASIC FINANCIAL STATEMENTS

Year Ended June 30, 2021

RIVERSIDE COUNTY LOCAL AGENCY FORMATION COMMISSION

BASIC FINANCIAL STATEMENTS

Year Ended June 30, 2021

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	9
Statement of Activities	10
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	11
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	12
Statement of Revenues, Expenditures and Changes in Fund Balance	13
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities	14
Notes to the Basic Financial Statements	15
Required Supplementary Information:	
Schedule of the Plan's Proportionate Share of the Net Pension Liability and Related Ratios as of the Measurement Date	35
Schedule of Plan Contributions – Pension	36
Schedule of the Plan's Proportionate Share of the Net OPEB Liability and Related Ratios as of the Measurement Date	37
Schedule of Plan Contributions – OPEB	38
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	39
Notes to the Required Supplementary Information	40
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	41

Independent Auditor's Report

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

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, 2021, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and each major fund of the Commission, as of June 30, 2021, and the respective changes in financial position

thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Commission's 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 17, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis, Schedule of the Plan's Proportionate Share of the Net Pension Liability and Related Ratios as of the Measurement Date, Schedule of Plan Contributions – Pension, Schedule of the Plan's Proportionate Share of the Net OPEB Liability and Related Ratios as of the Measurement Date, Schedule of Plan Contributions – OPEB, and Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual - General Fund* 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 December 3, 2021 on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control over financial reporting and compliance.

Davis Farr LLP

Irvine, California
December 3, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ended June 30, 2021

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, 2021 (FYE 2021). Please read it in conjunction with the financial statements identified in the accompanying table of contents.

Using the Accompanying Financial Statements

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the Commission as a whole and present a longer 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 provide background and explain some of the information in the financial statements with 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.

These two 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 position is 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.

Reporting the Commission's Major Funds

The fund financial statements provide detailed information about the Commission's most significant funds – not necessarily the Commission as a whole. Some funds are required to be established by State law or by bond covenants. However, the Commission may establish other special funds to help it control and manage money for particular purposes or to show that it is meeting administrative responsibilities for using certain revenues.

Governmental funds – All of the Commission's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *current financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the Commission's general government operations and the basic services it

provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Commission's programs. The relationship or differences between *governmental activities* (reported in the Statement of Net Position and the Statement of Activities) and *governmental funds* are described in a reconciliation following the fund financial statements.

Table 1 compares information from the statements of net position for the past two fiscal years.

Table 1

STATEMENT OF NET POSITION

FYE June 30, 2021 and FYE June 30, 2020

	<u>2021</u>	<u>2020</u>	<u>DIFFERENCE</u>	<u>%</u>
<u>ASSETS</u>				
<i>Current Assets:</i>				
Cash and Cash Equivalents	\$ 624,581	\$ 854,721	\$ (230,140)	-27%
Accounts Receivable	8	-	8	-
Interest Receivable	501	1,902	(1,401)	-74%
Capital Assets, Net of Depreciation	-	487	(487)	-100%
Total Assets	\$ 625,090	\$ 857,110	\$ (232,020)	-27%
Deferred Outflows of Resources	203,048	231,439	(28,391)	-12%
<u>LIABILITIES AND NET POSITION</u>				
<u>LIABILITIES</u>				
<i>Current Liabilities:</i>				
Accounts Payable	17,193	47,521	(30,328)	-64%
Salaries and Benefits Payable	21,935	49,632	(27,697)	-56%
Compensated Absences (due within one year)	14,963	18,653	(3,690)	-20%
<i>Long-term Liabilities:</i>				
Net Pension Liability	383,811	883,897	(500,086)	-57%
Net OPEB Liability	53,130	9,912	43,218	436%
Compensated Absences (due in more than one year)	9,975	12,435	(2,460)	-20%
Total Liabilities	\$ 501,007	\$ 1,022,050	\$ (521,043)	-51%
Deferred Inflows of Resources	309,846	11,604	298,242	2570%
<u>NET POSITION</u>				
Invested in Capital Assets	-	487	(487)	-100%
Unrestricted	17,285	54,408	(37,123)	-68%
Total Net Position	\$ 17,285	\$ 54,895	\$ (37,610)	-69%

As shown in Table 1, the Commission experienced a decrease in cash and cash equivalents in FYE 2021. This is mostly due to the reduced amount of fund balance carryover from the previous fiscal year, and an anticipated and budgeted reduction in revenues for charges for services. The Commission's continued efforts to bolster reserves, which are contained within the cash and equivalents asset listing, has been maintained and comprises the

significant majority of the cash and equivalents assets. The Commission has developed a General Reserve target of 25 percent of its operating budget, which is currently maintained, and maintains a Compensated Absences Liability Reserve to cover payout expenses for accumulated leave balances when an employee separates from the agency, which is fully funded per Commission policy. Additionally, the Commission maintains a Capital Asset Reserve for replacement of capital assets which is fully funded, and has established a new Pension/OPEB Unfunded Liability Reserve which received its first funding allocation during the fiscal year. The decrease in Deferred Outflow of Resources is primarily based on actuarially determined estimates, and fluctuates annually.

Regarding liabilities, long-term (non-current) liabilities comprise over 89 percent of the Commission's total liabilities. The great majority of long-term liabilities are pension and OPEB related. (See further discussion for Table 4 following). Net pension liability can fluctuate significantly from year to year depending on the value of the retirement system's assets, discount rate, actuarial factors, and LAFCO's proportionate share of the retirement pool. For the period FYE 2020 to FYE 2021, the net pension liability decreased by approximately \$500,086 (57 percent) to \$383,811, while OPEB liability, subject to similar calculations as the pension liability, increased by approximately \$43,218 (436 percent).

In spite of the related pension and OPEB liabilities, the Commission has attained a positive net position of approximately \$17,285. Although reduced, this is the second consecutive fiscal year of a positive net position, after several years of negative net position.

Table 2 compares information from the statements of activities for the past two fiscal years.

Table 2

STATEMENT OF ACTIVITIES

FYE June 30, 2021 and FYE June 30, 2020

	<u>2021</u>	<u>2020</u>	<u>DIFFERENCE</u>	<u>%</u>
<u>REVENUES</u>				
Charges for Services	\$ 84,817	\$ 274,881	\$ (190,064)	-69%
Local Agency Apportionment	920,548	922,000	(1,452)	0%
Interest	1,524	20,682	(19,158)	-93%
Total Revenues	<u>\$ 1,006,889</u>	<u>\$ 1,217,563</u>	<u>\$ (210,674)</u>	<u>-17%</u>
<u>EXPENDITURES</u>				
General Government	<u>1,044,499</u>	<u>1,044,455</u>	<u>44</u>	<u>0%</u>
Total Expenditures	<u>\$ 1,044,499</u>	<u>\$ 1,044,455</u>	<u>\$ 44</u>	<u>0%</u>
Excess of Revenues Over (Under) Expenditures	<u>(37,610)</u>	<u>173,108</u>	<u>(210,718)</u>	<u>-</u> <u>122%</u>
<u>CHANGES IN NET ASSETS</u>				
Net Position, Beginning of Year,	<u>54,895</u>	<u>(118,213)</u>	<u>173,108</u>	<u>146%</u>
Net Position, End of Year	<u>\$ 17,285</u>	<u>\$ 54,895</u>	<u>\$ (37,610)</u>	<u>69%</u>

As noted in Table 2, total revenues for FYE 2021 decreased over the prior year, primarily due to the decrease in fee revenue. The Local Agency Apportionment revenue only slightly decreased. Fee revenue (charges for services) primarily includes processing fee revenue for boundary change proposals. Although charges for services can be highly variable, during this period, they reflected a significant decrease of 69 percent. However, they exceeded the original budget amount as noted in the Supplementary Information in the financial statements. The Local

Agency Apportionment decreased by less than 1 percent. The difference between budgeted expenditures and reserve allocations, and the sum of budgeted fee revenue, prior year carryover and interest income determines the Local Agency Apportionment. Expenditures reported in the Statement of Activities.

Table 3 compares information regarding capital assets for the past two fiscal years.

Table 3

CAPITAL ASSETS

FYE June 30, 2021 and FYE June 30, 2020

	<u>2021</u>	<u>2020</u>	<u>Change</u>
Office Equipment	\$ -	\$ -	\$ -
Furniture and Fixtures	-	487	(487)
<u>Total</u>	<u>\$ -</u>	<u>\$ 487</u>	<u>\$ (487)</u>

The Commission has very few capital assets as noted in Table 3. These primarily consist of IT servers and appurtenant technology, and office furniture. No additions to capital assets occurred in FYE 2021. At the end of the fiscal year, the Commission's investment in capital assets amounted to \$0 (net of accumulated depreciation). The IT servers and office furniture have been fully depreciated. The Commission has established a reserve fund for replacement of these capital assets at such time as they require replacement. (See Note 3 in the financial statements for further information.)

Table 4 compares information regarding long term liabilities for the past two fiscal years.

Table 4

LONG TERM LIABILITIES

FYE June 30, 2021 and FYE June 30, 2020

	<u>2021</u>	<u>2020</u>	<u>DIFFERENCE</u>	<u>%</u>
Compensated Absences	\$ 24,938	\$ 31,088	\$ (6,150)	-20%
Net Pension Liability	383,811	883,897	(500,086)	-57%
Net OPEB Liability	53,130	9,912	43,218	436%
<u>Total Long-term Liabilities</u>	<u>\$ 461,879</u>	<u>\$ 924,897</u>	<u>\$ (463,018)</u>	<u>-50%</u>

Long-term liabilities include LAFCO's pension liability, calculated as the proportion of the net pension liability based on a projection of LAFCO's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers in the Riverside County pension system, actuarially determined and based on current and retired employees. As noted in Table 4, the net pension liability decreased by 57 percent from the prior year. Compensated absences, accrual of unused annual, vacation and sick leave by agency staff is also included as a long-term liability. This liability decreased by 20 percent. Net OPEB liability is also accounted for as a long-term liability. This liability increased by 436 percent, however, remains relatively low comprising approximately 11.5 percent of the total long-term liability. As with the CalPERS pension, this liability is based on a proportionate share of the Riverside County OPEB liability. The overall decrease in long-term liabilities was 50 percent.

The large decrease for pension liability is mainly attributable to the proportionate share of the LAFCO pension liability to the overall Riverside County pension liability. On page 28 of the financial statements, the footnotes show that the proportionate share decreased from .037 percent to .018 percent. For the OPEB liability, the large

increase is related to two items. First is the increase in the proportionate share for LAFCO of the liability, from .017 percent to .0291 percent as shown on page 32 of the financial statements. Second, the discount rate changes from 7.01 percent to 6.15 percent which increased the overall Net OPEB liability at the Riverside County level from \$58.2 million to \$182.3 million. As previously noted, annually, as new actuarial estimates are generated, and with several factors that generally adjust annually, pension and OPEB liabilities will fluctuate.

It is noted that although the projected pension and OPEB unfunded liabilities are required to be reflected each year in the financial statements, the Commission has the ability to take certain actions to offset these liabilities either through buydown of the liabilities, or by establishing reserve funding for future buydown. During FYE 2021, the Commission established a new reserve for setting aside funds for eventual buydown of the pension and OPEB unfunded liabilities. The policy provides for annual allocations to reach a threshold of 80 percent of the total combined liability within 5 years. The first installment of funding for \$125,000 was allocated in FYE 2021.

Table 5 compares information regarding General Fund Revenues, Expenditures and Changes in Fund Balance for the past two fiscal years.

Table 5

General Fund Revenues, Expenditures and Changes in Fund Balance

FYE June 30, 2021 and FYE June 30, 2020

	<u>2021</u>	<u>2020</u>	<u>DIFFERENCE</u>	<u>%</u>
<u>Revenues</u>				
Local Agency Apportionment	920,548	922,000	(1,452)	0%
Charges for Services	84,817	274,881	(190,064)	-69%
Interest	1,524	20,682	(19,158)	-93%
<u>Total Revenues</u>	<u>\$ 1,006,889</u>	<u>\$ 1,217,563</u>	<u>\$ (210,674)</u>	<u>-17%</u>
<u>Expenditures</u>				
General Government	1,180,397	1,154,786	25,611	2%
<u>Total Expenditures</u>	<u>\$ 1,180,397</u>	<u>\$ 1,154,786</u>	<u>\$ 25,611</u>	<u>2%</u>
Net Change in Fund Balance	(173,508)	62,777	(236,285)	-376%
Beginning Fund Balance	759,470	696,693	62,777	9%
<u>Ending Fund Balance</u>	<u>\$ 585,962</u>	<u>\$ 759,470</u>	<u>\$ (173,508)</u>	<u>-23%</u>

As noted in Table 5, the total fund balance has experienced a decrease from FYE 2020 to FYE 2021. This is due to expenditures in general exceeding revenues for FYE 2021. The reason for this is due to charges for services were anticipated considerably less (however exceeded budgeted revenue), and consultant expenditures for projects that did not complete in FYE 2020 due to the Covid-19 pandemic were carried over to FYE 2021. It should also be noted that fund balance will always differ from net position due to the manner of accounting for long term liabilities, most notably pension liability. The actual fund balance is largely a combination of agency reserves set asides and end of year carryover funds. As noted in Table 1, cash and equivalent assets for FYE 2021 are approximately \$624,581. This balance of cash is reflective of the aforementioned reserve and carryover funds.

OVERALL ANALYSIS AND FINANCIAL CONDITION OF RIVERSIDE LAFCO

Overall, Riverside LAFCO is in a fiscally sound and strong position financially. LAFCO has achieved a positive net position two years in a row and has begun reserve funding for the agency's unfunded pension and OPEB liabilities. The agency additionally maintains a strong general reserve for emergencies, capital asset replacement and compensated absences. Since LAFCO's major revenue source, the Local Agency Apportionment, is generated

under a statutory formula from the governmental agencies it serves, the annual determination of this revenue is driven by agency budgeted expenditures. Staff is aggressive in ensuring that expenditures are minimized to the greatest extent possible in recognition of this funding source and the impacts on each governmental agency that contributes to the funding.

There are two significant fiscal management assumptions that are critical to the overall ability of the agency to effectively manage the fiscal health of the agency- fee revenue and pension/OPEB unfunded liabilities. These two areas of revenues and future expenditures are the most susceptible to changes outside the control of the agency.

Fee revenue can fluctuate radically depending on proposal workload. Staff budgets this revenue annually based on the best information available concerning future proposal activity.

Pension/OPEB liability is always an issue of uncertainty as fluctuations based on actuarial calculations are completely out of the hands of LAFCO staff and the Commission. To address the current unfunded liability, the Commission authorized establishing a reserve account beginning in FYE 2021, and allocating funds for future buydown of this overall liability.

With the onset of the Covid-19 pandemic through the entire fiscal year, it was uncertain to what extent operations and workload would be affected by the economic shutdown, stay at home orders, and other mandated requirements that came into place. It is noted that for the year, the impact on operations was minimal, however, some revenue generating proposal activity was anticipated in the budget to be delayed. These delays however did not negatively impact the financial status of the agency. In closing, LAFCO is in sound fiscal shape at this time, and with sound financial management, is in good position to carry itself as fiscally sound into the foreseeable future.

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 at 6216 Brockton Avenue, Suite 111-B, Riverside CA 92506.

RIVERSIDE COUNTY LOCAL AGENCY FORMATION COMMISSION
Statement of Net Position
June 30, 2021
(with comparative totals as of June 30, 2020)

	Governmental Activities	
	2021	2020
Assets:		
Cash and investments (note 2)	\$ 624,581	854,721
Accounts receivable	8	-
Interest receivable	501	1,902
Capital assets, net (note 3)	-	487
Total assets	<u>625,090</u>	<u>857,110</u>
Deferred outflow of resources:		
Deferred outflows - pension contributions (note 6)	122,141	112,722
Deferred outflows - pension actuarial (note 6)	26,011	104,325
Deferred outflows - OPEB contributions (note 7)	4,049	2,546
Deferred outflows - OPEB actuarial (note 7)	<u>50,847</u>	<u>11,846</u>
Total deferred outflow of resources	<u>203,048</u>	<u>231,439</u>
Liabilities:		
Accounts payable	17,193	47,521
Salaries and benefits payable	21,935	49,632
Compensated absences payable (note 5):		
Due within one year	14,963	18,653
Due in more than one year	9,975	12,435
Net pension liability (note 6)	383,811	883,897
Net OPEB liability (note 7)	<u>53,130</u>	<u>9,912</u>
Total liabilities	<u>501,007</u>	<u>1,022,050</u>
Deferred inflow of resources:		
Deferred inflows of resources - pension actuarial (note 6)	309,554	11,122
Deferred inflows of resources - OPEB actuarial (note 7)	<u>292</u>	<u>482</u>
Total deferred outflow of resources	<u>309,846</u>	<u>11,604</u>
Net position:		
Investment in capital assets	-	487
Unrestricted	<u>17,285</u>	<u>54,408</u>
Total net position	<u>\$ 17,285</u>	<u>54,895</u>

See accompanying notes to the basic financial statements

RIVERSIDE COUNTY LOCAL AGENCY FORMATION COMMISSION
Statement of Activities
Year ended June 30, 2021
(with comparative totals for the year ended June 30, 2020)

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position - Governmental Activities</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>2021</u>	<u>2020</u>
Governmental activities:						
General government	<u>\$ 1,044,499</u>	<u>84,817</u>	<u>-</u>	<u>-</u>	<u>(959,682)</u>	<u>(769,574)</u>
Total governmental activities	<u>\$ 1,044,499</u>	<u>84,817</u>	<u>-</u>	<u>-</u>	<u>(959,682)</u>	<u>(769,574)</u>
General revenues:						
Apportionment					920,548	922,000
Investment income					<u>1,524</u>	<u>20,682</u>
Total general revenues					<u>922,072</u>	<u>942,682</u>
Change in net position					(37,610)	173,108
Net position (deficit), beginning of year					<u>54,895</u>	<u>(118,213)</u>
Net position (deficit), end of year					<u>\$ 17,285</u>	<u>54,895</u>

See accompanying notes to the basic financial statements

RIVERSIDE COUNTY LOCAL AGENCY FORMATION COMMISSION
Governmental Funds
Balance Sheet
June 30, 2021
(with comparative totals as of June 30, 2020)

	General Fund	
	2021	2020
<u>Assets</u>		
Cash and investments	\$ 624,581	854,721
Accounts receivable	8	-
Interest receivable	501	1,902
Total assets	<u>\$ 625,090</u>	<u>856,623</u>
<u>Liabilities and Fund Balance</u>		
Liabilities:		
Accounts payable	\$ 17,193	47,521
Salaries and benefits payable	21,935	49,632
Total liabilities	<u>39,128</u>	<u>97,153</u>
Fund balance:		
Committed for compensated absences	31,114	26,374
Committed for capital replacement	18,458	-
Committed for pension/OPEB liability	125,000	-
Unrestricted for general reserve	323,529	-
Unassigned	87,861	733,096
Total fund balance	<u>585,962</u>	<u>759,470</u>
Total liabilities and fund balance	<u>\$ 625,090</u>	<u>856,623</u>

See accompanying notes to the basic financial statements

RIVERSIDE COUNTY LOCAL AGENCY FORMATION COMMISSION
Governmental Funds
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
June 30, 2021

Fund balances of governmental funds \$ 585,962

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	16,041
Accumulated depreciation	(16,041)

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	(24,938)
Net pension liability	(383,811)
Net OPEB liability	(53,130)

Deferred Outflows and Inflows of Resources

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

Deferred outflows - deferred amounts from pensions	148,152
Deferred outflows - deferred amounts from OPEB	54,896
Deferred inflows - deferred amounts from pensions	(309,554)
Deferred inflows - deferred amounts from OPEB	<u>(292)</u>

Net position of governmental activities	<u>\$ 17,285</u>
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RIVERSIDE COUNTY LOCAL AGENCY FORMATION COMMISSION
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balance
Year ended June 30, 2021
(with comparative totals for the year ended June 30, 2020)

	General Fund	
	2021	2020
Revenues:		
Apportionment	\$ 920,548	922,000
Charges for services	84,817	274,881
Investment income	1,524	20,682
Total revenues	<u>1,006,889</u>	<u>1,217,563</u>
Expenditures:		
General government	<u>1,180,397</u>	<u>1,154,786</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(173,508)</u>	<u>62,777</u>
Net change in fund balance	(173,508)	62,777
Fund balance at beginning of year	<u>759,470</u>	<u>696,693</u>
Fund balance at end of year	<u><u>\$ 585,962</u></u>	<u><u>759,470</u></u>

See accompanying notes to the basic financial statements

RIVERSIDE COUNTY LOCAL AGENCY FORMATION COMMISSION
Governmental Funds
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance
to the Statement of Activities
Year ended June 30, 2021

Net changes in fund balance - total governmental funds	\$ (173,508)
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Amounts reported for governmental activities in the Statement of Activities are different because:

Capital Related Items

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

Depreciation expense	(487)
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Long-Term Liability Transactions

Pension, OPEB, 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 and OPEB expenses reported in the Statement of Activities includes the changes in the net liability and the related deferred outflows/inflows of resources.

Net change in net pension liability and related accounts	132,759
Net change in net OPEB liability and related accounts	(2,524)
Net change in compensated absences	<u>6,150</u>
Change in net position of governmental activities	<u>\$ (37,610)</u>

RIVERSIDE COUNTY LOCAL AGENCY FORMATION COMMISSION

Notes to the Basic Financial Statements

Year Ended June 30, 2021

(1) Summary of Significant Accounting Policies

The financial statements of the Riverside County Local Agency Formation Commission (the "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 a custodial fund.

Funding for the Commission's operations is equally shared by the County, the twenty-eight 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.

RIVERSIDE COUNTY LOCAL AGENCY FORMATION COMMISSION

Notes to the Basic Financial Statements

(Continued)

(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.

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.

RIVERSIDE COUNTY LOCAL AGENCY FORMATION COMMISSION

Notes to the Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies (Continued)

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.

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 items) or legally or contractually required to be maintained intact.

RIVERSIDE COUNTY LOCAL AGENCY FORMATION COMMISSION

Notes to the Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies (Continued)

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.

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.

RIVERSIDE COUNTY LOCAL AGENCY FORMATION COMMISSION

Notes to the Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies (Continued)

B. 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.

C. Fair Value Measurements

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

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

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

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

RIVERSIDE COUNTY LOCAL AGENCY FORMATION COMMISSION

Notes to the Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies (Continued)

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

D. 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 acquisition 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

E. 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.

RIVERSIDE COUNTY LOCAL AGENCY FORMATION COMMISSION

Notes to the Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies (Continued)

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.

F. Pensions

For purposes of measuring the net pension liability, 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, 2019
Measurement Date (MD)	June 30, 2020
Measurement Period (MP)	July 1, 2019 to June 30, 2020

G. Other Postemployment Benefits (OPEB)

For purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense have been determined by an independent actuary. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms.

RIVERSIDE COUNTY LOCAL AGENCY FORMATION COMMISSION

Notes to the Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies (Continued)

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

Valuation Date (VD)	July 1, 2020
Measurement Date (MD)	June 30, 2020
Measurement Period (MP)	July 1, 2019 to June 30, 2020

H. Deferred Outflows/Inflows of Resources

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

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

I. 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.

J. Comparative Data

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

RIVERSIDE COUNTY LOCAL AGENCY FORMATION COMMISSION

Notes to the Basic Financial Statements

(Continued)

(2) Cash and Investments

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

Petty cash	\$ 1,000
County of Riverside Treasurer's Pooled Investment Fund	<u>623,581</u>
Total cash and investments	<u>\$ 624,581</u>

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, 2021, 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.

RIVERSIDE COUNTY LOCAL AGENCY FORMATION COMMISSION

Notes to the Basic Financial Statements

(Continued)

(2) Cash and Investments (Continued)

The California Government Code and the Commission's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the government unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure Commission deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. Any deposits in excess of depository insurance limits at the end of the year are collateralized by securities held at the depository financial institution's trust department.

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

(3) Capital Assets

A summary of changes in capital assets follows:

	Balance at July 1, 2020	Additions	Deletions	Balance at June 30, 2021
Capital assets:				
Furniture and fixtures	\$ 19,281	-	(3,240)	16,041
Less accumulated depreciation for:				
Furniture and fixtures	(18,794)	(487)	3,240	(16,041)
Total capital assets, net	\$ 487	(487)	-	-

Depreciation expense of \$487 was included in general government expense.

(4) Insurance

For fiscal year 2021, 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 last three fiscal years that exceeded insurance coverage.

RIVERSIDE COUNTY LOCAL AGENCY FORMATION COMMISSION

Notes to the Basic Financial Statements

(Continued)

(5) Long-Term Liabilities

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

	Balance July 1, 2020	Additions	Deletions	Balance June 30, 2021
Compensated absences	\$ 31,088	58,958	(65,108)	24,938

There is no fixed payment schedule for earned but unpaid compensated absences; however, compensated absences expected to be paid within one year is \$14,963 at June 30, 2021.

(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.

RIVERSIDE COUNTY LOCAL AGENCY FORMATION COMMISSION

Notes to the Basic Financial Statements

(Continued)

(6) Pension Plan (Continued)

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

	Prior to <u>January 1, 2013</u>	On or After <u>January 1, 2013</u>
Hire date		
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	8.00%	6.50%
Required employer contribution rates	10.458%	10.998%

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. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Employer contribution rate may change if the plan contracts are amended. Payments made by the employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements are classified as plan member contributions.

Actuarial Methods and Assumptions used to Determine Total Pension Liability

The Net Pension Liability was measured as of June 30, 2020. The plan's Fiduciary Net Position (plan assets) was valued as of the measurement date while the Total Pension Liability was determined based on rolling forward the actuarial valuation as of June 30, 2019.

The June 30, 2019 valuation was rolled forward to determine the June 30, 2020 total pension liability based on the following actuarial methods and assumptions:

Actuarial cost method	Entry-Age Normal
Discount rate	7.15%
Inflation	2.50%
Salary increases	Varies by Entry Age and Service
Mortality Rate Table*	Derived using CalPERS' membership data for all funds
Retirement Age	The lesser of contract COLA or 2.5% until Purchasing Power Protection Allowance floor on purchasing power applied, 2.5% thereafter

RIVERSIDE COUNTY LOCAL AGENCY FORMATION COMMISSION

Notes to the Basic Financial Statements

(Continued)

(6) Pension Plan (Continued)

* The mortality table used was developed based on CalPERS-specific data. The probabilities of mortality are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015. Preretirement and Post-retirement mortality rates include 15 years of projected mortality improvement using 90% of Scale MP-2016 published by the Society of Actuaries. For more details on this table, please refer to the CalPERS Experience Study and Review of Actuarial Assumptions report from December 2017 that can be found on the CalPERS website.

Discount Rate

The discount rate used to measure the total pension liability was 7.15%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over short-term (first 10 years) and the long-term (11+ 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 rounded 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.

RIVERSIDE COUNTY LOCAL AGENCY FORMATION COMMISSION

Notes to the Basic Financial Statements

(Continued)

(6) Pension Plan (Continued)

The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to the account for assumed administrative expense. The expected real rate of return by asset class are as followed:

<u>Asset Class</u>	<u>Current Target Allocation</u>	<u>Real Return Years 1 - 10</u>	<u>Real Return Years 11+</u>
Global Equity	50.0%	4.80%	5.98%
Global Fixed Income	28.0%	1.00%	2.62%
Inflation Assets	-	0.77%	1.81%
Private Equity	8.0%	6.30%	7.23%
Real Estate	13.0%	3.75%	4.93%
Liquidity	1.0%	-	(0.92%)

(1) In the System's CAFR, Fixed Income is included in Global Debt Securities; Liquidity is included in Short-term Investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities.

(2) An expected inflation of 2.00% used for this period.

(3) An expected inflation of 2.92% used for this period.

Allocation of Net Pension Liability

The proportion of the net pension liability was based on a projection of the Commission's long term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

The following table shows the Commission's proportionate share of the net pension liability over the measurement period:

	<u>Net Pension Liability</u>
Balance at: 6/30/2019	\$ 883,897
Balance at: 6/30/2020	383,811
Net change in 2019-20	(500,086)

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

Proportion - 6/30/2019	0.037%
Proportion - 6/30/2020	0.018%
Change - increase (decrease)	(0.019%)

RIVERSIDE COUNTY LOCAL AGENCY FORMATION COMMISSION

Notes to the Basic Financial Statements

(Continued)

(6) Pension Plan (Continued)

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 7.15 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 (6.15 percent) or 1 percentage-point higher (8.15 percent) than the current rate:

	Discount Rate – 1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate + 1% (8.15%)
Actuarially-Determined Net Pension Liability	\$ 613,245	383,811	195,432

Amortization of Deferred Outflows and Deferred Inflows of Resources

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

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

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

Difference between projected and actual earnings on investments 5 year straight-line amortization

All other amounts Straight-line amortization over the average expected remaining service lifetime (EARSL) 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 fiscal year ended June 30, 2021, the Commission recognized a pension expense of \$87,484 for the Plan.

RIVERSIDE COUNTY LOCAL AGENCY FORMATION COMMISSION

Notes to the Basic Financial Statements

(Continued)

(6) Pension Plan (Continued)

As of June 30, 2021, 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	\$ 122,141	-
Differences between expected and actual experience	9,097	(3,837)
Adjustment due to differences in proportions	-	(302,206)
Change of assumptions	5,666	(3,511)
Net difference between projected and actual earnings on pension plan investments	<u>11,248</u>	<u>-</u>
Total	<u>\$ 148,152</u>	<u>(309,554)</u>

The \$122,141 reported as deferred outflows of resources related to employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2022. Reported as deferred outflows and deferred inflows of resources in the previous chart will be recognized in future pension expense as follows:

Fiscal Year Ended June 30	Deferred Outflows (Inflows) of Resources
2022	\$ (83,283)
2023	(88,949)
2024	(88,247)
2025	(25,046)
2026	1,982

(7) Other Post-Employment Benefits (OPEB)

Plan Description and Benefits Provided

Employees of the Commission, through the County of Riverside, participate in an agent multiple-employer defined benefit post-employment healthcare plan (OPEB Plan). Benefit provisions are established and amended through the County and the various bargaining units. The County provides retiree medical benefits for eligible retirees enrolled in County sponsored plans in the form of monthly County contributions toward the retiree's medical premium.

A qualified Internal Revenue Code Section 115 Trust has been established with the California Employers' Retiree Benefit Trust (CERBT) for the purpose of receiving employer contributions that will prefund health and other post-employment costs for retirees and their beneficiaries. The CERBT administers each plan's assets and

RIVERSIDE COUNTY LOCAL AGENCY FORMATION COMMISSION

Notes to the Basic Financial Statements

(Continued)

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

issues a financial report available for public review, which includes financial statements and required supplementary information for the trust fund. The CERBT report may be obtained from CalPERS Affiliate Programs Services Division, CERBT (OPEB), P.O. Box 1494 Sacramento, CA 95812-1494.

Plan Membership

At June 30, 2020 (the actuarial valuation date), membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefit payments	2
Active plan members	<u>5</u>
Total	<u>7</u>

Contributions

Contribution requirements of the Commission are established by the County of Riverside. The Commission's required contribution rate is an actuarially determined amount that is expected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed fifteen years. Contributions to the OPEB plan from the Commission were \$4,049 for the fiscal year ended June 30, 2021. Currently, contributions are not required from plan members.

The Commission's net OPEB liability was determined by an actuarial valuation as of June 30, 2020 using the following actuarial methods and assumptions:

Discount Rate	6.15%
Long-Term Expected Rate of Return on Investments	6.73%, net of investment expenses
Inflation	2.50%
Salary Increases	2.75%
Medical Trend	Pre-Medicare – 6.65% for 2021, decreasing to 4.50% for 2027 and later Medicare – 7.71% for 2021, decreasing to 4.50% for 2027 and later

Mortality rates were updated from the 2017 CalPERS Experience Study to Pub-2010 headcount-weighted tables for General employees of all income levels.

RIVERSIDE COUNTY LOCAL AGENCY FORMATION COMMISSION

Notes to the Basic Financial Statements

(Continued)

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

Discount Rate

The discount rate used to measure the net OPEB liability was 6.15 percent. Under GASB 75, the discount rate is based on a single equivalent rate that reflects a blend of:

- Expected return on assets during the period such that assets are projected to be sufficient to pay benefits of current participants; and
- 20-year, municipal bond yields / index for periods beyond the depletion of the assets.

Based on the current funding policy, projected cash flows, and the assumed asset return, the plan assets are not projected to be depleted, and the discount rate can be based on the expected asset return.

Allocation of Net OPEB Liability and OPEB Expense to Individual Employers

The following table shows the Commission's proportionate share of the net OPEB liability over the measurement period:

	Increase (Decrease) Net OPEB Liability
Balance at: 6/30/2019	\$ 9,912
Balance at: 6/30/2020	53,130
Net Changes during 2019-20	43,218

The Commission's net OPEB liability for the plan is measured as the proportionate share of the Plan's net OPEB liability. The net OPEB liability of the plan is measured as of June 30, 2020, and the net OPEB liability for the plan used to calculate the net pension liability was determined by an actuarial valuation of June 30, 2020. The Commission's proportion of the net OPEB liability was based on a projection of the Commission's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. The Commission's proportionate share of the net OPEB liability for the plan as of June 30, 2019 and 2020 was as follows:

	<u>OPEB Plan</u>
Proportion – June 30, 2019	0.0170%
Proportion – June 30, 2020	0.0291%
Change – increase (decrease)	0.0121%

RIVERSIDE COUNTY LOCAL AGENCY FORMATION COMMISSION

Notes to the Basic Financial Statements

(Continued)

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

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

The following presents the net OPEB liability of the Plan as of the Measurement Date, calculated using the discount rate of 6.15 percent, as well as what the total OPEB liability would be if it were calculated using a discount rate that is 1 percentage-point lower (5.15 percent) or 1 percentage-point higher (7.15 percent) than the current rate:

	Discount Rate – 1% (5.15%)	Current Discount Rate (6.15%)	Discount Rate + 1% (7.15%)
Commission's proportionate share of the net OPEB liability	\$64,712	53,130	43,891

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

The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (5.99 percent decreasing to 3.5 percent) or 1-percentage-point higher (7.99 percent decreasing to 5.5 percent) than the current healthcare cost trend rates:

	Discount Rate – 1% (5.99/7.22% decreasing to 3.5%)	Trend Rate (6.99/8.22% decreasing to 4.5%)	Discount Rate + 1% (7.99/9.22% decreasing to 5.5%)
Commission's proportionate share of the net OPEB liability	\$42,762	53,130	66,471

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the year ended June 30, 2021, the Commission recognized OPEB expense (income) of (\$5,650). At June 30, 2021, the Commission reported deferred outflows of resources and deferred inflows of resources related to the OPEB plan as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to the measurement date	\$ 4,049	-
Difference between actual expected earnings	2,419	-
Net difference in earnings on OPEB expected earnings	-	(292)
Changes in assumptions	48,428	-
Totals	<u>\$ 54,896</u>	<u>(292)</u>

RIVERSIDE COUNTY LOCAL AGENCY FORMATION COMMISSION

Notes to the Basic Financial Statements

(Continued)

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

The \$4,049 reported as deferred outflows of resources related to contributions subsequent to the June 30, 2020 measurement date will be recognized as a reduction of the net OPEB liability during the fiscal year ending June 30, 2022. Other amounts reported as deferred inflows of resources related to OPEB will be recognized as expense as follows:

<u>Measurement Date Ended June 30</u>	<u>Deferred Outflows/ (Inflows) of Resources</u>
2021	\$ 6,483
2022	5,918
2023	5,561
2024	5,238
2025	5,156
Thereafter	22,199

(8) 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 2024. Future minimum lease payments under these operating leases are as follows:

<u>Year Ending June 30</u>	<u>Minimum Lease Payments</u>
2022	\$ 47,809
2023	49,243
2024	12,401
2025	-
Total	<u>\$ 109,453</u>

Rent expense was \$47,319 for the year ended June 30, 2021.

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						
	6/30/2020	6/30/2019	6/30/2018	6/30/2017	6/30/2016	6/30/2015	6/30/2014
Proportion of the Collective Net Pension Liability	0.018%	0.037%	0.036%	0.051%	0.051%	0.054%	0.043%
Proportionate Share of the Collective Net Pension Liability	\$ 383,811	883,897	803,084	1,093,731	843,326	610,895	412,716
Covered Payroll	\$ 458,262	374,350	338,246	422,659	444,267	414,918	383,461
Proportionate Share of the Collective Net Pension Liability as Percentage of Covered Payroll	83.75%	236.12%	237.43%	258.77%	189.82%	147.23%	107.63%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	76.03%	72.08%	72.12%	71.03%	74.51%	80.09%	83.16%

Notes to Schedule:

Benefit Changes – The figures above include any liability impact that may have resulted from voluntary benefit changes that occurred after the June 30, 2019. However, offers of Two Years Additional Credit (a.k.a. Golden Handshakes) that occurred after the June 30, 2019 valuation date are not included in the figures above, unless the liability impact is deemed to be material by the plan actuary.

Changes in Assumptions – None in 2019 or 2020. In 2018, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017. There were no changes in the discount rate. In 2017, the discount rate was reduced from 7.65 percent to 7.15 percent. In 2016, there were no changes. In 2015, amounts reported reflected an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administrative expense.) In 2014, amounts reported were based on the 7.5 percent discount rate.

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

RIVERSIDE COUNTY LOCAL AGENCY FORMATION COMMISSION

Schedule of Plan Contributions - Pension

Last Ten Fiscal Years *

	Fiscal Year 2020-21	Fiscal Year 2019-20	Fiscal Year 2018-19	Fiscal Year 2017-18	Fiscal Year 2016-17	Fiscal Year 2015-16	Fiscal Year 2014-15
Actuarially Determined Contribution	\$ 122,141	112,722	81,207	67,267	82,739	81,356	72,987
Contributions in Relation to the Actuarially Determined Contribution	<u>122,141</u>	<u>112,722</u>	<u>81,207</u>	<u>67,267</u>	<u>82,739</u>	<u>81,356</u>	<u>72,987</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Covered Payroll	\$ 439,912	458,262	374,350	338,246	422,659	444,267	414,918
Contributions as a Percentage of Covered Payroll	27.76%	24.60%	21.69%	19.89%	19.58%	18.31%	17.59%

Notes to Schedule:

Fiscal Year End: 6/30/2021
Valuation Date: 6/30/2018

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Payroll
Asset Valuation Method	Market Value of Assets
Inflation	2.50%
Payroll Growth	2.75%
Discount Rate	7.00%
Investment Rate of Return	7.25%, net of administrative expenses; includes inflation.
Retirement Age	Based on 2017 CalPERS Experience Study from 1997 to 2015.
Mortality	The probabilities of mortality are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015. Pre-retirement and Post-retirement mortality rates include 15 years of projected mortality improvement using Scale MP-2016 published by the Society of Actuaries.

Subsequent Events:

The CalPERS Board of Administration has adopted a new amortization policy effective with the June 30, 2019 actuarial valuation. The new policy shortens the period over which actuarial gains and losses are amortized from 30 years to 20 years with the payments computed using a level dollar amount. In addition, the new policy removes the 5-year ramp-up and ramp-down on UAL bases attributable to assumption changes and non-investment gains/losses. The new policy removes the 5-year ramp-down on investment gains/losses. These changes will apply only to new UAL bases established on or after June 30, 2019.

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

RIVERSIDE COUNTY LOCAL AGENCY FORMATION COMMISSION

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

Last Ten Fiscal Years *

	Measurement Date			
	6/30/2020	6/30/2019	6/30/2018	6/30/2017
Proportion of the Collective Net OPEB Liability	0.03%	0.01%	0.01%	0.05%
Proportionate Share of the Collective Net OPEB Liability	\$ 53,130	9,912	5,055	8,209
Covered-Employee Payroll	\$ 458,262	374,350	338,246	422,659
Proportionate Share of the Collective Net OPEB Liability as Percentage of Covered-Employee Payroll	11.59%	2.65%	1.49%	1.94%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	22.53%	43.55%	58.65%	70.84%

Notes to Schedule

Benefit Changes – There were no changes in benefits.

Changes in Assumptions – The following assumptions were changed from the prior valuation:

- Morality improvement was updated from scale MP-2019 to scale MP-2020.
- The claims table was updated to reflect most recent CalPERS monthly premiums available for 2020. Aging factors are also updated to reflect the most recent CalPERS demographic experience.
- Expected return on assets was updated from 7.01% to 6.15%.
- Discount rate was updated from 7.01% to 6.15%, in light of change in expected return assumption.
- Future health plan participation for those bargaining units that have access to CalPERS health plans and elect coverage was changed to reflect that 90% of participants are assumed to elect a CalPERS Health Plan and 10% are assumed to elect a County Health Plan.
- Funding policy – Effective July 1, 2020, the County elected to exclude the implicit subsidy liability in the funding contribution development.

* Fiscal year 2018 was the 1st year of implementation, therefore only four years are shown

RIVERSIDE COUNTY LOCAL AGENCY FORMATION COMMISSION

Schedule of Plan Contributions - OPEB

Last Ten Fiscal Years *

	Fiscal Year 2020-21	Fiscal Year 2019-20	Fiscal Year 2018-19	Fiscal Year 2017-18
Actuarially Determined Contribution	\$ 4,049	2,546	793	637
Contribution in Relation to the Actuarially Determined Contribution	<u>4,049</u>	<u>2,546</u>	<u>793</u>	<u>637</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
Covered-Employee Payroll	\$ 439,912	458,262	374,350	338,246
Contributions as a Percentage of Covered-Employee Payroll	0.92%	0.56%	0.21%	0.19%

Notes to Schedule:

Fiscal Year End: 6/30/2021
Valuation Date: 7/01/2020

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	15 years
Asset Valuation Method	Market Value
Inflation	2.50%
Salary Increases	2.75%
Discount Rate	6.15%
Investment Rate of Return	6.15%, net of OPEB plan investment expense, including inflation.
Retirement Age	Retirement rates developed in the 2017 CalPERS Experience Study
Mortality	Pub-2010 Headcount-Weighted Public Retirement Plans Mortality Tables Using Scale MP-2020

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

RIVERSIDE COUNTY LOCAL AGENCY FORMATION COMMISSION
General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
Year ended June 30, 2021

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Apportionment	\$ 920,548	920,548	920,548	-
Filing fees	66,970	66,970	84,817	17,847
Investment income	13,000	13,000	1,524	(11,476)
Total revenues	<u>1,000,518</u>	<u>1,000,518</u>	<u>1,006,889</u>	<u>6,371</u>
Expenditures:				
General government	<u>1,229,641</u>	<u>1,229,641</u>	<u>1,180,397</u>	<u>49,244</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(229,123)</u>	<u>(229,123)</u>	<u>(173,508)</u>	<u>55,615</u>
Net change in fund balances	(229,123)	(229,123)	(173,508)	55,615
Fund balances at beginning of year	<u>759,470</u>	<u>759,470</u>	<u>759,470</u>	-
Fund balances at end of year	<u>\$ 530,347</u>	<u>530,347</u>	<u>585,962</u>	<u>55,615</u>

See accompanying notes to the required supplementary information.

RIVERSIDE COUNTY LOCAL AGENCY FORMATION COMMISSION

Notes to the Required Supplementary Information

Year ended June 30, 2021

(1) Budgetary Reporting

The Commission established accounting control through formal adoption of an annual budget for the General Fund. The budget is prepared on a basis consistent with generally accepted accounting principles. The adopted budget can be amended by the Commission to change both appropriations and estimated revenues as unforeseen circumstances come to management's attention. Increases and decreases in revenue and appropriations and transfers between funds require Commission's approval. However, the Executive Officer may authorize changes within funds. Expenditures may not exceed total appropriations at the individual fund level. It is the practice of the Commission's management to review the budget monthly and provide quarterly updates to the Commission.

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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, 2021, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated December 3, 2021.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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 financial statements. However, providing an opinion on our audit, and accordingly, we do not express such an opinion. The results of

The Commission Members
Riverside County Local Agency Formation Commission
Page Two

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
December 3, 2021



December 3, 2021

Davis Farr LLP
Irvine, California

This representation letter is provided in connection with your audit of the financial statements of Riverside County Local Agency Formation Commission (the "Commission") which comprise the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information as of June 30, 2021 and the respective changes in financial position for the year then ended, and the related notes to the financial statements, for the purpose of expressing opinions as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of December 3, 2021 the following representations made to you during your audit.

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated November 4, 2021 including our responsibility for the preparation and fair presentation of the financial statements and for preparation of the supplementary information in accordance with the applicable criteria.
2. The financial statements referred to above are fairly presented in conformity with U.S. GAAP and include all properly classified funds and other financial information of the primary government required by generally accepted accounting principles to be included in the financial reporting entity.
3. We acknowledge our responsibility for 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.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
5. Significant assumptions we used in making accounting estimates are reasonable.
6. Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.

7. All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed. No events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.
8. The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole for each opinion unit. The Commission's uncorrected misstatements are as follows:
 - Understatement of accounts payable
9. The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.
10. Guarantees, whether written or oral, under which the Commission is contingently liable, if any, have been properly recorded or disclosed.

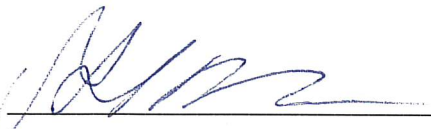
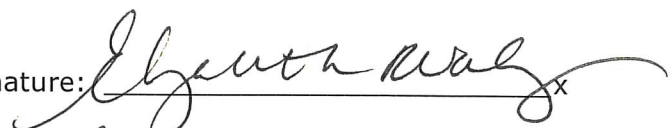
Information Provided

11. We have provided you with:
 - a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters [and all audit or relevant monitoring reports, if any, received from funding sources].
 - b. Additional information that you have requested from us for the purpose of the audit.
 - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
 - d. Minutes of the meetings of the Commission or summaries of actions of recent meetings for which minutes have not yet been prepared.
12. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
13. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
14. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
 - Management,
 - Employees who have significant roles in internal control, or
 - Others where the fraud could have a material effect on the financial statements.
15. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity's financial statements communicated by employees, former employees, regulators, or others.
16. We have no knowledge of instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
17. We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
18. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.

Government—specific

19. We have made available to you all financial records and related data.
20. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
21. We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
22. The Commission has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
23. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.
24. We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that we believe have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.
25. We have identified and disclosed to you all instances, which have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that we believe have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
26. We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.
27. An actuary has been used to measure pension liabilities and costs.
28. There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
28. As part of your audit, you assisted with preparation of the financial statements and related notes. We have designated an individual with suitable skill, knowledge, or experience to oversee your services and have assumed all management responsibilities. We have reviewed, approved, and accepted responsibility for those financial statements and related notes.
29. The Commission has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
30. The Commission has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
31. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
32. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.

33. The financial statements properly classify all funds and activities.
34. All funds that meet the quantitative criteria in GASBS Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
35. Components of net position (net investment in capital assets; restricted; and unrestricted) and equity amounts are properly classified and, if applicable, approved.
36. Investments, derivative instruments, and land and other real estate held by endowments are properly valued.
37. Provisions for uncollectible receivables have been properly identified and recorded.
38. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
39. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
40. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
41. Deposits and investment securities and derivative instruments are properly classified as to risk and are properly disclosed.
42. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated.
43. We have appropriately disclosed the Commission's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and have determined that net position is properly recognized under the policy.
44. We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.

Signature:  x Signature:  x
Title: EXECUTIVE OFFICER Title: COMMISSION CLERK