

**LOCAL AGENCY FORMATION COMMISSION
FOR THE COUNTY OF LOS ANGELES**

BASIC FINANCIAL STATEMENTS

**WITH REPORT ON AUDIT
BY INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS**

JUNE 30, 2013 AND 2012

INDEPENDENT AUDITORS' REPORT

The Commission Members
Local Agency Formation Commission
for the County of Los Angeles
Pasadena, California

Report on the Financial Statements

We have audited the accompanying statements of net position of the Local Agency Formation Commission for the County of Los Angeles (the Commission) as of June 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position and cash flows, for the years then ended, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these basic financial statements based on our audits. We conducted our audits 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 audits to obtain reasonable assurance about whether the basic financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Commission, as of June 30, 2013 and 2012, and the respective changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 2d to the basic financial statements, the Commission incorporated deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure of net position due to the adoption of Governmental Accounting Standards Board's Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*". The adoption of this standard also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Our opinion is not modified with respect to this matter.

As discussed in Note 2d to the basic financial statements, the Commission has changed its method for accounting and reporting certain items previously reported as assets or liabilities during fiscal year 2012-2013 due to the early adoption of Governmental Accounting Standards Board's Statement No. 65, "*Items Previously Reported as Assets and Liabilities*". Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and the schedule of funding progress, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the management's discussion and analysis and the schedule of funding progress in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**LOS ANGELES COUNTY
LOCAL AGENCY FORMATION COMMISSION**

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2013

The following discussion and analysis of the financial performance of the Los Angeles County Local Agency Formation Commission (the Commission) provides an overview of the Commission's financial activities for the fiscal year ended June 30, 2013. Please read it in conjunction with the financial statements identified in the accompanying table of contents.

Using the Accompanying Financial Statements

This annual report consists of a series of financial statements. The statement of Net Position and the Statement of Activities provide information about the activities of the Commission as a whole and present a longer-term view of the Commission's finances.

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual report consists of two parts – *management's discussion and analysis* (this section), and the *basic financial statements*.

The *government-wide financial statements* provide both *long-term* and *short-term* information about the Commission's overall financial status. The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data.

Reporting the Commission as a Whole

The accompanying **government-wide financial statement** presents financial data for the Commission as a whole. One of the most important questions asked about the Commission's finances is, "Is the Commission as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the Commission as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Commission's net position and change in them. You can think of the Commission's net position – the difference between assets and liabilities – as one way to measure the Commission's financial health, or *financial position*. Over time, *increases and decreases* in the Commission's net position are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other nonfinancial factors, such as changes in the Commission's revenues, to assess the *overall health* of the Commission. Indeed, a reduction in net position is assumed in the budget process. The prior year end fund balance is relied on as a funding source for the current year budget.

See independent auditors' report.

**LOS ANGELES COUNTY
LOCAL AGENCY FORMATION COMMISSION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)**

For the Fiscal Year Ended June 30, 2013

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

Table 1

Net Position – Governmental Activities

June 30, 2013 and 2012

	2013	2012	Change
Assets:			
Current Assets	\$ 977,950	\$ 1,186,571	\$ (208,621)
Non-Current Assets	21,732	28,201	(6,469)
Security Deposits	8,232	8,232	0
Total Assets	<u>\$ 1,007,914</u>	<u>\$ 1,223,004</u>	<u>\$ (215,090)</u>
Liabilities:			
Current Liabilities	\$ 49,985	\$ 87,238	\$ (37,253)
Long-term Liabilities	340,634	248,024	92,610
Total Liabilities	<u>\$ 390,619</u>	<u>\$ 335,262</u>	<u>\$ 55,357</u>
Net Position:			
Invested in Capital Assets	\$ 21,732	\$ 28,201	\$ (6,469)
Unrestricted	595,563	859,541	(104,023)
Net Position	<u>\$ 617,295</u>	<u>\$ 887,742</u>	<u>\$ (270,447)</u>

See independent auditors' report.

**LOS ANGELES COUNTY
LOCAL AGENCY FORMATION COMMISSION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)**

For the Fiscal Year Ended June 30, 2013

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

Table 2

Changes in Net Position – Governmental Activities

Years ended June 30, 2013 and 2012

	2013	2012	Change
Revenues:			
Program Revenues:			
Intergovernmental	\$ 850,666	\$ 850,666	\$ 0
Charges for Services	121,300	243,700	(122,400)
General Revenues:			
Interest	7,641	12,873	(5,232)
Other	0	200	(200)
Total Revenues	\$ 979,607	\$ 1,107,439	\$ (127,832)
Expenses			
Program Expenses:			
Salaries and Benefits	\$ 824,003	\$ 836,335	\$ 12,332
Services and Supplies	426,051	375,058	47,993
Total Expenses	\$ 1,250,054	\$ 1,211,393	\$ 38,661
Change in Net Position	\$ (270,447)	\$ (103,954)	\$ (166,493)
Net Position, Beginning of Year	887,742	991,696	(103,954)
Net Position, End of Year	\$ 617,295	\$ 887,742	\$ (270,447)

The increase or decrease in net position can provide an indication as to whether the overall financial position of the Commission improved or deteriorated during the year. Net position of the Commission decreased by \$270,447.

See independent auditors' report.

**LOS ANGELES COUNTY
LOCAL AGENCY FORMATION COMMISSION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)**

For the Fiscal Year Ended June 30, 2013

The reasons for significant changes in the revenues and expenses of the Commissions' governmental activities presented on the previous page are as follows:

- Charges for Services: the reduction in fee revenue is directly linked to the decline in application filings.
- Interest: earnings on investments were down for the period ending June 30, 2013.

MAJOR FUNDS

Major Governmental Funds. The **General Fund** is the only fund of the Commission, and is considered to be a proprietary fund for financial reporting purposes. At the end of the current fiscal year, the fund balance of the *General Fund* was \$617,295 compared to \$887,742 in the fiscal year ended June 30, 2012.

GENERAL FUND BUDGET

Major deviations between the budget of the *General Fund* and its actual operating results were as follows:

- Office Expense: adjustments were made to reconcile and record deferred rent expense.
- Professional Services: increases are associated with (1) preparation of municipal service reviews, and legal counsel review of the related documents; and (2) increase contract services relating to financial management of the books of the commission.
- Salaries and Benefits: adjustments were made to reconcile the annual accrued liability relating to Other Post Employment Benefits.
- Charges and Services: as indicated above fee revenue was down by as much as fifty percent, compared to the same period last fiscal year.

See independent auditors' report.

LOCAL AGENCY FORMATION COMMISSION
FOR THE COUNTY OF LOS ANGELES

STATEMENTS OF NET POSITION

June 30, 2013 and 2012

	2013	2012
ASSETS:		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 952,894	\$ 1,180,262
Accounts receivable	650	-
Prepaid expenses	24,406	6,309
TOTAL CURRENT ASSETS	977,950	1,186,571
NONCURRENT ASSETS:		
Capital assets, net of accumulated depreciation	21,732	28,201
Security deposits	8,232	8,232
TOTAL NONCURRENT ASSETS	29,964	36,433
TOTAL ASSETS	1,007,914	1,223,004
LIABILITIES:		
CURRENT LIABILITIES:		
Accounts payable	19,930	30,935
Advances from government agencies	2,865	30,837
Compensated absences due within one year	27,190	25,466
TOTAL CURRENT LIABILITIES	49,985	87,238
LONG-TERM LIABILITIES:		
Compensated absences payable	39,938	30,215
Accrued rent obligation	34,569	16,405
OPEB obligation	266,127	201,404
TOTAL LONG-TERM DEBT	340,634	248,024
TOTAL LIABILITIES	390,619	335,262
NET POSITION:		
Net investment in capital assets	21,732	28,201
Unrestricted	595,563	859,541
TOTAL NET POSITION	\$ 617,295	\$ 887,742

See independent auditors' report and notes to financial statements.

LOCAL AGENCY FORMATION COMMISSION
FOR THE COUNTY OF LOS ANGELES

STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION

For the years ended June 30, 2013 and 2012

	2013	2012
REVENUES:		
Contributions received	\$ 850,666	\$ 850,666
Fees and other charges	121,300	243,700
Interest	7,641	12,873
Miscellaneous	-	200
	979,607	1,107,439
EXPENSES:		
Salaries and employee benefits	824,003	836,335
Office expense	267,299	265,868
Professional fees	154,517	81,296
Depreciation	9,695	11,223
Miscellaneous	-	4,490
	1,255,514	1,199,212
OPERATING LOSS	(275,907)	(91,773)
NONOPERATING EXPENSE:		
Gain (loss) in disposal of fixed asset	5,460	(12,181)
	(270,447)	(103,954)
CHANGES IN NET POSITION	(270,447)	(103,954)
NET POSITION, BEGINNING OF YEAR	887,742	991,696
NET POSITION, END OF YEAR	\$ 617,295	\$ 887,742

See independent auditors' report and notes to financial statements.

LOCAL AGENCY FORMATION COMMISSION
FOR THE COUNTY OF LOS ANGELES

STATEMENTS OF CASH FLOWS

For the years ended June 30, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Contributions, fees and other revenues received	\$ 950,985	\$ 1,101,016
Cash paid to suppliers for goods and services	(432,754)	(346,027)
Cash paid to employees for services	(747,833)	(755,955)
NET CASH USED BY OPERATING ACTIVITIES	(229,602)	(966)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of furniture and equipment	5,460	-
Purchase of furniture and equipment	(3,226)	(23,473)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	2,234	(23,473)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(227,368)	(24,439)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,180,262	1,204,701
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 952,894	\$ 1,180,262
RECONCILIATION OF CHANGES IN OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating loss	\$ (275,907)	\$ (91,773)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	9,695	11,223
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(650)	721
(Increase) decrease in prepaid expenses	(18,097)	(4,515)
(Increase) decrease in security deposits	-	(8,232)
Increase (decrease) in accounts payable	(11,005)	1,969
Increase (decrease) in advances from government agencies	(27,972)	(7,144)
Increase (decrease) in compensated absences payable	11,447	12,917
Increase (decrease) in accrued rent obligation	18,164	16,405
Increase (decrease) in OPEB obligation	64,723	67,463
NET CASH USED BY OPERATING ACTIVITIES	\$ (229,602)	\$ (966)

See independent auditors' report and notes to financial statements.

LOCAL AGENCY FORMATION COMMISSION
FOR THE COUNTY OF LOS ANGELES

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013 and 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

b. Basis of Accounting and Measurement Focus:

The Commission is considered a proprietary fund for financial reporting purposes. The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under this basis of accounting and measurement focus, revenues are recognized when they are earned and expenses are recognized when they are incurred.

c. Revenue Recognition:

The Commission's major source of revenue is the contributions received from the County of Los Angeles, its 88 cities and 54 special districts pursuant to an apportionment formula set forth in *California Government Code Section 56381*, as applied to its annual operating budget. The contributions are recognized as revenue when the apportionment formula is received from the County of Los Angeles.

Fees and other charges relating to municipal service reviews are recognized when money is spent for specific projects. All other fees and other charges are recognized when received.

d. New Accounting Pronouncements:

Implemented:

In fiscal year 2012-2013, the Commission implemented GASB Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*". This statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, "*Elements of Financial Statements*" into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provides a new Statement of Net Position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.

In fiscal year 2012-2013, the Commission early implemented GASB Statement No. 65, "*Items Previously Reported as Assets and Liabilities*". This statement established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. The early implementation of this statement had no effect on the accompanying financial statements.

See independent auditors' report.

LOCAL AGENCY FORMATION COMMISSION
FOR THE COUNTY OF LOS ANGELES

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013 and 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

d. New Accounting Pronouncements (Continued):

Pending Accounting Standards:

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

- GASB 66 - "*Technical Corrections, an amendment of GASB Statement No. 10 and Statement No. 62*", effective for periods beginning after December 15, 2012.
- GASB 67 - "*Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25*", effective for the fiscal years beginning after June 15, 2013.
- GASB 68 - "*Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*", effective for the fiscal years beginning after June 15, 2014.
- GASB 69 - "*Government Combinations and Disposals of Government Operations*", effective for periods beginning after December 15, 2013.
- GASB 70 - "*Accounting and Financial Reporting for Nonexchange Financial Guarantees*", effective for the periods beginning after June 15, 2013.

e. 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) until then. The Commission does not have any deferred inflows to report.

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 will not be recognized as an inflow of resources (revenue) until that time. The Commission does not have any deferred outflows to report.

f. Cash and Cash Equivalents:

For purposes of the statements of cash flows, the Commission considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

See independent auditors' report.

LOCAL AGENCY FORMATION COMMISSION
FOR THE COUNTY OF LOS ANGELES

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013 and 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

g. Capital Assets:

Capital assets are stated at cost. The provision for depreciation is computed using the straight-line method over the estimated useful lives of the assets. When assets are sold or otherwise disposed of, related costs are removed from the accounts and any gain or loss is reported in the statements of revenues, expenses and changes in net position. Estimated useful lives of the assets are as follows:

Office equipment	3 - 5 years
Furniture and fixtures	3 - 5 years
Auto equipment	5 years
Tenant improvements	5 years

h. Accrued Rent:

The Commission's policy is to average any defined rental escalations or rent concessions over the term of the related lease in order to provide a level recognition of rent expense. The Commission's total accrued rent obligation was \$34,569 and \$16,405 at June 30, 2013 and 2012, respectively.

i. Net Position:

Net position is classified into three components – net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

- *Net Investment in capital assets* - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- *Restricted net position* - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

See independent auditors' report.

LOCAL AGENCY FORMATION COMMISSION
FOR THE COUNTY OF LOS ANGELES

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013 and 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

i. Net Position (Continued):

- *Unrestricted net position* - This component of net position consists of net position that does not meet the definition of "net investment in capital assets" or "restricted".

j. Use of Estimates:

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

3. CASH AND CASH EQUIVALENTS:

The Commission's cash balances are either deposited with a bank or pooled and invested by the Los Angeles County Treasurer for the purpose of increasing interest earnings through investment activities. Interest earned on pooled investments is deposited to participating funds based upon each fund's average daily balance during the allocation period.

Statutes authorize the County of Los Angeles to invest pooled investments in obligations of the United States Treasury, federal agencies, municipalities, commercial paper rated A-1 by Standard and Poor's Corporation and P-1 by Moody's Commercial Paper Record, banker's acceptances, negotiable certificates of deposit, floating rate notes, repurchase agreements and reverse repurchase agreements.

Funds deposited in the Los Angeles County Treasury Pool that are presented as cash and cash equivalents in the statements of net position amounted to \$881,779 and \$1,073,473 as of June 30, 2013 and 2012, respectively.

At June 30, 2012 accounts deposited with the bank are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 for interest bearing accounts and unlimited insurance for non-interest bearing accounts. Effective January 1, 2013, funds in non-interest bearing accounts no longer receive unlimited insurance, and are FDIC insured up to \$250,000 at each institution. At June 30, 2013 and 2012, the Commission had no cash balances in excess of federally insured limits.

See independent auditors' report.

LOCAL AGENCY FORMATION COMMISSION
FOR THE COUNTY OF LOS ANGELES

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013 and 2012

3. CASH AND CASH EQUIVALENTS (CONTINUED):

The Commission's cash and cash equivalents may be exposed to certain risks:

a. Interest Rate Risk:

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As of June 30, 2013 and 2012, the Commission's funds are held as short-term deposits in the Los Angeles County Treasury Pool.

b. Credit Risk:

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. As of June 30, 2013 and 2012, the Commission had no outstanding investments.

c. Concentration of Credit Risk:

Concentration of credit risk is the risk of loss attributable to the magnitude of the Commission's investment in a single issuer.

d. Custodial Credit Risk:

Custodial credit risk as the risk that the Commission will not be able to (a) recover deposits if the depository financial institution fails, or (b) recover the value of investments or collateral securities that are in the possession of an outside party if the counterparty to the investment or deposit transaction fails.

The Los Angeles County Treasury Pool is a pooled investment fund program governed by the Los Angeles County Board of Supervisors, and is administered by the County Treasurer. Investments in the pool are highly liquid as deposits and withdrawals can be made at any time without penalty. The Commission's fair value of its share in the pool is the same value of the pool shares, which amounted to \$881,779 and \$1,073,473 as of June 30, 2013 and 2012, respectively. Information on the pool's use of derivative securities in its investment portfolio is not available.

As of June 30, 2013 and 2012, the Los Angeles County Treasury Pool's and the Commission's exposure to risk (credit, market or legal) is not available.

See independent auditors' report.

LOCAL AGENCY FORMATION COMMISSION
FOR THE COUNTY OF LOS ANGELES

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013 and 2012

4. CAPITAL ASSETS:

Capital asset activity for the year ended June 30, 2013 was as follows:

	<u>Balance at July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2013</u>
Capital Assets:				
Office equipment	\$ 77,345	\$ 3,226	\$ -	\$ 80,571
Furniture and fixtures	65,957	-	-	65,957
Auto equipment	22,818	-	(22,818)	-
Tenant improvements	11,328	-	-	11,328
	<u>177,448</u>	<u>3,226</u>	<u>(22,818)</u>	<u>157,856</u>
Total capital assets				
Less accumulated depreciation for:				
Office equipment	(76,093)	(1,231)	-	(77,324)
Furniture and fixtures	(49,510)	(7,331)	-	(56,841)
Auto equipment	(22,818)	-	22,818	-
Tenant improvements	(826)	(1,133)	-	(1,959)
Total accumulated depreciation	<u>(149,247)</u>	<u>(9,695)</u>	<u>22,818</u>	<u>(136,124)</u>
Total capital assets, net	<u>\$ 28,201</u>	<u>\$ (6,469)</u>	<u>\$ -</u>	<u>\$ 21,732</u>

Capital asset activity for the year ended June 30, 2012 was as follows:

	<u>Balance at July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2012</u>
Capital Assets:				
Office equipment	\$ 77,345	\$ -	\$ -	\$ 77,345
Furniture and fixtures	92,277	12,145	(38,465)	65,957
Auto equipment	22,818	-	-	22,818
Tenant improvements	-	11,328	-	11,328
	<u>192,440</u>	<u>23,473</u>	<u>(38,465)</u>	<u>177,448</u>
Total capital assets				
Less accumulated depreciation for:				
Office equipment	(75,220)	(873)	-	(76,093)
Furniture and fixtures	(66,270)	(9,524)	26,284	(49,510)
Auto equipment	(22,818)	-	-	(22,818)
Tenant improvements	-	(826)	-	(826)
Total accumulated depreciation	<u>(164,308)</u>	<u>(11,223)</u>	<u>26,284</u>	<u>(149,247)</u>
Total capital assets, net	<u>\$ 28,132</u>	<u>\$ 12,250</u>	<u>\$ (12,181)</u>	<u>\$ 28,201</u>

See independent auditors' report.

LOCAL AGENCY FORMATION COMMISSION
FOR THE COUNTY OF LOS ANGELES

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013 and 2012

5. ADVANCES FROM GOVERNMENTAL AGENCIES:

Advances represent amounts provided to the Commission for the expenses to be incurred in preparation of a Comprehensive Fiscal Analysis to determine feasibility of incorporation of a new governmental entity or for or Municipal Service Reviews for specific municipalities.

6. COMPENSATED ABSENCES PAYABLE:

Compensated absences payable activity for the year ended June 30, 2013 and 2012, was as follows:

	2013	2012
Compensated absences payable at beginning of year	\$ 55,681	\$ 42,764
Compensated absences payable earned	27,190	21,635
Compensated absences payable used	(15,743)	(8,718)
Compensated absences payable at end of year	\$ 67,128	\$ 55,681

There is no fixed payment schedule for earned but unpaid compensated absences. Compensated absences expected to be paid within one year is \$27,190 and \$25,466 at June 30, 2013 and 2012, respectively.

7. PENSION PLAN:

The Commission's pension plan is administered by the Los Angeles County Employees Retirement Association (LACERA) which was established under the County Employees Retirement Law of 1937. It provides benefits to employees of the County of Los Angeles as well as four other entities, including LAFCO, that are not part of the County's reporting entity. Benefits are authorized in accordance with the County Employees Retirement Law, the by-laws and procedures adopted by LACERA's Boards of Retirement and Investments and County Board of Supervisors' resolutions.

LACERA is a cost sharing, multi-employer defined benefit plan that provides retirement, disability, death benefits and cost of living adjustments to eligible employees. Eligibility to participate in the retirement plan is determined by having completed thirty days of credited service. As determined by LACERA, the Commission contributes between 14.8% and 16.77% of employees' covered salary. Contributions for the fiscal years ended June 30, 2013, 2012, and 2011 were \$92,283, \$77,656, and \$56,626, respectively. For the funded status of the Plan refer to the 2013 Annual Report of LACERA available at 300 N. Lake Boulevard, Pasadena, California.

See independent auditors' report.

LOCAL AGENCY FORMATION COMMISSION
FOR THE COUNTY OF LOS ANGELES

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013 and 2012

8. OTHER POST-EMPLOYMENT BENEFITS (OPEB):

a. Plan Description:

In addition to the retirement plan described in Note 7, the Commission provides a defined benefit healthcare plan to retirees in accordance with the benefits provided by the Los Angeles County Retirement Association. Spouses are also covered throughout their lives. The Commission pays 4% of the annual premiums for each year of service of the retiree. The retiree is responsible for payment of the remaining premiums. Retirees must have worked a minimum of 5 years with the Commission in order to be eligible for these benefits.

b. Funding Policy:

As of June 30, 2013, the Commission has not established a trust account or equivalent that contains an irrevocable transfer of assets dedicated to providing benefits to retirees in accordance with the terms of the plan and that are legally protected from creditors. The Commission's contribution is currently based on a projected pay-as-you-go funding method, that is, benefits are payable when due. For the fiscal years ended June 30, 2013, 2012 and 2011, those costs totaled \$6,474, \$5,208, and \$5,491, respectively.

c. Annual OPEB Cost and Net OPEB Obligation:

The Annual Required Contribution (ARC) was calculated based on the Alternative Measurement Method which is applicable to employers with fewer than 100 plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The Commission uses a 30 year amortization period.

The following table shows the components of the Commission's annual OPEB, the cost amount of benefits and/or insurance premiums paid, and the changes in the Commission's Net OPEB obligation for the two years ended June 30, 2013 and 2012:

	2013	2012
Annual required contribution	\$ 71,033	\$ 72,671
Interest on net OPEB obligation	10,070	-
Adjustment to annual required contribution	(9,906)	-
Annual OPEB cost	71,197	72,671
Pay-as-you-go cost	(6,474)	(5,208)
Increase in net OPEB obligation	64,723	67,463
Net OPEB obligation - beginning of year	201,404	133,941
Net OPEB obligation - end of year	\$ 266,127	\$ 201,404

See independent auditors' report.

LOCAL AGENCY FORMATION COMMISSION
FOR THE COUNTY OF LOS ANGELES

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013 and 2012

8. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (CONTINUED):

d. Three-Year Trend Information:

The Commission's annual OPEB cost, the percentage of annual OPEB costs contributed to the plan and the net OPEB obligation for 2013 and the preceding two years are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Costs Contributed	Net OPEB Obligation
6/30/11	\$ 72,761	7.55%	\$ 133,941
6/30/12	72,761	7.16%	201,404
6/30/13	71,197	9.09%	266,127

e. Funded Status and Funding Progress:

As of July 1, 2012, the most recent actuarial valuation date, the plan is not funded. The actuarial accrued liability for benefits was \$748,249, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$748,249. The covered payroll (annual payroll of active employees covered by the plan) was \$423,900 and the ratio of the UAAL to the covered payroll was 176.52%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about rates of employee turnover, retirement, mortality, as well as economic assumptions regarding claim costs per retiree, healthcare inflation and interest rates. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

See independent auditors' report.

LOCAL AGENCY FORMATION COMMISSION
FOR THE COUNTY OF LOS ANGELES

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013 and 2012

8. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (CONTINUED):

f. Methods and Assumptions:

The following statistics and assumptions were used in the actuarial valuation:

No. of active employees	7
Average age of active, eligible employees	44
Assumed retirement age	60
Actuarial cost method	Entry age
Amortization method	Level percentage of payroll over a 30-year period
Discount rate	5%
Payroll growth rate	2%
Healthcare cost trend	3%

9. COMMITMENTS:

The Commission has entered into office space and equipment leases under long-term lease agreements expiring through November 2021. Future minimum rental payment under non-cancelable leases are as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2014	\$ 83,164
2015	92,032
2016	101,379
2017	86,700
2018	89,301
Thereafter	<u>325,459</u>
Total	<u>\$ 778,035</u>

Total rent expense for the years ended June 30, 2013 and 2012 amounted to \$105,598 and \$108,716, respectively.

10. SUBSEQUENT EVENTS:

Events occurring after June 30, 2013 have been evaluated for possible adjustments to the financial statements or disclosure as of December 5, 2013, which is the date these financial statements were available to be issued.

See independent auditors' report.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

The Commission Members
Local Agency Formation Commission
for the County of Los Angeles
Pasadena, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Local Agency Formation Commission for the County of Los Angeles (the "Commission"), as of and for the year ended June 30, 2013, 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 5, 2013.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

White Nelson Dick Evans LLP

Irvine, California
December 5, 2013