BIANCHI, KASAVAN & POPE, LLP
*Certified Public Accountants & Business Consultants*

Robert W. Bianchi, CPA
Gail A. Delorey, CPA
Charles D. Doglione, CPA
Joseph A. Garcia, CRTP
Connie Glosser, CPA
Mary Hubbell, CRTP
Carla S. Hudson, CPA, ABV
David G. Huey, CPA
Jesse Lopez, CPA
Kris Nolan, CPA
Gordon A. Rubbo, CPA

November 18, 2013

To the Commissioners
Local Agency Formation Commission of Monterey County
Salinas, California

We have audited the financial statements of Local Agency Formation Commission of Monterey County (Agency) for the year ended June 30, 2013. Professional standards require that we provide you with information about our responsibilities under general accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 10, 2010. Professional standards also require that we communicate to you the following information related to our audit.

## Significant Audit Findings

### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Agency 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 2012-2013. We noted no transactions entered into by the Agency 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 financial statements was depreciation expense.

Management's estimate of depreciation expense is based on the estimated useful lives of the respective assets. We evaluated the key factors and assumptions used to develop the estimate for depreciation expense in determining that it is reasonable in relation to the financial statements take as a whole.

450 Lincoln Avenue, Suite 200 • Salinas, CA 93901 • 831-757-5311 phone • 831-757-9529 fax • www.bkpcpa.com

***Difficulties Encountered in Performing the Audit***

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

***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 November 18, 2013.

***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 Agency'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 Agency's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

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

Sincerely,

Bianchi, Kasavan & Pope, LLP

Salinas, California

# LOCAL AGENCY FORMATION COMMISSION OF MONTEREY COUNTY

## FINANCIAL STATEMENTS

## FOR THE YEAR ENDED JUNE 30, 2013

**LOCAL AGENCY FORMATION COMMISSION OF MONTEREY COUNTY**

# TABLE OF CONTENTS

**JUNE 30, 2013**

BIANCHI, KASAVAN & POPE, LLP
Certified Public Accountants & Business Consultants

Robert W. Bianchi, CPA
Gail A. Delorey, CPA
Charles D. Doglione, CPA
Joseph A. Garcia, CRTP
Connie Glosser, CPA
Mary Hubbell, CRTP
Carla S. Hudson, CPA, ABV
David G. Huey, CPA
Jesse Lopez, CPA
Kris Nolan, CPA
Gordon A. Rubbo, CPA

# INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Local Agency Formation Commission of Monterey County
Salinas, California

We have audited the accompanying financial statements of the Local Agency Formation Commission of Monterey County (Agency), a state mandated regulatory agency, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Agency'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 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 *Governmental 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

450 Lincoln Avenue, Suite 200 • Salinas, CA 93901 • 831-757-5311 phone • 831-757-9529 fax • www.bkpcpa.com

are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

***Opinion***

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

***Other Matters***

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. The Agency has elected not to present Management's Discussion and Analysis.

Accounting principles generally accepted in the United States of America require that the required supplementary information Schedule of Postemployment Healthcare Benefits Funding Progress and Schedule of Revenues, Expenses and Change in Net Position – Budget and Actual on pages 26 and 27 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 on 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 to 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 November 18, 2013, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not 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 *Governmental Auditing Standards* in considering the Agency's internal control over financial reporting and compliance.

Bianchi, Kasavan & Pope, LLP

Salinas, California
November 18, 2013

## FINANCIAL STATEMENTS

## LOCAL AGENCY FORMATION COMMISSION OF MONTEREY COUNTY

## STATEMENT OF NET POSITION

## JUNE 30, 2013

### ASSETS

| | | |
|---|---|---|
| **CURRENT ASSETS** | | |
| Cash and cash equivalents - Note 2 | $ | 787,890 |
| Prepaid expenses | | 11,687 |
| **TOTAL CURRENT ASSETS** | | 799,577 |
| **NONCURRENT ASSETS** | | |
| Capital assets - net - Note 3 | | 3,455 |
| | $ | 803,032 |

### LIABILITIES AND NET POSITION

| | | |
|---|---|---|
| **CURRENT LIABILITIES** | | |
| Accounts payable | $ | 21,927 |
| Net OPEB obligation - Note 7 | | 9,084 |
| Accrued leave | | 67,001 |
| **TOTAL CURRENT LIABILITIES** | | 98,012 |
| **NET POSITION** | | |
| Invested in capital assets | | 3,455 |
| Unrestricted - Note 4 | | 701,565 |
| **TOTAL NET POSITION** | | 705,020 |
| | $ | 803,032 |

The accompanying notes are an integral part of these financial statements.

# LOCAL AGENCY FORMATION COMMISSION OF MONTEREY COUNTY

## STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION

## FOR THE YEAR ENDED JUNE 30, 2013

| | |
|---|---|
| **OPERATING REVENUES** | |
| County contributions | $ 215,398 |
| District contributions | 215,397 |
| City contributions | 215,397 |
| Project fees | 38,934 |
| **TOTAL OPERATING REVENUES** | 685,126 |
| **OPERATING EXPENSES** | |
| Salaries | 312,218 |
| Employee benefits | 123,408 |
| Accounting and financial services | 36,000 |
| Rent - Note 5 | 24,332 |
| Accrued leave | 19,710 |
| Audit services | 12,000 |
| Legal expenses | 7,748 |
| Training and conferences | 5,972 |
| Computer support services | 5,029 |
| Property and general liability insurance | 4,560 |
| Equipment rental | 4,464 |
| Office supplies | 4,362 |
| Telephone | 4,273 |
| LAFCO memberships | 3,976 |
| Recruitment advertising | 3,813 |
| Computer equipment maintenance | 3,695 |
| Postage and shipping | 2,919 |
| Meeting broadcast services | 2,600 |
| Travel | 2,518 |
| Depreciation | 1,747 |
| Legal notices | 1,678 |
| Outside printers | 991 |
| Books and periodicals | 789 |
| Records storage and security | 533 |
| **TOTAL OPERATING EXPENSES** | 589,335 |
| **INCOME FROM OPERATIONS** | 95,791 |
| **NON-OPERATING INCOME** | |
| Interest | 3,496 |
| **CHANGE IN NET POSITION** | 99,287 |
| **NET POSITION, BEGINNING OF YEAR** | 605,733 |
| **NET POSITION, END OF YEAR** | $ 705,020 |

The accompanying notes are an integral part of these financial statements.

## LOCAL AGENCY FORMATION COMMISSION OF MONTEREY COUNTY

## STATEMENT OF CASH FLOWS

## FOR THE YEAR ENDED JUNE 30, 2013

| | | |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Receipts from customers, county, districts and cities | $ | 679,615 |
| Payments to suppliers | | (140,767) |
| Payments to employees | | (430,322) |
| **Net cash provided by operating activities** | | 108,526 |
| **CASH FLOWS FROM CAPITAL AND FINANCING ACTIVITIES** | | |
| Purchases of capital assets | | (1,991) |
| **Net cash used in capital and financing activities** | | (1,991) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Interest on investments | | 3,496 |
| **Net cash provided by investing activities** | | 3,496 |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | | 110,031 |
| **CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR** | | 677,859 |
| **CASH AND CASH EQUIVALENTS, END OF YEAR** | $ | 787,890 |

| | | |
|---|---|---|
| **Reconciliation of operating income to net cash provided by operating activities -** | | |
| Income from operations | $ | 95,791 |
| **Adjustments to reconcile operating income to net cash provided by operating activities -** | | |
| Depreciation | | 1,747 |
| **Changes in operating assets and liabilities:** | | |
| Decrease in accounts receivable | | 1,167 |
| Increase in prepaid expenses | | (805) |
| Increase in accounts payable | | 12,045 |
| Decrease in net OPEB obligation | | (2,452) |
| Increase in accrued leave | | 7,711 |
| Decrease in deferred fees revenue | | (6,678) |
| **Net cash provided by operating activities** | $ | 108,526 |

The accompanying notes are an integral part of these financial statements.

## 1. ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES

### Description of Reporting Entity

Local Agency Formation Commission (LAFCO) is a regulatory agency with countywide jurisdiction, established by state law (Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000) to discourage urban sprawl and to encourage orderly and efficient provision of services, such as water, sewer, fire protection, etc. LAFCO of Monterey County (Agency) is a state mandated agency.

The Agency is responsible for reviewing and approving proposed jurisdictional boundary changes, including annexations and detachments of territory to and/or from cities and special districts, incorporations of new cities, formations of new special districts, consolidations, mergers, and dissolutions of existing districts. In addition, the Agency must review and approve contractual service agreements, determine spheres of influence for each city and district, and may initiate proposals involving district consolidation, dissolution, establishment of subsidiary districts, mergers, and reorganizations (combinations of these jurisdictional changes).

The Agency is composed of seven regular Commissioners: two members from the Board of Supervisors; two representatives from the cities within Monterey County; one public member; and two Independent Special District Members. There are four alternate Commissioners, which reflect the above membership categories.

### Basis of Presentation

The Agency is accounted for as an enterprise fund. The accounting policies of the Agency conform to accounting principles generally accepted in the United States of America as applicable to governmental units. Such funds are used to account for operations (1) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or fees; or (2) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

## 1. ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES (Continued)

### Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the statement of net position. Net position is segregated into components. Proprietary fund-type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net position. Proprietary fund operating revenues, such as fees for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies, grants and investment earnings, result from nonexchange transactions or ancillary activities.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. The accrual basis of accounting is utilized by proprietary fund types. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

In accordance with Government Accounting Standards Board (GASB) Statement 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Agency has elected to apply only those applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements.

### Cash and Cash Equivalents

Demand deposits, money market accounts, certificates of deposit with an original maturity of three months or less and their equity in the County Treasurer's investment pool are considered cash and cash equivalents.

All investments (if any) are recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties.

## 1. ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES (Continued)

### Budget

The Agency adopts an annual budget. The budget includes expenditures and the means of financing them and is used for planning purposes. Budgeted amounts are as originally adopted or as amended by the Agency.

The Schedule of Revenues, Expenses and Change in Net Position – Budget and Actual presents a comparison of budgetary data to actual results of operations.

### Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Employee Retirement Plans

Qualified employees are covered under contributory retirement plans maintained by an agency of the State of California. Contributions to these plans are paid or accrued based upon a percentage of qualified employee salaries.

### Concentration of Credit Risk

The Agency periodically maintains cash deposits in one financial institution, which at times exceed federally insured limits. The Agency has not experienced any losses related to these accounts and believes it is not exposed to any significant credit risk. At June 30, 2013, the Agency's uninsured cash balance was $0.

### Capital Assets

The Agency records its capital assets at cost and depreciates these assets using the straight-line method. Depreciation is based on the following estimated useful lives:

| | Years |
|---|---|
| Office equipment | 3-5 |

Maintenance and minor repairs are charged against income; major renewals and betterments are capitalized and depreciated.

## 1. ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES (Continued)

**Net Position**

Net position represents the excess of all the Agency's assets over all its liabilities, regardless of the fund. Net position is divided into three captions under GASB Statement 34 and are described below:

- *Invested in Capital Assets, net of related debt* describes the portion of net position which is represented by the current net book value of the Agency's capital assets, less the outstanding balance of any debt issued to finance these assets (if any).
- *Restricted* describes the portion of net position which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws or other restrictions which the Agency cannot unilaterally alter.
- *Unrestricted* describes the portion of net position which is not restricted to use.

**Impact of Recently Issued Accounting Principles**

***Recently Issued and Adopted Accounting Pronouncements***

In November 2010, GASB issued Statement No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* This statement incorporates into GASB's authoritative literature certain accounting and financial reporting guidance included in Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles board Opinions, and Accounting Research Bulletins of the American Institute of Certified Public Accountants (AICPA) Committee on Accounting Procedure, which do not conflict with or contradict GASB pronouncements. As a result, proprietary funds will no longer have to consider pre-1989 FASB or AICPA pronouncements nor will they be permitted to apply "new" FASB pronouncements issued after November 30, 1989. The Agency implemented this Statement in the fiscal year 2012. There is no significant effect on the financial statements due to the implementation of this statement.

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4,

## 1. ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES (Continued)

**Impact of Recently Issued Accounting Principles** (Continued)

***Recently Issued and Adopted Accounting Pronouncements*** (Continued)

*Elements of Financial Statements,* introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

Concepts Statement No. 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements and Management's Discussions and Analysis for State and Local Governments,* and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The Agency implemented this Statement in fiscal year 2013. There was no significant effect on the financial statements other than renaming net assets to net position.

***Recently Issued Accounting Pronouncements***

In March 2012, the GASB issued Statement 65, *Items Previously Reported as Assets and Liabilities.* GASB 65 establishes 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. This Statement is effective for periods beginning after December 15, 2012. Management is currently evaluating the impact of the adoption of this Statement on the Agency's financial statements.

In June 2012, the GASB issued Statement 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statements 27.* GASB 68 improves accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities.

## 1. ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES (Continued)

**Impact of Recently Issued Accounting Principles** (Continued)

***Recently Issued Accounting Pronouncements*** (Continued)

This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This Statement is effective for fiscal years beginning after June 15, 2014. Management is currently evaluating the impact of the adoption of this Statement on the Agency's financial statements.

**Subsequent Events**

Subsequent events were evaluated through November 18, 2013, the date the financial statements were available to be issued.

## 2. CASH AND CASH EQUIVALENTS

Cash at June 30, 2013, consisted of the following:

| | |
|---|---|
| Cash in bank | $ 144,103 |
| Cash held in Monterey County Treasury: | |
| Cash undesignated | 102,665 |
| Cash designated for: | |
| Litigation reserve | 299,937 |
| Contingency reserve | 165,000 |
| Accrued leave | 67,001 |
| Net OPEB obligation | 9,084 |
| Petty cash | 100 |
| | $ 787,890 |

The Monterey County Treasurer's investment policy is in compliance with section 53635 of the Government Code of the State of California which permits investments in certain securities and participation in certain investment trading techniques or strategies. Investments of the state and local agencies generally are classified into three categories of credit risks. Category 1 includes investments that are insured or registered, for which the securities are held by the County or by the County's agent in the County's name. Category 2 consists

## 2. CASH AND CASH EQUIVALENTS (Continued)

of uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the County's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, but not in the County's name. The Agency held no Category 2 or 3 investments at June 30, 2013. As of June 30, 2013, the market value of the County investment portfolio was not materially different from its carrying value.

## 3. CAPITAL ASSETS

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

| | Balance June 30, 2012 | Additions | Retirements | Balance June 30, 2013 |
|---|---|---|---|---|
| Office equipment | $ 21,916 | $ 1,991 | $ - | $ 23,907 |
| Accumulated depreciation | (18,705) | (1,747) | - | (20,452) |
| **TOTAL CAPITAL ASSETS – net** | $ 3,211 | $ 244 | $ - | $ 3,455 |

## 4. NET POSITION – UNRESTRICTED

Unrestricted assets consisted of the following at June 30, 2013:

| | |
|---|---|
| Designated for litigation | $ 299,937 |
| Designated for contingency | 165,000 |
| Designated for encumbered funds | 6,395 |
| Unrestricted and undesignated | 230,233 |
| | $ 701,565 |

## 5. LEASE OBLIGATIONS

The Agency leases office space under an office rental agreement that expires June 30, 2013. Total office rent expense for the year ended June 30, 2013, amounted to $24,332.

A five year lease agreement was entered into on May 2013, commencing July 1, 2013, with a base year rent of $1,926 per month, providing for an annual increase in base rent after June of 2015.

## 5. LEASE OBLIGATIONS (Continued)

Future minimum rental payments required under this lease as of June 30, 2013, are as follows:

| Fiscal Year Ended June 30, | | |
|---|---|---|
| 2014 | $ | 23,115 |
| 2015 | | 23,115 |
| 2016 | | 24,332 |
| 2017 | | 24,940 |
| 2018 | | 25,564 |
| | $ | 121,066 |

## 6. EMPLOYEE'S RETIREMENT PLAN AND POST RETIREMENT BENEFITS

### Plan Description

The Agency's defined benefit pension plan (Plan) provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Plan of the Agency is part of the Public Agencies portion of the California Public Employees Retirement System (CalPERS), an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements are established by State statutes within the Public Employees' Retirement Law. The Agency selects optional benefit provisions from the benefit menu by the contract with CalPERS and adopts those benefits. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

### Funding Policy

For continuing CalPERS plan members as of December 31, 2012: These members participate in a CalPERS Retirement Plan as a continuing member under the California Public Employees' Pension Reform Act of 2013, with a defined benefit formula of 2% at age 55. The Agency contributes 100% of the employer contribution (11.198% for 2012-2013 and 10.781% for 2013-2014). Continuing members contribute 7% of their annual covered salary to the plan.

## 6. EMPLOYEE'S RETIREMENT PLAN AND POST RETIREMENT BENEFITS (Continued)

**Funding Policy** (Continued)

For 2012-2013 and 2013-2014, the Agency pays 50% (3.5%) of the continuing member employee contribution, and employee pays 50% (3.5%) of the employee contribution. Beginning in 2014-2015, the Agency will pay 0% of the employee's required contribution to this plan, and the employee will pay 100% of the employee's required contribution.

For new CalPERS plan members hired on or after January 1, 2013: These members participate in a CalPERS Retirement Plan as a new miscellaneous member under the California Public Employees' Pension Reform Act of 2013, with a defined benefit formula of 2% @ age 62. For 2012-2013 and 2013-2014, the Agency and the employee each contribute 50% (6.25%) of the total annual normal cost rate as determined by CalPERS (12.5% of payroll for the period). The Agency pays 0% of the new member employee's required contribution to this plan, and the employee pays 100% of the employee's required contribution.

The Agency is required to contribute the actuarially determined, remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rates for fiscal 2012-2013 (listed in the preceding paragraphs) are established by State statute and the employer contribution rates are established and may be amended by CalPERS. Total expense amounted to $53,260, $45,110 and $44,804 for the years ended June 30, 2013, 2012 and 2011, respectively. This amount is included in employee benefits expense.

The Agency's unfunded pension liability will need to be recorded and reported on the Agency's June 30, 2015 Statement of Net Position to comply with upcoming changes in Governmental Accounting Standards. The Agency will need to record the difference between its total pension liability and the value of assets set aside in a pension plan to pay benefits. CalPERS determines the computed amount of the unfunded liability in an annual actuarial valuation report.

In addition, the Agency had a side-fund liability of $14,621 that was paid in May 2013. This payment resulted in a slight decrease in the 2013-2014 employer contribution rate for continuing CalPERS plan members.

## 7. POSTEMPLOYMENT HEALTHCARE BENEFITS

### Plan Description

The Agency administers a single-employer defined benefit postemployment healthcare plan. Employees who retire directly from the Agency under the California Public Employee's Retirement System (CalPERS) at the minimum age of 50 with at least 5 years of CalPERS service (or disability) are eligible to receive the required minimum contribution for medical insurance premiums paid to CalPERS. For 2013, the required minimum contribution is $115 per month. This same benefit may continue to a surviving spouse depending on the retirement plan election. The contribution requirement of the Agency is based on projected pay-as-you-go financing arrangements.

CalPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to CalPERS at the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

### Funding Policy

The Agency's Board of Commissioners will not be funding the plan in the current year. The Board will review the funding requirements annually.

The Agency's policy is to reserve cash in an amount equal to the net OPEB obligation. See Note 2.

### Annual OPEB Cost and Net OPEB Obligation

The Agency's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The Agency has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over the estimated remaining period of 22 years.

## 7. POSTEMPLOYMENT HEALTHCARE BENEFITS (Continued)

**Annual OPEB Cost and Net OPEB Obligation** (Continued)

The following table shows the components of the Agency's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in its net OPEB obligation to the Retiree Health Plan:

| | 2013 |
|---|---|
| Annual required contribution | $ 2,023 |
| Interest on net OPEB obligation | 577 |
| Adjustment to annual required contribution | (699) |
| Adjustment to AAL | (4,353) |
| Annual OPEB cost (expense) | (2,452) |
| Estimated contributions | - |
| Increase in net OPEB obligation | (2,452) |
| Net OPEB obligation – beginning of year | 11,536 |
| Net OPEB obligation – end of year | $ 9,084 |

The Agency's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for the last three fiscal years is as follows:

| Fiscal Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|---|---|---|---|
| 6/30/2011 | $ 7,046 | 0% | $ 9,291 |
| 6/30/2012 | $ 2,245 | 0% | $ 11,536 |
| 6/30/2013 | $ (2,452) | 0% | $ 9,084 |

## 7. POSTEMPLOYMENT HEALTHCARE BENEFITS (Continued)

### Funding Status and Funding Progress

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrences of events far into the future. Examples include assumptions about future employment, mortality and healthcare costs trends. 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 presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

As of July 1, 2013, the actuarial accrued liability (AAL) for benefits was $7,183, all of which is unfunded from an accounting standpoint. However, the Agency's policy is to reserve cash in an amount equal to the net OPEB obligation. See Note 2.

### Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following simplifying assumptions were made:

*Retirement age for active employees* – Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 63, or at the first subsequent year in which the member would qualify for benefits.

*Mortality* – Life expectancies at the calculation date are based on the most recent mortality tables published by the National Center for Health Statistics website (www.cdc.gov). The calculation of OPEB liability for each year is based on the assumption that all participants will live until their expected age as displayed in the mortality tables.

## 7. POSTEMPLOYMENT HEALTHCARE BENEFITS (Continued)

**Methods and Assumptions** (Continued)

*Turnover* – The probability that an employee will remain employed until the assumed retirement age was determined using non-group-specific age-based turnover data provided in Table 1 in paragraph 35 of GASB Statement No. 45. In addition the expected future working lifetimes of employees were determined using Table 2 in paragraph 35c of GASB Statement No. 45.

*Healthcare cost trend rate* – Healthcare cost trend rates were selected based on the CalPERS Circular Letter No. 600-006-12. The ultimate trend rate was 3.0%.

*Health insurance premiums* – 2012-13 health insurance premiums for retirees were used as a basis for calculation of the present value of total benefits to be paid. An employee is assumed to continue with the same medical plan upon retirement. If an employee waived medical coverage, then such waiver is assumed to continue into retirement.

*Medicare Coordination* – Medicare was assumed as the primary payer for current and future retirees at age 65.

*Payroll increase* – Changes in the payroll for current employees are expected to increase at a rate of approximately 2.0% annually.

*Discount rate* – The calculation uses an annual discount rate of 5.0%. This is based on the assumed long-term return on plan assets or employer assets.

*Actuarial cost method* – The entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at July 1, 2013, was 22 years.

**Plan for Funding**

On an ongoing basis, the Agency will be reviewing its assumptions, comparing them against actual experience and recalculating the needed funding with the goal of paying for postemployment benefits out of interest earned on designated funds.

## 8. COMPENSATED ABSENCES (ACCRUED VACATION, PAID-TIME-OFF, SICK LEAVE, AND COMPENSATORY TIME)

### Exempt Employees Annual Leave

In lieu of vacation and sick leave benefits, exempt employees of the Agency are eligible for annual leave on a pro-rated basis based on years of completed service. Overtime eligible exempt employees may accrue a maximum of 250 or 850 hours. Exempt employees have an option to sell back up to 160 hours of annual leave each year. Annual leave is paid to the employee at the time of separation from Agency employment. Annual leave liability is calculated by using the employee's fiscal year leave balance multiplied by the employee's fiscal year end rate of pay. These benefits are a general description only. Actual benefits are defined in individual employment agreements.

### Vacation and Paid-Time-Off

Overtime eligible employees of the Agency may accumulate up to 260 hours of unused vacation and paid-time-off (PTO). Vacation and PTO leaves are paid to the employee at the time of separation from Agency employment. Vacation and PTO liabilities are calculated using employee's fiscal year end vacation and PTO leave balances multiplied by the employee's fiscal year end rate of pay. These benefits are a general description only. Actual benefits are defined in individual employment agreements.

### Sick Leave

Overtime eligible employees can accumulate sick leave indefinitely. Upon retirement or death, unused sick leave is paid up to 30 percent of the employee's base hourly rate of pay, up to a maximum of 1500 hours. All unused sick leave above that 1500 hour limit or any unused sick leave for employees separated from the Agency for other reasons is forfeited. The sick leave liability is calculated using the employee's fiscal year end sick leave balance multiplied by the employee's fiscal year end rate of pay. These benefits are a general description only. Actual benefits are defined in individual employment agreements.

### Compensatory Time

Overtime eligible employees can accrue compensatory time-off in lieu of overtime payments. A maximum of 80 hours of compensatory time may be accrued. The compensatory time-off balances are considered current year liabilities. These benefits are a general description only. Actual benefits are defined in individual employment agreements.

**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***

BIANCHI, KASAVAN & POPE, LLP
Certified Public Accountants & Business Consultants

Robert W. Bianchi, CPA
Gail A. Delorey, CPA
Charles D. Doglione, CPA
Joseph A. Garcia, CRTP
Connie Glosser, CPA
Mary Hubbell, CRTP
Carla S. Hudson, CPA, ABV
David G. Huey, CPA
Jesse Lopez, CPA
Kris Nolan, CPA
Gordon A. Rubbo, CPA

# 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*

Board of Commissioners
Local Agency Formation Commission of Monterey County
Salinas, 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 of Monterey County (Agency), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated November 18, 2013.

## *Internal Control Over Financial Reporting*

In planning and performing our audit of the financial statements, we considered the Agency'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency'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 Agency'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 the 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 Agency'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 results of that testing, and not to provide an opinion on the effectiveness of the Agency'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 Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bianchi, Kasavan & Pope, LLP

Salinas, California
November 18, 2013

## REQUIRED SUPPLEMENTARY INFORMATION

## LOCAL AGENCY FORMATION COMMISSION OF MONTEREY COUNTY

## SCHEDULE OF POSTEMPLOYMENT HEALTHCARE BENEFITS FUNDING PROGRESS

## FOR THE YEAR ENDED JUNE 30, 2013

| Actuarial Valuation Date | Actuarial Value of Assets (AVA) | Actuarial Accrued Liability (Unit Cost Method) (AAL) | Unfunded Actuarial Accrued Liability (UAAL) | Funding Ratio | Covered Payroll | UAAL as a Percentage of Covered Payroll |
|---|---|---|---|---|---|---|
| 01/06/2010 | $ 9,291 | $ - | $ 9,291 | 0.0% | $ 300,000 | 3.1% |
| 07/01/2013 | $ 7,183 | $ - | $ 7,183 | 0.0% | $ 320,000 | 2.2% |

Note: The Agency's policy is to review and update the liability calculations and assumptions every three years, and more frequently if required by changes in active or retired personnel status or accounting requirements.

The accompanying notes are an integral part of this required supplementary information.

## LOCAL AGENCY FORMATION COMMISSION OF MONTEREY COUNTY

## SCHEDULE OF REVENUES, EXPENSES AND CHANGE IN NET POSITION - BUDGET AND ACTUAL

## FOR THE YEAR ENDED JUNE 30, 2013

| | Budgeted Amounts | | Actual | Variance with Final Budget Favorable |
|---|---|---|---|---|
| | Original | Final | Amounts | (Unfavorable) |
| **REVENUES** | | | | |
| County contributions | $ 215,397 | $ 215,397 | $ 215,398 | $ 1 |
| District contributions | 215,397 | 215,397 | 215,397 | - |
| City contributions | 215,397 | 215,397 | 215,397 | - |
| Project fees | 8,000 | 8,000 | 38,934 | 30,934 |
| Interest | 1,500 | 1,500 | 3,496 | 1,996 |
| **TOTAL REVENUES** | 655,691 | 655,691 | 688,622 | 32,931 |
| **EXPENSES** | | | | |
| Salaries | 308,946 | 308,946 | 312,218 | (3,272) |
| Employee benefits | 147,445 | 147,445 | 123,408 | 24,037 |
| Accounting and financial services | 37,500 | 37,500 | 36,000 | 1,500 |
| Rent - Note 5 | 24,500 | 24,500 | 24,332 | 168 |
| Accrued leave | 12,000 | 12,000 | 19,710 | (7,710) |
| Audit services | 13,000 | 13,000 | 12,000 | 1,000 |
| Other legal expenses | 17,000 | 12,000 | 7,748 | 4,252 |
| Training and conferences | 6,000 | 6,000 | 5,972 | 28 |
| Computer support services | 10,000 | 10,000 | 5,029 | 4,971 |
| Property and general liability insurance | 5,500 | 5,500 | 4,560 | 940 |
| Equipment rental | 6,500 | 6,500 | 4,464 | 2,036 |
| Office supplies | 4,600 | 4,600 | 4,362 | 238 |
| Telephone | 4,500 | 4,500 | 4,273 | 227 |
| LAFCO memberships | 4,500 | 4,500 | 3,976 | 524 |
| Recruitment advertising | - | 5,000 | 3,813 | 1,187 |
| Computer equipment maintenance | 6,000 | 6,000 | 3,695 | 2,305 |
| Postage and shipping | 4,500 | 4,500 | 2,919 | 1,581 |
| Meeting broadcast services | 3,300 | 3,300 | 2,600 | 700 |
| Travel | 5,500 | 5,500 | 2,518 | 2,982 |
| Depreciation | - | - | 1,747 | (1,747) |
| Legal notices | 4,000 | 4,000 | 1,678 | 2,322 |
| Outside printers | 1,000 | 1,000 | 991 | 9 |
| Books and periodicals | 1,000 | 1,000 | 789 | 211 |
| Records storage & security | 3,000 | 3,000 | 533 | 2,467 |
| Litigation (Legal)* | 25,000 | 25,000 | - | 25,000 |
| Human resource services | 500 | 500 | - | 500 |
| Repairs and maintenance | 400 | 400 | - | 400 |
| **TOTAL EXPENSES** | 656,191 | 656,191 | 589,335 | 66,856 |
| **CHANGE IN BUDGETARY NET POSITION** | $ (500) | $ (500) | 99,287 | $ 99,787 |
| **BUDGETARY NET POSITION, BEGINNING OF YEAR** | | | 605,733 | |
| **BUDGETARY NET POSITION, END OF YEAR** | | | $ 705,020 | |

* Even though the actual expenses for these reserves are zero, the Agency has budgeted these funds to cover potential future litigation expenses per adopted policy. On the Statement of Net Position, cash and unrestricted net assets have been designated to account for the funds set aside for the litigation reserve each year.

The accompanying notes are an integral part of this required supplementary information.