

**LOCAL AGENCY FORMATION
COMMISSION OF SAN LUIS OBISPO COUNTY**

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT**

**FOR THE YEAR ENDED
JUNE 30, 2018**

**LOCAL AGENCY FORMATION COMMISSION OF SAN LUIS OBISPO COUNTY
JUNE 30, 2018**

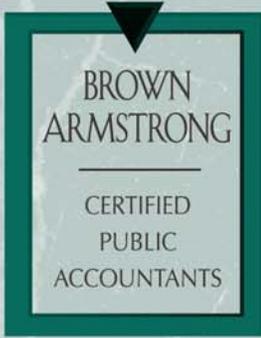
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**LOCAL AGENCY FORMATION COMMISSION OF SAN LUIS OBISPO COUNTY
COMMISSION MEMBERSHIP
FOR THE YEAR ENDED JUNE 30, 2018**

<u>Name</u>	<u>Position</u>	<u>Term Expires</u>
Debbie Arnold	County Member Supervisor District 5	December 2021
Roberta Fonzi	City Member Atascadero	December 2021
Ed Waage	City Member Pismo Beach	December 2019
Marshal Ochylski	Special District Member Los Osos Community Services District	December 2018
Robert Enns	Special District Member Cayucos Sanitary District	December 2020
Tom Murray	Public Member	December 2020
Lynn Compton	County Member Supervisor District 4	December 2019
Adam Hill	Alternate Commissioner County Member	December 2019
Jamie Irons	Alternate Commissioner City Member	December 2018
Ed Eby	Alternate Commissioner Special District	December 2021
Heather Jensen	Alternate Commissioner Public Member	December 2020

FINANCIAL SECTION



BROWN ARMSTRONG

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Commissioners
Local Agency Formation Commission
of San Luis Obispo County
San Luis Obispo, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the Local Agency Formation Commission of San Luis Obispo County (the Commission), California, as of and for the year ended June 30, 2018, 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.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Commission as of June 30, 2018, and the respective changes in its financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedule of the Commission's Proportionate Share of the Pension Trust's Proportionate Share of the Net Pension Liability, the Schedule of the Commission's Contributions, Management's Discussion and Analysis, and the Budgetary Comparison Schedule, 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 required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2018, on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control over financial reporting and compliance.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
December 31, 2018

**LOCAL AGENCY FORMATION COMMISSION OF SAN LUIS OBISPO COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018**

The Local Agency Formation Commission of San Luis Obispo County (the Commission) administers a section of California Government Code now known as the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000. The Commission is delegated regulatory and planning responsibilities to coordinate the logical formation and development of local agencies in a manner preserving agricultural and open-space resources, promoting the orderly extension of municipal services, and discouraging urban sprawl. Key duties include regulating boundary changes through annexations or detachments; approving city incorporations or disincorporations; and forming, consolidating, or dissolving special districts. The Commission is also responsible for preparing studies to inform its regulatory activities, including establishing and updating spheres of influence for all cities and special districts within its jurisdiction. Spheres are planning tools used by the Commission to designate the territory it believes represents the appropriate and probable future service area of the affected agency. All jurisdictional changes, such as annexations, must be consistent with the spheres of the affected agencies with limited exceptions. As of June 30, 2018, there are currently seven cities, 34 independent special districts, and 10 dependent special districts subject to Commission jurisdiction in San Luis Obispo County.

The Commission was first established in 1963 as an office within the County of San Luis Obispo (County). From 1963 to 2000, 100% of the Commission's annual budget was funded by the County. On July 1, 2001, in conjunction with the enactment of the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000, the Commission became autonomous of the County in terms of fulfilling its statutory duties and responsibilities. This transition was highlighted by the Commission appointing its own executive officer and counsel as well as altering its funding to include contributions from the cities and special districts in San Luis Obispo County. The budget is funded by the County, Cities, and Special Districts with each governmental category paying 1/3 of the budget. The Cities and Special Districts shares are prorated based on revenues reported to the State Auditor-Controller.

This narrative overview and analysis of the financial activities for the fiscal year ending June 30, 2018, is offered by the Commission's manager, the Executive Officer, to provide greater context to the audit performed by the Commission's independent auditor, Brown Armstrong Accountancy Corporation. Please read it in conjunction with the Commission's financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Commission's basic financial statements. The following Statement of Net Position and Governmental Fund Balance Sheet, and the Statement of Activities and Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance, provide information about the activities of the Commission. The financial statements also include various note disclosures, which further describe the Commission's activities.

Government-Wide Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Commission's finances, in a manner similar to a private sector business.

The Statement of Net Position presents information on all of the Commission's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between them reported as net position.

The Statement of Activities presents information showing how the Commission's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Fund Financial Statements

A fund is a grouping of related accounts used to maintain control over resources segregated for specific activities or objectives. The Commission, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Fund financial statements report essentially the same functions as those reported in the government-wide financial statements. However, unlike the government-wide financial statements, fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year.

Because the focus of governmental funds is narrower than government-wide financial statements, it is useful to compare the information presented. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate the comparison between governmental funds and government-wide financial statements.

Notes to Financial Statements

The notes provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements.

Required Supplementary Information (RSI)

RSI is presented concerning the Commission's General Fund budgetary schedule and pension information. The Commission adopts an annual appropriated budget to complete its statutory responsibilities. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with this budget.

FINANCIAL ANALYSIS OF THE COMMISSION

Net Position

The Commission has presented its financial statements under the reporting model required by the Governmental Accounting Standards Board Statement No. 34 (GASB 34), *Basic Financial Statements – and Management's Discussion and Analysis (MD&A) – for State and Local Governments*.

Condensed Statement of Net Position As of June 30,

	<u>2018</u>	<u>2017</u>	<u>Variance</u>
Assets			
Current Assets	\$ 195,664	\$ 191,703	\$ 3,961
Total Assets	<u>195,664</u>	<u>191,703</u>	<u>3,961</u>
Deferred Outflows of Resources			
Deferred Pensions (Note 7)	<u>294,715</u>	<u>307,077</u>	<u>(12,362)</u>
Liabilities			
Current Liabilities	62,665	50,896	11,769
Long-Term Liabilities	<u>1,078,279</u>	<u>1,244,659</u>	<u>(166,380)</u>
Total Liabilities	<u>1,140,944</u>	<u>1,295,555</u>	<u>(154,611)</u>
Deferred Inflows of Resources			
Deferred Pensions (Note 7)	<u>153,049</u>	<u>473</u>	<u>152,576</u>
Net Position			
Unrestricted	<u>(803,614)</u>	<u>(797,248)</u>	<u>(6,366)</u>
Total Net Position	<u>\$ (803,614)</u>	<u>\$ (797,248)</u>	<u>\$ (6,366)</u>

State law requires the County of San Luis Obispo, the Special Districts in the County, and the seven cities within San Luis Obispo County to fund the Commission's budget each year. The Commission is also authorized to establish and collect fees for processing applications and other fee for service activities. It is also the practice of the Commission to maintain a reserve fund balance of at least 15% of the budget. Also, the Commission makes use of its unrestricted fund balance to help cover operating costs if needed to help minimize the fiscal impact on local agencies. This practice of using the unrestricted fund balance to help cover operating costs could occasionally result in budgeting an operating shortfall; however, that has not occurred.

The Statements of Net Position present complete information on the Commission's assets and deferred outflows of resources, as well as liabilities and deferred inflows of resources, with the difference reported as net position. Changes in net position that occur over time may serve as an indicator of the Commission's financial position.

Changes in Net Position

The government-wide financial statement presented below represents an analysis of the Commission's governmental activities. It should be noted that Intergovernmental Revenues represent the amount each agency was required to contribute to the Commission's budget. The sum of these contributions and the fund balance at the beginning of the fiscal year must sum to the adopted budget.

Condensed Statement of Activities For the Year Ended June 30,

	2018	2017	Variance
Revenues:			
Program Revenues:			
Charges for Services	\$ 605,976	\$ 573,285	\$ 32,691
Other Revenue	5,667	10,588	(4,921)
General Revenues:			
Interest Income	4,319	2,867	1,452
Total Revenues	<u>615,962</u>	<u>586,740</u>	<u>29,222</u>
Expenses:			
Salaries and Services	512,253	616,820	(104,567)
Services and Supplies	110,075	114,425	(4,350)
Total Expenses	<u>622,328</u>	<u>731,245</u>	<u>(108,917)</u>
Change in Net Position	(6,366)	(144,505)	138,139
Net Position - Beginning of Year, as Restated	<u>(797,248)</u>	<u>(652,743)</u>	<u>(144,505)</u>
Net Position - End of Year	<u>\$ (803,614)</u>	<u>\$ (797,248)</u>	<u>\$ (6,366)</u>

Financial Analysis of the Commission's Governmental Fund

As noted earlier, fund accounting is used by the Commission to ensure and demonstrate compliance with finance-related legal requirements.

For the fiscal year ending June 30, 2018, the Commission reported an ending fund balance of \$186,532 for an increase of \$3,981 from the prior year.

BUDGETARY HIGHLIGHTS

The Commission practices bottom-line accounting, giving management the discretion to use excess funds in one account to offset deficits in other accounts. This allows management to minimize the fiscal impact of unanticipated increases in contracted administrative services by controlling spending in other accounts.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Commission is committed to fulfilling its state-mandated mission with as little fiscal impact on local agencies as possible. In preparing the budget for fiscal year 2018-2019, the Commission used a spending baseline to estimate how much it would cost to continue the level of its activities and services at next year's price for labor and supplies. The Commission's adopted fiscal year 2018-2019 budget is \$668,090, an overall percentage increase of 6.37% from the prior year's original adopted budget.

CONTACTING THE COMMISSION

These financial statements are designed to provide a general overview of the Commission's finances for all those interested. Through an agreement, the County provides certain financial management and accounting services. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Local Agency Formation Commission of San Luis Obispo County
David Church, Executive Officer
1042 Pacific St. Suite A
San Luis Obispo, California 93401

BASIC FINANCIAL STATEMENTS

**LOCAL AGENCY FORMATION COMMISSION OF SAN LUIS OBISPO COUNTY
STATEMENT OF NET POSITION
JUNE 30, 2018**

Assets and Deferred Outflows of Resources	
Assets	
Cash in County Treasury	\$ 185,164
Imprest Cash	<u>10,500</u>
Total Assets	<u>195,664</u>
 Deferred Outflows of Resources	
Deferred Pensions (Note 7)	<u>294,715</u>
 Liabilities and Deferred Inflows of Resources	
Current Liabilities:	
Accounts Payable	143
Deposits from Others	300
Compensated Absences	53,533
Trust Deposits	<u>8,689</u>
Total Current Liabilities	62,665
 Noncurrent Liabilities:	
Net Pension Liability (Note 7)	<u>1,078,279</u>
Total Noncurrent Liabilities	<u>1,078,279</u>
Total Liabilities	<u>1,140,944</u>
 Deferred Inflows of Resources	
Deferred Pensions (Note 7)	<u>153,049</u>
 Net Position	
Net Position	
Unrestricted	<u>(803,614)</u>
Total Net Position	<u><u>\$ (803,614)</u></u>

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

**LOCAL AGENCY FORMATION COMMISSION OF SAN LUIS OBISPO COUNTY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018**

Expenses	
Salaries and Benefits	\$ 512,253
Services and Supplies	<u>110,075</u>
Total Expenses	<u>622,328</u>
Program Revenues	
Charges for Services	605,976
Other Revenue	<u>5,667</u>
Total Program Revenues (Loss)	<u>611,643</u>
Net Program Revenue (Loss)	(10,685)
General Revenues	
Interest Income	<u>4,319</u>
Change in Net Position	(6,366)
Net Position - Beginning of Year, as Restated (Note 6)	<u>(797,248)</u>
Net Position - End of Year	<u><u>\$ (803,614)</u></u>

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

**LOCAL AGENCY FORMATION COMMISSION OF SAN LUIS OBISPO COUNTY
BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2018**

Assets	
Cash in County Treasury	\$ 185,164
Imprest Cash	<u>10,500</u>
Total Assets	<u><u>\$ 195,664</u></u>
Liabilities	
Accounts Payable	\$ 143
Deposits from Others	300
Trust Deposits	<u>8,689</u>
Total Liabilities	<u>9,132</u>
Fund Balance	
Unassigned	<u>186,532</u>
Total Fund Balance	<u>186,532</u>
Total Liabilities and Fund Balance	<u><u>\$ 195,664</u></u>

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

**LOCAL AGENCY FORMATION COMMISSION OF SAN LUIS OBISPO COUNTY
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2018**

Fund balance - governmental fund	\$	186,532
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>		
<p>Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the Governmental Fund Balance Sheet.</p>		
Compensated absences payable		(53,533)
Net pension liability		(1,078,279)
<p>Deferred outflows of resources are not current assets or financial resources, and deferred inflows of resources are not due and payable in the current period, and, therefore, not reported in the governmental fund.</p>		
Deferred outflows of resources		294,715
Deferred inflows of resources		<u>(153,049)</u>
Net position - governmental activities	\$	<u><u>(803,614)</u></u>

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

**LOCAL AGENCY FORMATION COMMISSION OF SAN LUIS OBISPO COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2018**

Revenues	
Charges for Services	\$ 605,976
Other Revenue	5,667
Interest Income	<u>4,319</u>
Total Revenues	<u>615,962</u>
Expenditures	
Salaries and Benefits	501,906
Services and Supplies	<u>110,075</u>
Total Expenditures	<u>611,981</u>
Change in Fund Balance	<u>3,981</u>
Fund Balance - Beginning of Year	<u>182,551</u>
Fund Balance - End of Year	<u><u>\$ 186,532</u></u>

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

**LOCAL AGENCY FORMATION COMMISSION OF SAN LUIS OBISPO COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018**

Net change in fund balance - governmental fund	\$	3,981
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Amounts reported for governmental activities in the Statement of Activities are different because:

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental fund.

Pension expense		1,442
This amount represents costs of compensated absences.		<u>(11,789)</u>

Change in net position of governmental activities	\$	<u><u>(6,366)</u></u>
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The accompanying notes are an integral part of these financial statements.

LOCAL AGENCY FORMATION COMMISSION OF SAN LUIS OBISPO COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Local Agency Formation Commission of San Luis Obispo County (the Commission) was created in 1963 by the California Legislature to encourage the orderly formation and development of local agencies, promote the efficient extension of municipal services, and protect against the premature conversion of agricultural and open-space lands. In 2001, following the enactment of the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000, the Commission became an independent agency separate from San Luis Obispo County (the County). As of June 30, 2018, there are seven cities, 34 independent special districts, and 10 dependent special districts under the jurisdiction of the Commission in the County.

The Board of Commissioners is comprised of seven regular and four alternate members. Each member is appointed pursuant to California Government Code Section 56000 et. seq. and represents one of the following four interests:

- **County Members:** Two regular and one alternate member represent the County. These members are also members of the Board of Supervisors. Appointments are made by the Board of Supervisors.
- **City Members:** Two regular and one alternate member represent the seven cities in the County. The members are mayors or council members. Appointments are made by the City Mayors.
- **Special District Members:** Two regular and one alternate member represent the 34 special districts in the County. Appointments are made by the Independent Special District Selection Committee.
- **Public Members:** One regular and one alternate member represent the general public. Appointments are made by the members of the Commission.

The Commission includes all activities (operations of its administrative staff and commission officers) considered to be a part of the Commission. The Commission has determined that no other outside entity meets the above criteria and, therefore, no agency has been included as a component unit in the financial statements. In addition, the Commission is not aware of any entity that would be financially accountable for the Commission that would result in the Commission being considered a component unit of that entity.

B. Basis of Presentation and Accounting

Government-Wide Statements

The Statement of Net Position and Statement of Activities display information about the primary government (the Commission). These statements include the financial activities of the overall Commission.

The Statement of Activities presents a comparison between direct expenses and program revenues for the Commission's governmental activity. Direct expenses are those that are specifically associated with the Commission. Program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of the Commission. Revenues that are not classified as program revenues, including all taxes and investment income, are presented as general revenues.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation and Accounting (Continued)

Government-Wide Statements (Continued)

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of when the related cash flows take place. Nonexchange transactions are those in which the Commission gives (or receives) value without directly receiving (or giving) equal value in exchange, including grants. Revenues from grants are recognized in the fiscal year in which all eligible requirements have been satisfied. No grants have been received or are anticipated to be received in the near future.

When both restricted and unrestricted net position are available, restricted resources are used before non-restricted resources.

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when measurable and available (“susceptible to accrual”). Taxes, interest, certain state and federal grants, and charges for services revenues are accrued when their receipt occurs within 60 days after the end of the accounting period so as to be measurable and available. Expenditures generally are recorded when a liability is incurred, as under the accrual basis of accounting. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due.

The General Fund is the Commission’s primary operating fund. It accounts for all financial resources of the general government.

Compensated Absences

It is the Commission's policy to permit employees to accumulate earned but unused vacation and sick time pay benefits. Upon termination, employees are paid full value for any accrued compensated absences. Vested or accumulated compensated absences that are expected to be liquidated with expendable available financial resources is reported as an expenditure and a general fund liability. Vested or accumulated compensated absences that are not expected to be liquidated with expendable available financial resources are maintained separately and represents a reconciling item between the fund and government-wide statements.

Pensions

In government-wide financial statements, retirement plans (pensions) are required to be recognized and disclosed using the accrual basis of accounting (see Note 7 and the Required Supplementary Information (RSI) section immediately following the Notes to Financial Statements), regardless of the amount recognized as pension expenditures on the governmental fund statements, which use the modified accrual basis of accounting.

In general, the Commission recognizes a net pension liability, which represents the Commission’s proportionate share of the Pension Trust’s proportionate share of the excess of the total pension liability over the fiduciary net position of the pension reflected in the actuarial report provided by the San Luis Obispo County Pension Trust (the Pension Trust). The net pension liability is measured as of the Commission’s prior fiscal year-end. Changes in the net pension liability are recorded, in the period incurred, as pension expense or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change. The changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources (that arise from changes

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation and Accounting (Continued)

Pensions (Continued)

in actuarial assumptions or other inputs and differences between expected or actual experience) are amortized over the weighted average remaining service life of all participants in the respective pension plan and are recorded as a component of pension expense beginning with the period in which they are incurred.

For purposes of measuring the net pension liability, deferred outflows of resources or deferred inflows of resources relating to pensions, and pension expense, information about the fiduciary net position of the Commission's pension plan with the Pension Trust and additions to/deductions from the plans' fiduciary net position have been determined on the same basis as they were reported to the Pension Trust. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefits terms. Investments are reported at fair value.

Projected earnings on pension investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred. Each subsequent year will incorporate an additional closed basis five-year period of recognition.

C. 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 affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

D. New Governmental Accounting Standards Board (GASB) Pronouncements Implemented in the Financial Statements

GASB Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other than Pension Plans*. The provisions of this statement are effective for fiscal years beginning after June 15, 2017. This statement replaces GASB Statement No. 45, implemented by the Commission in 2009, and focuses primarily on enhanced note disclosures and schedules of required supplementary information. There was no effect on the Commission's accounting and financial statements as a result of implementing this standard.

GASB Statement No. 81 – *Irrevocable Split-Interest Agreement*. The requirements of this statement are effective for reporting periods beginning after December 15, 2016. There was no effect on the Commission's accounting and financial statements as a result of implementing this standard.

GASB Statement No. 85 – *Omnibus 2017*. The requirements for this statement are effective for fiscal years beginning after June 15, 2017. This statement addresses practice issues that have been identified during implementation of various GASB Statements, including *Fair Value Measurement and Application*. There was no effect on the Commission's accounting and financial statements as a result of implementing this standard.

GASB Statement No. 86 – *Certain Debt Extinguishment Issues*. The requirements of this statement are effective for periods beginning after June 15, 2017. There was no effect on the Commission's accounting and financial statements as a result of implementing this standard.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Future GASB Pronouncements

GASB Statement No. 83 – *Certain Asset Retirement Obligations*. The requirements of this statement are effective for the reporting periods beginning after June 15, 2018. Earlier application is encouraged. The Commission has not fully judged the effect of implementation of GASB Statement No. 83 as of the date of the basic financial statements.

GASB Statement No. 84 – *Fiduciary Activities*. The requirements for this statement are effective for fiscal years beginning after December 15, 2018. The Commission believes the statement will not apply.

GASB Statement No. 87 – *Leases*. The requirements of this statement are effective for periods beginning after December 15, 2019. The Commission has not fully judged the effect of implementation of GASB Statement No. 87 as of the date of the basic financial statements

GASB Statement No. 88 – *Certain Disclosures Related to debt, including Direct Borrowings and Direct Placements*. The requirements for this statement are effective for fiscal years beginning after June 15, 2018. Earlier application is encouraged. The primary object of this statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. The Commission has not fully judged the effect of implementation of GASB Statement No. 88 as of the date of the financial statements.

GASB Statement No. 89 – *Accounting for Interest Cost Incurred before the End of a Construction Period*. The requirements of this statement are effect for periods beginning after December 15, 2019. The Commission has not fully judged the effect of implementation of GASB Statement No. 89 as of the date of the financial statements.

GASB Statement No. 90 – *Majority Equity Interests - an amendment of GASB Statements No. 14 and No. 61*. The requirements of this statement are effect for periods beginning after December 15, 2018. The Commission has not fully judged the effect of implementation of GASB Statement No. 90 as of the date of the financial statements

NOTE 2 – CASH

Cash at June 30, 2018, consisted of the following:

Cash in County Treasury	\$	185,164
Imprest Cash		10,500
		<hr/>
	\$	195,664
		<hr/>

The Commission maintains all of its cash and investments with the County Treasurer in an investment pool. On a quarterly basis, the Treasurer allocates interest to participants based upon their average daily balances. Required disclosure information regarding categorization of investments and other deposit and investment risk disclosures can be found in the County's financial statements. The County's financial statements may be obtained by contacting the County's Auditor-Controller's Office at 1055 Monterey Street, Room D290, San Luis Obispo, California 93408. The County Treasury Oversight Committee oversees the Treasurer's investments and policies.

NOTE 2 – CASH (Continued)

Required disclosures for the Commission's deposit and investment risks at June 30, 2018, were as follows:

Credit risk	Not rated
Custodial risk	Not applicable
Concentration of credit risk	Not applicable
Interest rate risk	Not available

Investments held in the County's investment pool are available on demand and are stated at cost plus accrued interest, which approximates fair value. The Commission has no deposit or investment policy that addresses a specific type of risk.

NOTE 3 – NET POSITION/FUND BALANCE

Net Position

Net position comprises the various net earnings from operating and nonoperating revenues, expenses, and capital contributions. Net position is classified in the following three components: net investment in capital assets, net position – restricted, and net position – unrestricted. The Commission reports net investment in capital assets and net position – unrestricted balances. Net investment in capital assets consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction, and improvement of those assets. Unrestricted net position consists of all other net position not included in the above categories.

Fund Balance

Governmental funds report fund balance in classifications based primarily on the extent to which the Commission is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. As of June 30, 2018, fund balances for governmental funds are made up of the following:

- *Nonspendable fund balance* – amounts that are not in spendable form (such as inventory) or are required to be maintained intact.
- *Restricted fund balance* – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- *Committed fund balance* – amounts constrained to specific purposes by the Commission itself, using its highest level of decision-making authority. To be reported as committed, amounts cannot be used for any other purpose unless the Commission takes the same highest level of action to remove or change the constraint.
- *Assigned fund balance* – amounts the Commission intends to use for a specific purpose. Intent can be expressed by the Commission's board or by an official or body to which the Commission's board delegates the authority.
- *Unassigned fund balance* – amounts that are available for any purpose. Positive amounts are reported only in the General Fund.

The Commission's board establishes (and modifies or rescinds) fund balance commitments by adopting a final budget no later than June 15th and approving amendments as needed throughout the fiscal year. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives).

NOTE 3 – NET POSITION/FUND BALANCE (Continued)

Fund Balance (Continued)

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is generally depleted in the order of restricted, committed, assigned, and unassigned.

The Commission strives to maintain an unassigned fund balance to be used for unanticipated emergencies of at least 15% of the budget.

NOTE 4 – RELATED PARTY TRANSACTIONS

During the fiscal year ended June 30, 2018, the Commission paid the County, a related party, \$7,713 for financial management and accounting services.

In addition, the Commission received \$195,528 during the fiscal year ended June 30, 2018, from the County, a related party, pursuant to Government Code Section 56381. The County provides one-third of the intergovernmental revenue to the Commission. The other one-third is funded by the Cities of San Luis Obispo, Atascadero, Paso Robles, Morro Bay, Grover Beach, Pismo Beach, and Arroyo Grande. Another one-third is funded by the 34 special districts in the County.

NOTE 5 – RISK MANAGEMENT

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission contracts for liability and workers compensation with the Special Districts Risk Management Association (SDRMA).

NOTE 6 – RESTATEMENT

The beginning 2017 net position was restated as follows:

	<u>2017</u>
Net position at June 30, 2017, as previously reported	\$ 182,551
Compensated absences ⁽¹⁾	(41,744)
Net pension liability and related deferred inflows/outflows of resources ⁽²⁾	<u>(938,055)</u>
Net position at July 1, 2017, as restated	<u>\$ (797,248)</u>

⁽¹⁾ To recognize compensated absences for the fiscal year 2016/17.

⁽²⁾ To recognize net pension liability and related deferred inflows and deferred outflows of resources for the fiscal year 2016/17.

NOTE 7 – PENSION

General Information about the Pension Plans

Plan Description

The Commission provides pension benefits to eligible employees through cost sharing multiple-employer defined benefit pension plans (the Plans) administered by the Pension Trust. Members of the pension plans include all permanent employees for the Commission and certain independent Special Districts. The Pension Trust issues a separate Comprehensive Annual Financial Report (CAFR). This may be obtained online at www.slocounty.ca.gov or by writing to the San Luis Obispo County Pension Trust at 1000 Mill Street, San Luis Obispo, Ca 93408.

NOTE 7 – PENSION (Continued)

General Information about the Pension Plans (Continued)

Plan Description (Continued)

The Pension Trust was established on November 1, 1958, and is administered by the Board of Retirement to provide service retirement, disability, death, and survivor benefits for employees of the Commission and participating districts. The Board of Commissioners and the governing boards of the participating districts adopt resolutions, as permitted by the County Employees' Retirement Law of 1937 (CERL), which affect the benefits of the Pension Trust members. The Pension Trust is governed by the California Constitution; California State Government Code §31450 (CERL); and the bylaws, policies and procedures adopted by the Pension Trust's Board of Retirement.

Refer to the Pension Trust's CAFR for a summary of the Pension Trust's pension plans and eligible participants.

Benefits Provided

All pension plans provide benefits, in accordance with CERL regulations, upon retirement, disability, or death of members. Retirement benefits are based on years of service, final average compensation, and retirement age. Employees terminating before accruing 5 years (or 10 years for Plan 2) of retirement service credit (5 or 10-year vesting) forfeit the right to receive retirement benefits unless they establish reciprocity with another public agency within the prescribed time period. Non-vested employees who terminate service are entitled to withdraw their accumulated contributions plus accrued interest. Employees who terminate service after earning 5 or 10 years of retirement service credit may leave their contributions on deposit and elect to take a deferred retirement. Differences between expected or actual experience for vested and non-vested benefits may result in an increase or decrease to pension expense and net pension liability.

Service related disability benefits are based upon final average compensation or retirement benefits (if eligible). Nonservice related disability benefits are based on 1) years of service and final average compensation or 2) retirement benefits (if eligible). General Plan 2 participants receive disability benefits through a long-term insurance policy. Death benefits are based upon a variety of factors including whether the participant was retired or not.

Annual cost-of-living adjustments (COLAs) after retirement are provided in all plans except General Plan 2. COLAs are granted to eligible retired members each April based upon the Bureau of Labor Statistics Average Consumer Price Index (CPI) for All Urban Consumers for the Los Angeles-Riverside-Orange County area as of the preceding January 1 and is subject to an annual maximum dependent upon the provisions of the pension plans.

Specific details for the retirement, disability, or death benefit calculations and COLA maximums for each of the pension plans are available in the Pension Trust's publicly available CAFR.

Contributions

Per Article 16 of the Constitution of the State of California, contribution requirements of the active employees and the participating employers are established and may be amended by the Pension Trust Board of Retirement. Depending upon the applicable plan, employees are required to contribute a certain percent of their annual pay. For each of the plans, the Commission's contractually required contribution (formerly known as the actuarially required contribution) rate for the fiscal year ended June 30, 2018, was a specified percent of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Additional amounts required to finance any unfunded accrued liability are the responsibility of the plan sponsors. Contributions to the pension plans from the Commission were \$80,838 for the fiscal year ended June 30, 2018. Active members are plan members who are currently accruing benefits and/or paying contributions into the applicable plan.

NOTE 7 – PENSION (Continued)

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

At June 30, 2018, the Commission reported a liability of \$1,078,279 for its proportionate share of the Pension Trust's proportionate share of the net pension liability. The Pension Trust's net pension liability was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Pension Trust's proportion of the pension plans' net pension liability was based on a projection of the Pension Trust's long-term share of contributions to the pension plans relative to projected contributions of all pension plan participants, actuarially determined. The Commission's proportion of the Pension Trust's proportion of the net pension liability was based on the Commission's contributions to the pension plans during the year ended June 30, 2018, relative to the Pension Trust's contributions. At December 31, 2017, the Commission's proportionate share of the Pension Trust's proportionate share was 0.1909%, which was a decrease of .0013% from its proportionate share of the Pension Trust's proportionate share measured as of December 31, 2016.

For the fiscal year ended June 30, 2018, the Commission recognized pension expense of \$165,756. Pension expense represents the change in the net pension liability during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss, actuarial gain/loss, actuarial assumptions or method, and plan benefits.

At June 30, 2018, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Inflows of Resources</u>
Differences between expected and actual experience	\$ 13,100	\$ 2,086
Changes in assumptions	71,119	-
Net difference between projected and actual earnings on retirement plan investments	101,424	145,356
Changes in proportion and differences between Commission contributions and proportionate share of contributions	22,711	5,607
Commission contributions subsequent to the measurement date	86,361	-
	<u>\$ 294,715</u>	<u>\$ 153,049</u>

Deferred outflows of resources and deferred inflows of resources above represent the unamortized portion of changes to net pension liability to be recognized in future periods in a systematic and rational manner.

\$0 reported as deferred outflows of resources related to pensions resulting from Commission contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2019.

NOTE 7 – PENSION (Continued)

Pension Liabilities, Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 47,966
2020	35,499
2021	(8,416)
2022	(19,744)
2023	-
	<u>\$ 55,305</u>

Actuarial Assumptions

The total pension liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions. Total pension liability represents the portion of the actuarial present value of projected benefit payments attributable to past periods of service for current and inactive employees.

Valuation Date	January 1, 2017
Measurement Date	December 31, 2017
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Inflation	2.63%
Amortization growth rate	Level Percentage of Payroll
Salary increases	Composed of 2.63% inflation, plus 0.25% productivity increase rate, plus step-rate promotional increases for members with less than 8 years of service.
Basic COLA	The COLA as measured by the CPI will increase at the rate of 3.00% per year.
Post-Retirement COLA	Based on changes in the CPI to a maximum of 3% per year (maximum of 2% per year for Tier 2 and Tier 3).
Investment rate of return	7.13%, net of investment expense
Mortality	Males: RP-2014 with generational mortality improvement using scale MP-2015, a 105% multiplier and white collar adjustment applied to RP-2014. Females: RP-2014 with generational mortality improvements using scale MP-2015, a 115% multiplier and white collar adjustment applied to RP-2014. An additional multiplier was applied to MP-2015.

The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2010 through June 30, 2013. Based upon the results of the 2013 actuarial experience study, there were no changes to the assumptions from the prior valuation.

NOTE 7 – PENSION (Continued)

Pension Liabilities, Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Actuarial Assumptions (Continued)

The long-term expected rate of return on pension plan investments (7.13 percent) was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the Pension Trust's CAFR.

Discount Rate

The discount rate used to measure the total pension liability was 7.13 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from the Commission will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. In theory, the discount rate may differ from the long-term expected rate of return discussed previously. However, based on the projected availability of the plans' fiduciary net position, the discount rate is equal to the long-term expected rate of return on pension plan investments and was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Commission's Proportionate Share of the Pension Trust's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Commission's proportionate share of the Pension Trust's proportionate share of the net pension liability calculated using the discount rate of 7.13 percent, as well as the Commission's proportionate share of the Pension Trust's proportionate share of the net pension liability if it were calculated using a discount rate that is 1 percentage point lower (6.13 percent) or 1 percentage point higher (8.13 percent) than the current rate:

	1% Decrease 6.13%	Discount Rate 7.13%	1% Increase 8.13%
Commission's proportionate share of the Pension Trust's proportionate share of the net pension liability	\$ 1,571,616	\$ 1,078,279	\$ 673,612

Pension Plan Fiduciary Net Position

Detailed information about the pension plans' fiduciary net position is available in the Pension Trust's CAFR.

NOTE 8 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through December 31, 2018, which is the date the basic financial statements were available to be issued. No events have occurred that would require disclosure.

REQUIRED SUPPLEMENTARY INFORMATION

**LOCAL AGENCY FORMATION COMMISSION OF SAN LUIS OBISPO COUNTY
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SAN LUIS OBISPO COUNTY PENSION TRUST
SCHEDULE OF THE COMMISSION'S PROPORTIONATE SHARE OF THE
PENSION TRUST'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
JUNE 30, 2018**

Last 10 Fiscal Years*

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Commission's proportion of the Pension Trust's proportion of the net pension liability	0.19092%	0.19224%	0.18510%	0.18530%
Commission's proportionate share of the Pension Trust's proportionate share of the net pension liability	\$ 1,078,279	\$ 1,244,659	\$ 1,009,254	\$ 1,010,132
Commission's covered-employee payroll	\$ 367,975	\$ 347,423	\$ 277,682	\$ 261,213
Commission's proportionate share of the Pension Trust's proportionate share of the net pension liability as a percentage of its covered-employee payroll	293.0%	358.3%	363.5%	386.7%
Plan's fiduciary net position	\$ 2,559,254	\$ 2,270,762	\$ 2,102,518	\$ 2,174,438
Plan fiduciary net position as a percentage of the total pension liability	237.3%	182.4%	208.3%	215.3%

*Amounts were determined as of June 30. Additional years will be presented as they become available.

**LOCAL AGENCY FORMATION COMMISSION OF SAN LUIS OBISPO COUNTY
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SAN LUIS OBISPO COUNTY PENSION TRUST
SCHEDULE OF THE COMMISSION'S CONTRIBUTIONS
JUNE 30, 2018**

Last 10 Fiscal Years*

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 80,838	\$ 68,150	\$ 62,232	\$ 59,387
Contributions in relation to the actuarially determined contribution	<u>92,031</u>	<u>72,403</u>	<u>64,693</u>	<u>61,382</u>
Contribution deficiency (excess)	<u>\$ (11,193)</u>	<u>\$ (4,253)</u>	<u>\$ (2,461)</u>	<u>\$ (1,995)</u>
Commission's covered-employee payroll	\$ 367,975	\$ 347,423	\$ 277,682	\$ 261,213
Contributions as a percentage of covered-employee payroll	25.0%	20.8%	23.3%	23.5%

*Amounts were determined as of June 30. Additional years will be presented as they become available.

The information presented relates solely to the Commission and not the County or the San Luis Obispo County Pension Trust as a whole.

**LOCAL AGENCY FORMATION COMMISSION OF SAN LUIS OBISPO COUNTY
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2018**

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Charges for Services	\$ 586,586	\$ 586,586	\$ 605,976	\$ 19,390
Other Revenue	14,000	14,000	5,667	(8,333)
Interest Income	1,000	1,000	4,319	3,319
Total Revenues	<u>601,586</u>	<u>601,586</u>	<u>615,962</u>	<u>14,376</u>
Expenditures				
Salaries and Benefits	507,223	507,223	501,906	5,317
Services and Supplies	120,863	120,863	110,075	10,788
Total Expenditures	<u>628,086</u>	<u>628,086</u>	<u>611,981</u>	<u>16,105</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(26,500)</u>	<u>(26,500)</u>	<u>3,981</u>	<u>30,481</u>
Other Financing Sources				
Transfers In	30,000	30,000	-	(30,000)
Total Other Financing Sources	<u>30,000</u>	<u>30,000</u>	<u>-</u>	<u>(30,000)</u>
Change in Fund Balance	<u>\$ 3,500</u>	<u>\$ 3,500</u>	<u>3,981</u>	<u>\$ 481</u>
Fund Balance - Beginning of Year			<u>182,551</u>	
Fund Balance - End of Year			<u>\$ 186,532</u>	

**LOCAL AGENCY FORMATION COMMISSION OF SAN LUIS OBISPO COUNTY
NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2018**

BUDGET AND BUDGETARY REPORTING

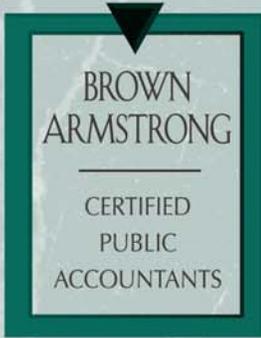
The Local Agency Formation Commission of San Luis Obispo County (the Commission) prepares and legally adopts a final budget on or before June 15th of each fiscal year. Quarterly budget reports are submitted to the Board of Commissioners and County of San Luis Obispo Auditor for their review.

All such changes must be within the revenues and reserves estimated as available in the final budget or within revised revenue estimates as approved by the Board of Commissioners.

An operating budget is adopted each fiscal year on the modified accrual basis of accounting. Additionally, encumbrance accounting is utilized to assure effective budgetary control. Encumbrances outstanding at year-end represent the estimated amount of the expenditures ultimately to result if the unperformed contracts in process at year end are completed or purchase commitments satisfied. Such year-end encumbrances are reported as reservations of fund balance and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year and included in the subsequent year's budget. Unencumbered appropriations lapse at year-end. Budgets are prepared using accounting principles generally accepted in the United States of America.

The legal level of budgetary control (the level on which expenditures may not legally exceed appropriations) is at the object level. Object levels of expenditures are as follows: salaries and benefits, services and supplies, and other charges.

OTHER REPORT



BROWN ARMSTRONG

Certified Public Accountants

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

Commissioners
Local Agency Formation Commission
of San Luis Obispo County
San Luis Obispo, California

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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 San Luis Obispo County (the Commission) as of and for the year ended June 30, 2018, 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 31, 2018.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

*Brown Armstrong
Accountancy Corporation*

Bakersfield, California
December 31, 2018