FECHTER
& COMPANY
Certified Public Accountants

Craig R. Fechter, CPA, MST

September 2, 2020

Board of Commissioners
Local Agency Formation Commission of Nevada County
950 Maidu Avenue
Nevada City, CA 95959

We have audited the financial statements of the Local Agency Formation Commission of Nevada County (the Commission) for the year ended June 30, 2020. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 7, 2020. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

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

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

> Management's estimate of the net pension liability is based on CalPERS actuarial reports. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

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

Difficulties Encountered in Performing the Audit

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

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Board of Commissioners
Local Agency Formation Commission of Nevada County
Nevada City, CA 95959

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. For the year ended June 30, 2020, the following material audit adjustments were made to correct misstatements to the Commission's financial statements.

- To reverse prior year accounts payable of $33,628 and record additional accounts payable of $4,500.
- To reverse $10,013 incorrectly recorded to equity accounts.
- To reverse $12,100 incorrectly recorded to cash and accrued liabilities.
- To reclassify duplicate payments for consulting services of $15,587 to prepaid expenses and accounts payable.
- To reclassify debit balance in deposit towards fees of $12,500 to cash.
- To record current year changes in net pension liability accounts.
- To record current year changes to accrued salaries.

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 September 2, 2020.

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

<u>Other Matters</u>

We applied certain limited procedures to the Required Supplementary Information related to pensions, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were not engaged to report on the other supplemental information which includes: the budgetary comparison schedule, the comparative schedules of operating expenses by department, and the schedule of changes in restricted and reserved net position, which accompany the financial statements but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Restriction on Use

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

Very truly yours,

Fechter & Company, Certified Public Accountants

Fechter & Company, CPAs

Sacramento, California

LOCAL AGENCY FORMATION
COMMISSION OF NEVADA COUNTY
NEVADA CITY, CALIFORNIA

ANNUAL FINANCIAL REPORT
WITH INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2020

Local Agency Formation Commission of Nevada County
Nevada City, California

Annual Financial Report
June 30, 2020

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Certified Public Accountants

Craig R. Fechter, CPA, MST

INDEPENDENT AUDITOR'S REPORT

To the Commissioners
Local Agency Formation Commission of Nevada County
Nevada City, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Local Agency Formation Commission of Nevada County (Nevada LAFCo), a political subdivision of the State of California, as of June 30, 2020, and for the year then ended, and the related notes to the financial statements, which collectively comprise Nevada LAFCo's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Nevada LAFCo's 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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 Nevada LAFCo'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 Nevada LAFCo'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.

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To the Commissioners
Local Agency Formation Commission of Nevada County
Nevada City, California

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Nevada LAFCo as of June 30, 2020, and the changes in its financial position and its cash flows 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 management's discussion and analysis on pages 3 through 9, 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 September 2, 2020, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations and 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 District's internal control over financial reporting and compliance.

Fechter & Company,
Certified Public Accountants

Fechter & Company, CPAs

Sacramento, California
September 2, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the financial performance of the Local Agency Formation Commission of Nevada County (Nevada LAFCo) provides an overview of Nevada LAFCo's financial activities in the 2019-2020 fiscal year. It should be read in conjunction with the financial statements included in this report.

LAFCO FUNCTIONS AND ACTIVITIES

The following general information is presented to strengthen understanding of Nevada LAFCo's functions and activities, which define the context of its financial performance.

LAFCos are independent public agencies created by the California Legislature; there is one in each county. They exercise quasi-legislative authority under the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (Government Code, Sections 56000-57550).

Summarized briefly, LAFCo responsibilities include the following (key words are underlined for clarifying emphasis):

1. Encouraging <u>orderly</u> growth and development.

2. Encouraging the <u>logical</u> formation and determination of boundaries.

3. Ensuring that affected populations receive <u>adequate, efficient, and effective</u> governmental services.

4. Preventing premature conversion of <u>open space and prime agricultural</u> land.

LAFCo activities, other than internal administrative operations, occur in three main functional areas:

Processing Proposals

LAFCos oversee actions that change boundaries of local agencies such as cities and special districts. Such actions include annexation of territory to, or its detachment from, cities and special districts; formation of districts and incorporation of cities; dissolution of districts and disincorporation of cities; and consolidation of districts. In addition, LAFCos also have authority (within statutory limits) over provision of services by local public agencies within LAFCo purview, of which courts and schools are not. LAFCo approval is required for an agency to provide services outside its boundaries (by entering into "out-of-agency" service contracts) or to initiate one or more new services authorized by its enabling statute, but not previously provided ("latent power activation").

The actions listed above are typically initiated by a local agency's submission of its Resolution of Application supporting and endorsing a LAFCo application prepared by an individual or firm. The LAFCo then oversees a process of review and documentation that assures the proposal's compliance with relevant laws and regulations. When a proposal is approved, the LAFCo notifies the county auditor and assessor, as well as the State Board of Equalization, regarding the boundary change, which will be reflected in changes to property tax allocation.

LAFCos collect fees in the form of initial deposits and subsequently bill charges based upon staff time and costs incurred to process proposals. The LAFCo fee schedule provides for inclusion of an overhead recovery rate as part of staff costs. Special studies (e.g., cost or fiscal impact analyses of different service provision options and environmental impact reviews) are occasionally undertaken with financial support provided by other agencies via contract. Standard indemnification agreements also provide for project applicants to reimburse the LAFCo for costs it may incur in any litigation or administrative proceeding in which the LAFCo is named as a party in connection with processing that applicant's proposal. From time to time, such arrangements can be significant sources of expenses offset by reimbursements.

Sphere of Influence (SOI) Plans

Another major area of LAFCo responsibility is the establishment of Sphere of Influence Plans (SOI Plans) for cities and districts. An SOI Plan delineates the probable physical boundaries of an agency's territory over a 20-year period and includes an intermediate near-term "horizon" that encompasses territory expected to be annexed within the next five years. It also outlines the agency's capabilities and plans for providing services by incorporating data and determinations from the relevant Municipal Service Reviews (MSR), updated as necessary because of elapsed time. These plans provide the foundation for approval of annexations and other boundary-change actions, assuring congruence between an agency's geographical area of responsibility and its ability to provide adequate, efficient, and effective services.

SOI Plans typically are developed by the agency and LAFCo staff working together, though Nevada LAFCo may contract for consulting assistance to assure timeliness or to obtain special expertise. LAFCo law requires that SOI Plans be reviewed for update every five years. LAFCo's expenses associated with developing and updating SOI Plans are funded from its annual appropriations (see "LAFCo Funding" below).

Municipal Service Reviews (MSRs)

SOI Plans must be based upon thorough analyses of how essential services are provided in defined geographical areas. This need is satisfied by Municipal Service Reviews (MSRs) that enable Nevada LAFCo to make determinations about infrastructure needs or deficiencies; growth and population projections for the affected area; financing constraints and opportunities; cost avoidance opportunities; opportunities for rate restructuring; opportunities for sharing of facilities; government structure options, including advantages and disadvantages of consolidation or reorganization of service providers; evaluation of management efficiencies; and local accountability and governance.

MSRs must be conducted prior to, or in conjunction with, SOI Plan updates. As is the case with SOI Plans, Nevada LAFCo may contract with consulting firms to collect and analyze data for MSRs. Said consultants may develop draft reports which, following review by staff of Nevada LAFCo and affected agencies, are submitted to Nevada LAFCo for preliminary review and approval for public release. Upon conclusion of the public review period and completion of any resulting corrections or revisions, the reports are presented to Nevada LAFCo once more for final review and approval.

No fees are charged for conducting MSRs. These costs are funded from the Nevada LAFCo annual appropriations (see "LAFCo Funding," below).

LAFCO FUNDING

The Cortese-Knox-Hertzberg Act of 2000 requires the net operating expenses (defined as costs less revenues, interest, and uncommitted fund balances carried from one fiscal year to the next) of each LAFCo to be allocated among the local agencies. The funding allocation is charged one-third to cities, one-third to the county, and one-third to independent special districts if the LAFCo in question has special district members. Otherwise, the funding is shared equally by the cities and county. Other arrangements are made in some counties by agreement among the funding agencies. The allocation of cost to each agency is based on its revenues as reported to the State Controller. The county auditor computes the LAFCo allocation and collects the correct amount from each agency. For the fiscal years ended June 30, 2020, and June 30, 2019, the allocations to agencies supporting Nevada LAFCo are shown in the following table:

	Dollar Amount		
Agencies	2020	2019	Allocation Distribution
Nevada County	$ 130,540	$ 112,114	1/3 of total allocation
Cities and Town (3)	130,540	112,114	1/3 of total allocation, apportioned in proportion to each city's total revenues, pursuant to §56381(b)(1)(B)
Special Districts (24)	130,540	112,114	1/3 of total allocation, apportioned in proportion to each district's total revenues, pursuant to §56381(b)(1)(C)

The financial statements included in this report display assets and liabilities using the accrual basis of accounting, as Governmental Accounting Standards Board (GASB), Statement No. 34, requires. That is, revenues are recorded when earned and expenses are recorded when incurred.

As shown in the *Statements of Net Position* (page 10), Nevada LAFCo concluded the 2019-2020 fiscal year with assets totaling $328,333 (an increase of $26,318 from the previous year). Liabilities this year equaled $248,992 (a decrease of $9,750 from the previous year). Note that total liability for fiscal year 2019-2020 includes Nevada LAFCo's net pension liability of $227,070 pursuant to the requirements of GASB 68 and as reported by CalPERS.

All of the 2019-2020 net position total (i.e., total assets and deferred outflows of resources less total liabilities and deferred inflows of resources = $116,283), is unrestricted.

The outstanding liabilities shown in the Statements of Net Position represent accounts payable, accrued payroll liability, vacation liabilities, net pension liability, and deferred revenue obligations (if any). Revenue advances consist of restricted funds collected for proposal processing that had not been expended for the projects in question by the end of the previous fiscal year (if any).

Condensed financial statements are not included herein as their presentation in the audited financial statements is considered sufficient.

BUDGETARY ANALYSIS

Because the quantity and nature of LAFCo work is quite variable, and because the agency is a governmental entity largely funded by appropriations from other agencies, financial analyses appropriate for a profit-making enterprise are of little relevance. Also, because most of Nevada LAFCo's funding is transferred into its account early in each fiscal year from resources of other local governmental agencies, there is no readily available source of funds to cover unanticipated expenses.

LAFCo law permits, but does not obligate, a county to lend funds to its LAFCo in the event of shortfalls. However, such a loan would have to be repaid from next year's funds (as required by LAFCo law). Thus, LAFCo's financial management must be evaluated chiefly in terms of consistency with budgetary planning. However, surpluses can be applied to anticipated expenses of the next fiscal year and are more likely to have a positive impact (rather than negative one) on the funding agencies over the long term.

In 2019-2020, total accrued revenues were slightly below the budget projection ($406,938 vs. $396,420), due to project fees being somewhat under expectations.

Interest on funds held by the Nevada County Treasurer (which is included as non-operating revenue in the audited *Statements of Revenues, Expenses, and Changes in Net Position*) was $7,766 (or 331% more than the projected $1,800).

County administrative services exceeded the budgeted amount of $9,270 at $11,622 reflecting an increase of the County's "per transaction fee." These services are provided by the County Auditor's Office, which holds LAFCo's funds and issues payments on its behalf.

Relative to Personnel Costs, total payroll and benefits for the FYE 2020 were $231,270. Note also that a portion of LAFCo's pension liability, calculated annually by the California Public Employee Retirement System of $20,812 has been included in the chart below.

The contingency provision was budgeted based on the usual 5% of overall budget. The contingency remained untouched at the end of the fiscal year.

The following table comparing actual revenues and expenses to budget provisions is organized to parallel the Statements of Revenues, Expenses, and Changes in Net Position, on page 11.

COMPARISON OF EXPERIENCE TO BUDGET

	2020		2019	
	Budget	Actual	Budget	Actual
Revenue				
Agency funding	$ 391,620	$ 391,620	$ 336,343	$ 336,343
Project fees and other	4,800	15,318	6,600	3,328
Total Revenue	396,420	406,938	342,943	339,671
Expenses				
Staff payroll and benefits	227,563	231,270	222,421	217,405
GASB 68 pension adjustment	-	20,812	-	24,336
Information technology	13,400	6,673	13,891	13,139
Conference and travel	14,250	10,838	10,655	10,067
Commissioner stipends	3,600	3,533	3,300	3,529
Co. administrative support	9,270	11,622	8,400	11,689
Insurance (liability)	4,179	4,177	3,636	3,978
Office expense	5,200	8,255	5,200	6,138
Professional services	77,036	62,645	87,839	81,014
Public notices	1,000	661	1,000	1,733
Rent	21,386	20,976	20,346	20,465
Depreciation expense	1,222	1,200	1,200	1,200
Membership	2,374	2,521	2,305	2,302
Contingency	18,963	-	18,950	-
Total Expenses	399,443	385,183	399,143	396,995
Interest earned	1,800	7,766	1,800	8,374
Change in net position	$ (1,223)	29,521	$ (54,400)	(48,950)
Net position, beginning of year		86,762		135,712
Net position, end of year		$ 116,283		$ 86,762

COST OF DELIVERY OF SERVICES

As mentioned briefly in the discussion of Nevada LAFCo's functions above, administrative expenses associated with conduct of MSR and SOI studies, of which staff salaries and benefits together with costs of professional services comprise the largest portion, are paid from appropriated funds. Project proposals and special studies are subject to recovery of direct costs; but as a matter of policy, Nevada LAFCo's fees for staff time are set to recover only a portion of administrative overhead.

LOOKING FORWARD

Review and update of local agency Sphere Plans, which must follow or be accomplished in conjunction with MSRs, are required under LAFCo law to be carried out on a five-year recurring cycle. Consequently, SOI Plan maintenance requires repeated evaluations of municipal service delivery. It is expected that future municipal service reviews will build upon those already conducted; therefore, costs associated with them (chiefly for consultant services and publication) will be moderate in most cases with the likely exceptions noted below.

Already completed MSRs are expected to be adequate, with moderate modification to incorporate current data, to support most SOI Plan updates in the short term. Exceptions are the MSRs regarding water and wastewater services, which have been subject to full scale replication as opposed to simple review and update. This expectation is based upon the critical nature of the services; the likelihood that State regulations will have become more stringent since completion of the initial studies; and, finally, the potential for changes in demand assumptions based on population growth in the intervening period. The Nevada LAFCo's 2017-2018 Work Program and Budget anticipated initiation of the preparation of Eastern County Water and Wastewater MSRs, and these MSRs were completed and approved by the Commission during FYE 2019.

An integrated schedule for SOI Plan updates and MSRs, including cost estimates, is updated each year by Nevada LAFCo's Budget Committee and reviewed by the full commission during the budget process. At the Nevada LAFCo's direction, the Budget Committee incorporates reserves to fund these studies in planning for succeeding fiscal years in an effort to avoid large peaks in the annual appropriations from Nevada LAFCo's supporting agencies.

During FY 2016-2017, LAFCo initiated work on the Sphere of Influence Update for Nevada City and consulted with Nevada Irrigation District relative to the District's plans to initiate a sphere amendment and update. Sphere of Influence updates are extremely time consuming and complicated. An Environmental Impact Report is being prepared for the Sphere of Influence Update for Nevada City, and is expected to be completed during FY 2020-2021. The Nevada Irrigation District has indicated it will be applying for amendment to its Sphere of Influence; the District has been preparing several studies in support of its proposal which have not been completed to date.

Litigation

Nevada LAFCo established a litigation reserve in 2014. As a result of careful planning, the accumulated total of this reserve as of June 30, 2020, had reached $50,000.

Operations

Annual rent for Nevada LAFCo's office space in the Nevada County Administrative Center was $20,976 in 2019-2020. Future increases will also be based on the CPI, in accordance with the terms of the lease.

Application activity has increased over the past few fiscal years and 2019-2020 was in line with this trend. As of June 2020, LAFCo had taken action on two proposals involving annexation to the County Sanitation District, one proposal involving annexation to the Nevada Irrigation District, and one proposal requesting annexation to the City of Grass Valley.

REQUESTS FOR INFORMATION

This analysis is intended to provide a general summary of Nevada LAFCo's finances for the benefit of interested parties. Questions concerning any of the information provided or requests for additional information may be directed to the Executive Officer, Nevada LAFCo, 950 Maidu Avenue, Nevada City, California 95959.

Nevada LAFCo also maintains a web site <www.mynevadacounty.com/nc/lafco> from which policies, MSRs, SOI Plans, audit documents, budgets, and other materials may be accessed.

BASIC FINANCIAL STATEMENTS

LOCAL AGENCY FORMATION COMMISSION OF NEVADA COUNTY
STATEMENT OF NET POSITION
JUNE 30, 2020
(with comparative amounts for June 30, 2019)

	2020	2019
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 317,538	$ 300,815
Accounts receivable	2,071	-
Prepaid expenses	8,724	-
Total Current Assets	328,333	300,815
Non-Current Assets:		
Capital assets, net of accumulated depreciation	-	1,200
Total Assets	328,333	302,015
DEFERRED OUTFLOWS OF RESOURCES		
CalPERS deferred pension outflows	59,111	62,087
LIABILITIES		
Current Liabilities:		
Accounts payable	4,500	33,628
Compensated absences liability	6,497	6,764
Accrued liabilities	10,925	5,545
Total Current Liabilities	21,922	45,937
Non-Current Liabilities:		
Net pension liability	227,070	212,805
Total Liabilities	248,992	258,742
DEFERRED INFLOWS OF RESOURCES		
CalPERS deferred pension inflows	22,169	18,598
NET POSITION		
Net investment in capital assets	-	1,200
Unrestricted	116,283	85,562
Total Net Position	$ 116,283	$ 86,762

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

LOCAL AGENCY FORMATION COMMISSION OF NEVADA COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2020
(with comparative amounts for the year ended June 30, 2019)

	2020	2019
OPERATING REVENUES		
Agency funding	$ 391,620	$ 336,343
Project fees and other	15,318	3,328
Total Operating Revenues	406,938	339,671
OPERATING EXPENSES		
Staff payroll and benefits	231,270	217,405
GASB 68 pension adjustment	20,812	24,336
Information technology	6,673	13,139
Conference and travel	10,838	10,067
Commissioner stipends	3,533	3,529
County administrative support	11,622	11,689
Insurance - liability	4,177	3,978
Office expense	8,255	6,138
Professional services	62,645	81,014
Public notices	661	1,733
Rent	20,976	20,465
Depreciation expense	1,200	1,200
Membership	2,521	2,302
Total Operating Expenses	385,183	396,995
Operating Loss	21,755	(57,324)
NON-OPERATING REVENUES		
Interest income	7,766	8,374
Total Non-Operating Revenues	7,766	8,374
CHANGE IN NET POSITION	29,521	(48,950)
NET POSITION - BEGINNING OF YEAR	86,762	117,904
Prior period adjustment	-	17,808
NET POSITION - BEGINNING OF YEAR, restated	86,762	135,712
NET POSITION - END OF YEAR	$ 116,283	$ 86,762

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

LOCAL AGENCY FORMATION COMMISSION OF NEVADA COUNTY
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2020
(with comparative amounts for the year ended June 30, 2019)

	2020	2019
Cash flows provided (used) by operating activities:		
Agency funding and filing fees	$ 404,867	$ 364,007
Payments for employee salaries and benefits	(226,157)	(242,480)
Payments to commissioners	(3,533)	(3,529)
Payments to suppliers for goods and services	(166,220)	(122,802)
Net cash provided (used) by operating activities	8,957	(4,804)
Cash flows provided by investing activities:		
Cash received from interest	7,766	8,374
Net cash provided by investing activities	7,766	8,374
Net increase in cash and cash equivalents	16,723	3,570
Cash and cash equivalents, beginning of year	300,815	297,245
Cash and cash equivalents, end of year	$ 317,538	$ 300,815
Reconciliation of operating loss to net cash provided by operating activities:		
Operating income (loss)	$ 21,755	$ (57,324)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	1,200	1,200
Changes in assets and liabilities:		
Accounts receivable	(2,071)	-
Prepaid expenses	(8,724)	-
Accounts payable	(29,128)	27,723
Compensated absences liability	(267)	(3,147)
Accrued liabilities	5,380	2,408
Net pension liability	20,812	24,336
Net cash provided (used) by operating activities	$ 8,957	$ (4,804)

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

Local Agency Formation Commission of Nevada County
Nevada City, California

Notes to Financial Statements
June 30, 2020

Note 1: <u>Nature of Activities and Summary of Significant Accounting Policies</u>

Nature of Activities – The Local Agency Formation Commission of Nevada County (Nevada LAFCo) is an intralocal agency that was created by State legislation to ensure that changes in governmental organizations occur in a manner which provides efficient quality services and preserves open space land resources. The Legislature established a local agency formation commission in each county in 1963 and delegated its regulatory authority over local agency boundary changes. The Legislature then charged Nevada LAFCo with carrying out changes in governmental organizations to promote specified legislative policies codified in the Cortese-Knox-Hertzberg Act, which was adopted by the Legislature in 2000 and became effective in 2001. The county, cities, and independent special districts provide funding for Nevada LAFCo.

Nevada LAFCo charges fees for various proceedings such as annexations, special district formations, and mergers or dissolutions.

Basis of Accounting – Nevada LAFCo utilizes the proprietary fund method of accounting in accordance with Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements.* This statement incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with GASB pronouncements: 1) Financial Accounting Standards Board (FASB) Statements and Interpretations; 2) Accounting Principles Board (APB) Opinions; and 3) Accounting Research Bulletins (ARB) of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

Cash and Cash Equivalents – Nevada LAFCo maintains all of its cash at the Treasurer's office of the County of Nevada as part of a common investment pool. The County is restricted by California Governments Code, Section 53635 pursuant to Section 53601, to invest in time deposits, U.S. Government securities, state registered warrants, notes, bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements. Deposits in the County pool are valued using the amortized cost method (which approximates fair value) in accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools, and includes accrued interest. The pool has deposits and investments with a weighted-average maturity of less than three years. As of June 30, 2020, and June 30, 2019, the fair value of the County pool approximated cost. Information regarding the amount invested in derivatives with the County was not available. The County investment pool is subject to regulatory oversight by the Treasury Oversight Committee, as required by California Government Code, Section 27130. The investment in the County investment pool is unrated.

Note 1: Nature of Activities and Summary of Significant Accounting Policies – continued

Capital Assets – Capital assets are stated at cost, or if acquired by gift, are recorded at estimated market value at the date of acquisition. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives. Office equipment is depreciated over three to five years, and leasehold improvements are depreciated over fifteen years using the straight-line method.

Compensated Absences Liability – An employee may accumulate no more than two hundred and forty hours of vacation accrual to his or her credit.

Net Position – Net position is classified into three components and consists of:

Net Investment in Capital Assets: Capital assets, net of accumulated depreciation, reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets.

Restricted: Noncapital net assets that must be used for a particular purpose as specified by external creditors, grantors, or contributors. Nevada LAFCo did not have any restricted net position as of June 30, 2020.

Unrestricted: The remaining equity that does not meet the other criteria. There were no restricted net assets to be reported.

Operating Income and Expenses – The statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating income and expenses. Operating revenues include all revenues received in order to provide services. Operating revenues are received from project fees and allocations from governmental agencies. Interest earned on cash deposits with the County are recorded as other revenue. Operating expenses are all expenses incurred to provide operating income, other than financing costs.

Deferred Outflows/Inflows of Resources From Pensions – In addition to assets, the statement of net position includes a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period which will only be recognized as an outflow of resources (expense) in the future. Nevada LAFCo's contributions, subsequent to the measurement date, and differences between contributions and proportionate share of contributions, related to pension plans are reported as deferred outflows of resources in the statement of net position. Contributions subsequent to the measurement date will be amortized during the next fiscal year as provided by accounting pronouncement GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. Differences between contributions and proportionate share of contributions are amortized over the estimated service lives of the pension plan participants.

Note 1: Nature of Activities and Summary of Significant Accounting Policies – continued

In addition to liabilities, the statement of net position includes a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and would only be recognized as an inflow of resources (revenue) at that time. Changes in proportion, and the proportionate share of the net difference between projected and actual earnings on pension plan investments, are reported as deferred inflows of resources in the statement of net position. These amounts are amortized over the estimated service lives of the pension plan participants.

Net Pension Liability **–** For purposes of measuring the net pension liability, deferred outflows of resources/deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the California Public Employees' Retirement System (CalPERS), and additions to/deductions from CalPERS's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments are recognized when due and payable with the benefit terms. Investments are reported at fair value.

Note 2: Capital Assets

Capital asset activity follows:

	Balance July 1, 2019	Additions	Retirements	Balance June 30, 2020
Leasehold improvements	$ 18,000	$ -	$ -	$ 18,000
Less accumulated depreciation	(16,800)	(1,200)	-	(18,000)
Capital assets, net	$ 1,200	$ (1,200)	$ -	$ -

Note 3: Operating Lease

Nevada LAFCo leases office space under an operating lease, which renews annually and automatically and includes a Consumer Price Index (CPI) increase. Rent paid to the County of Nevada amounted to $20,976 and $20,465 in the fiscal years ended June 30, 2020 and 2019, respectively.

Note 4: Retirement Plan

Qualified employees are covered under a cost-sharing multiple-employer defined benefit pension plan maintained by an agency of the state of California. Classified employees are members of the California Public Employees' Retirement System (CalPERS).

Note 4: Retirement Plan - continued

California Public Employees' Retirement System

Plan Description – Classified employees participate in the Miscellaneous Plan (the Plan) under CalPERS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by state statute, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a publicly available financial report that can be obtained at www.calpers.ca.gov.

Benefits Provided – The Plan provides retirement, disability benefits, and death benefits to Plan members and beneficiaries. The benefits are based on members' years of service, age, final compensation, and benefit formula. Members become fully vested in their retirement benefits earned to date after five years of credited service.

Contributions – Member contribution rates are defined by law. Employer contribution rates are determined by periodic actuarial valuations. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. Active plan members are required to contribute 7.00% of their salary, which is paid by Nevada LAFCo. The required employer contribution rate for the 2019-20 fiscal year was 9.680% for the Classic Plan and 6.985% for the PEPRA Plan.

New CalPERS participants enrolled after January 1, 2013, are required to make contributions at a rate of 6.25% of eligible salary. Nevada LAFCo is required to match the contribution with a rate of 6.25% of eligible salaries.

Contributions to CalPERS for the fiscal year ended June 30, 2020, were as follows:

Contributions - employer	$ 29,890
Contributions - employee (paid by employer)	11,631

At June 30, 2020, a net pension liability of $227,070 was reported for the proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018, rolled forward to June 30, 2019, using standard update procedures. Nevada LAFCo's proportion of the net pension liability was based on a projection of the Nevada LAFCo's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. Nevada LAFCo's proportionate share of the net pension liability for the Plan as of June 30, 2019 and 2020, were as follows:

Proportion - June 30, 2019	0.00565%
Proportion - June 30, 2020	0.00567%
Change - Increase	0.00002%

Note 4: <u>Retirement Plan</u> – continued

Deferred Inflows and Outflows – As of June 30, 2020, Nevada LAFCo reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Change of assumptions	$ 10,828	$ 3,838
Differences between expected and actual experience	15,771	1,222
Differences between projected and actual investment earnings	-	3,970
Differences between employer's contributions and proportionate share of contributions	-	11,596
Change in employer's proportion	2,622	1,543
Pension contributions made subsequent to measurement date	29,890	-
Total	$ 59,111	$ 22,169

As of June 30, 2020, Nevada LAFCo reported $29,890 as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date. This amount will be recognized as a reduction of the net pension liability in the year-end June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Deferred Outflows of Resources
2021	$ 12,866
2022	(6,510)
2023	(106)
2024	802
Total	$ 7,052

Note 4: Retirement Plan – continued

Actuarial Assumptions **–** The total pension liabilities in the June 30, 2018 actuarial valuations were determined using the following actuarial assumptions:

Valuation date	June 30, 2018
Measurement date	June 30, 2019
Actuarial cost method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount rate	7.15%
Inflation	2.50%
Payroll growth	2.75%
Projected salary increase(1)	Varies by Entry Age and Service
Investment rate of return(2)	7.15%
Mortality(3)	CalPERS Table

(1) Depending on age, service, and type of employment
(2) Net of pension plan investment expenses, including inflation
(3) 20 years of mortality improvement - Society of Actuaries Scale AA

The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

The long-term expected rate of return on pension plan investments (7.15%) 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 following table:

Asset Class	New Strategic Allocation	Real Return Years 1-10(1)	Real Return Years 11+(2)
Global equity	50.0%	4.80%	5.98%
Fixed income	28.0%	1.00%	2.62%
Inflation sensitive	0.0%	0.77%	1.81%
Private equity	8.0%	6.30%	7.23%
Real estate	13.0%	3.75%	4.93%
Liquidity	1.0%	0.00%	(0.92%)
	100.0%		

Note 4: Retirement Plan – continued

The discount rate used to measure the total pension liability was 7.15%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from Nevada LAFCo will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension fund's 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 pension fund's 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 Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents what Nevada LAFCo's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.15%) or 1 percentage point higher (8.15%) than the current rate:

	1% Decrease 6.15%	Discount Rate 7.15%	1% Increase 8.15%
Nevada LAFCO's proportionate share of the net pension liability	$ 367,609	$ 227,070	$ 111,064

Detailed information about the pension fund's fiduciary net position is available in the separately issued CalPERS comprehensive annual financial report which may be obtained by contacting CalPERS.

Note 5: Risk Management

Nevada LAFCo obtained general liability, auto liability, auto physical damage, public officials' errors and omissions, elected officials' personal liability, employment practices and benefits, fidelity blanket bond, property coverage, and boiler and machinery coverage from Special District Risk Management Authority (SDRMA). The SDRMA is organized as a joint powers authority and provides coverage to certain maximum limits applied annually, per occurrence or per year. Members are subject to dividends and/or assessments in accordance with an agreement. Workers' compensation coverage is purchased from State Compensation Insurance Fund.

Note 6: Subsequent Event

Management has evaluated subsequent events through September 2, 2020, the date which the financial statements were available to be issued. Based upon this evaluation, except for the following, it was determined that no other subsequent events occurred that require recognition or additional disclosure in the financial statements.

In January 2020, the virus SARS-CoV-2 was transmitted to the United States from overseas sources. This virus, responsible for the Coronavirus disease COVID-19, has proven to be extremely virulent with transmission rates as yet unknown. The economic impact in the State of California and the County of Nevada as yet has not been determined and therefore any potential impact on the Commission is not yet known.

REQUIRED SUPPLEMENTARY INFORMATION

LOCAL AGENCY FORMATION COMMISSION OF NEVADA COUNTY
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AND SCHEDULE OF CONTRIBUTIONS

Schedule of Proportionate Share of the Net Pension Liability

Measurement Date *	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Proportion of the collective net pension liability	0.00565%	0.00565%	0.00580%	0.00577%	0.00528%	0.00660%
Proportionate share of the net pension liability	$ 227,070	$ 212,805	$ 228,614	$ 200,393	$ 144,980	$ 163,056
Covered employee payroll	153,640	160,978	160,303	157,727	157,477	158,395
Proportionate share of the net pension liability as a percentage of its covered-employee payroll	147.79%	132.20%	142.61%	127.05%	92.06%	102.94%
Plan Fiduciary net position as a percentage of the total pension liability	77.69%	77.69%	75.39%	75.87%	79.89%	81.15%
Valuation date	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014	June 30, 2013

Schedule of Contributions

Measurement Date *	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Actuarially determined contribution	$ 29,890	$ 23,648	$ 23,023	$ 23,675	$ 22,556	$ 20,864
Total actual contributions	29,890	23,648	23,023	23,675	22,556	20,864
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -
Covered employee payroll	$ 153,640	$ 160,978	$ 160,303	$ 157,727	$ 157,477	$ 158,395
Contributions as a percentage of covered employee payroll	19.45%	14.69%	14.36%	15.01%	14.32%	13.17%

* Fiscal year ended June 30, 2015, was the first year of implementation; therefore, only six years of information was available.

Notes to the Required Supplementary Information
June 30, 2020

Note 1: Changes in Benefit Terms

California Public Employees' Retirement System

Public agencies can make changes to their plan provisions, and such changes occur on an ongoing basis. A summary of the plan provisions used for a specific plan can be found in the plan's annual valuation report.

Note 2: Changes of Assumptions

California Public Employees' Retirement System

In February 2014, the CalPERS Board adopted new actuarial assumptions. The most significant change to the actuarial assumptions that the Board adopted was the inclusion of future mortality improvement. The actuarial assumptions adopted by the Board of Directors are designed to ensure greater sustainability and soundness of the defined benefit pension plans and will be better at predicting future experience resulting in more secure retirement benefits in the decades to come. The current experience study was based on demographic CalPERS data for years 1997 to 2011. The study focused on recent patterns of termination, death, disability, retirement, and salary increases. These new assumptions were reflected in the total pension liabilities as of June 30, 2020 and June 30, 2019. The 2018 liabilities were rolled forward to the measurement date of June 30, 2019, using standard update procedures.

OTHER REPORT

FECHTER
& COMPANY
Certified Public Accountants

Craig R. Fechter, CPA, MST

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*

To the Commissioners
Local Agency Formation Commission of Nevada County
Nevada City, California

We have audited, in accordance with the auditing standard 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 Nevada County (Nevada LAFCo) as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise Nevada LAFCo's basic financial statements, and have issued our report thereon dated September 2, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Nevada LAFCo'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 internal control of Nevada LAFCo's internal control. Accordingly, we do not express an opinion on the effectiveness of Nevada LAFCo'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 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 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 considered to be material weaknesses. However, material weaknesses may exist that we have not identified.

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To the Commissioners
Local Agency Formation Commission of Nevada County
Nevada City, California

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Nevada LAFCo'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 result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Fechter & Company,
Certified Public Accountants

Fechter & Company, CPAs

Sacramento, California
September 2, 2020