Local Agency Formation Commission
of
Santa Clara County

Annual Financial Audit Report

June 30, 2020

Chavan & Associates, LLP
Certified Public Accountants
1475 Saratoga Ave, Suite 180
San Jose, CA 95129

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Local Agency Formation Commission of Santa Clara County

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FINANCIAL
SECTION

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Chavan and Associates, llp
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Commissioners
Local Agency Formation Commission of Santa Clara County
San Jose, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Local Agency Formation Commission of Santa Clara County (LAFCO), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise LAFCO's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the State Controller's Minimum Audit Requirements for California Special Districts. 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 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 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of LAFCO, as of

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June 30, 2020, and the respective changes in 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 management's discussion and analysis, budgetary comparison information, schedule of pension contributions, schedule of changes in net pension liability, schedule of OPEB contributions, and schedule of changes in net OPEB liability 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 October 11, 2020 on our consideration of LAFCO'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 LAFCO's internal control over financial reporting and compliance.

C & A LLP

October 11, 2020
San Jose, California

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Management's Discussion and Analysis

INTRODUCTION

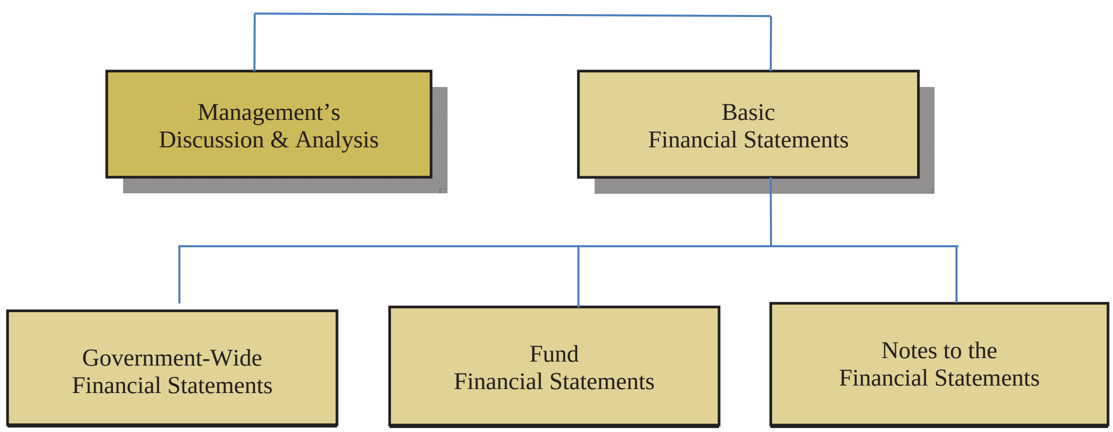
The Management's Discussion and Analysis (MD&A) is a required section of LAFCO's annual financial report, as shown in the overview below. The purpose of the MD&A is to present a discussion and analysis of LAFCO's financial performance during the fiscal year that ended on June 30, 2020. This report will (1) focus on significant financial issues, (2) provide an overview of LAFCO's financial activity, (3) identify changes in LAFCO's financial position, (4) identify any individual fund issues or concerns, and (5) provide descriptions of significant asset and debt activity.

This information, presented in conjunction with the annual Basic Financial Statements, is intended to provide a comprehensive understanding of LAFCO's operations and financial standing.

USING THE ANNUAL REPORT

The Statement of Net Position and Statement of Activities comprise the government-wide financial statements and provide information about the activities of the whole organization, presenting both an aggregate view of LAFCO's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The basic financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

Required Components of the Annual Financial Report



The view of LAFCO as a whole looks at all financial transactions and asks the question, "How did we do financially during the fiscal year 2019 - 2020?" The Statement of Net Position and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting practices used by most private-sector companies. This basis of accounting takes into account all of the current year revenues and expenses regardless of when cash is received or paid.

These two statements report LAFCO's net position and changes in net position. This change in net position is important because it tells the reader that, for LAFCO as a whole, the financial position of LAFCO has improved or diminished. The causes of this change may be the result of many factors, some financial, and some not. Non-financial factors include changing laws in California restricting revenue growth, facility conditions and other factors.

In the Statement of Net Position and the Statement of Activities, LAFCO reports governmental activities. Governmental activities are the activities where LAFCO's programs and services are reported. LAFCO does not have any business type activities.

FINANCIAL HIGHLIGHTS

Key financial highlights for the fiscal year ended June 30, 2020 were as follows:

- Total assets increased by $226,099, a 57% increase from the prior year.
- The net OPEB liability decreased by $12,248, a 5% decrease from the prior year.
- Total net position increased by $59,871, a 9% increase from the prior year.
- Current liabilities increased by $69,908, a $147% increase from the prior year.
- Noncurrent liabilities increased by $64,818, a 5% increase from the prior year.
- Deferred outflows of resources decreased by $15,991, a 8% decrease from the prior year.

REPORTING LAFCO'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The analysis of LAFCO's fund financial statements begins with the balance sheet. Fund financial reports provide detailed information about LAFCO's major funds. LAFCO uses one operating fund, the General Fund, to account for a multitude of financial transactions.

Governmental Funds

The General Fund is a governmental fund type and is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of LAFCO's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

LAFCO AS A WHOLE

Recall that the Statement of Net Position provides the perspective of LAFCO as a whole. Table 1 provides a summary of LAFCO's net position as of June 30, 2020 as compared to June 30, 2019:

Table 1 - Summary of Statement of Net Position

Description	2020	2019	Change	Percentage Change
Assets				
Current Assets	$ 622,986	$ 396,887	$ 226,099	56.97%
Deferred Outflows	$ 191,752	$ 207,743	$ (15,991)	-7.70%
Liabilities				
Current Liabilities	$ 117,507	$ 47,599	$ 69,908	146.87%
Noncurrent Liabilities	1,309,660	1,244,842	64,818	5.21%
Total Liabilities	$ 1,427,167	$ 1,292,441	$ 134,726	10.42%
Deferred Inflows	$ 76,845	$ 61,334	$ 15,511	25.29%
Net Position				
Unrestricted	$ (689,274)	$ (749,145)	$ 59,871	8.69%

The increase to current assets was actually a increase to cash, which was the result of an operating surplus of $153,356 for the year. Current liabilities increased by $69,908 mostly because of increase in unearned revenue of $68,963 received in June 2020 for fiscal year 2021. Noncurrent liabilities reflect a net increase of $64,818 mostly because of increase in LAFCO's net pension liability of $58,497 due to decrease in the actuarial discount rate. The increases and decreases to deferred outflows and inflows can also be directly attributed to benefit plan changes.

Table 2 shows the changes in net position for fiscal year 2020 as compared to 2019.

Table 2 - Summary of Changes in Net Position

Description	2020	2019	Change	Percentage Change
Revenues				
Program revenues:				
Operating grants and contributions	$ 1,149,072	$ 837,611	$ 311,461	37.18%
Charges for services	7,587	33,050	(25,463)	-77.04%
General revenues:				
Investment income	18,176	12,141	6,035	49.71%
Total Revenues	1,174,835	882,802	292,033	33.08%
Program Expenses				
General government	1,117,799	1,075,919	41,880	3.89%
Total Expenses	1,117,799	1,075,919	41,880	3.89%
Change in Net Position	57,036	(193,117)	250,153	438.59%
Beginning Net Position	(749,145)	(651,333)	(97,812)	13.06%
Prior Period Adjustments	2,835	95,305	(92,470)	97.03%
Ending Net Position	$ (689,274)	$ (749,145)	$ 59,871	-8.69%

Program revenues increased due an increased share of operating costs charged back to member agencies during the year. Program expenses increased due to an increase to employee costs, professional services, and expenses associated with pensions and other postemployment benefits, adjusted for changes to assumptions such as the discount rate and inflation. See Note 4 and Note 5 for information related to LAFCO's benefit plans.

LAFCO's Fund Balance

Table 3 provides an analysis of LAFCO's fund balances and the total change in fund balances from the prior year.

Table 3 - Summary of Fund Balance

Description	2020	2019	Change	Percentage Change
General Fund	$ 505,479	$ 349,288	$ 156,191	44.72%

LAFCO'S NONCURRENT LIABILITIES

Table 4 summarizes LAFCO's noncurrent liabilities as of June 30, 2020 as compared to the prior fiscal year.

Table 4 - Summary of Noncurrent Liabilities

	2020	2019	Change	Percentage Change
Net OPEB Liability	$ 258,083	$ 270,331	$ (12,248)	-4.53%
Net Pension Liability	890,960	832,463	58,497	7.03%
Compensated Absences	160,617	142,048	18,569	13.07%
Total Noncurrent Liabilities	$ 1,309,660	$ 1,244,842	$ 64,818	5.21%

GENERAL FUND BUDGETING HIGHLIGHTS

LAFCO's budget is prepared according to California law and in the modified accrual basis of accounting.

Changes from LAFCO's General Fund 2019/2020 original budget to the final budget are detailed in the required supplementary information section along with a comparison to actual activity for the year ended. The final budgeted revenue was $875,326. The final budgeted expenditures and other uses of funds were $1,294,158.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Commission adopted its FY 2020 Budget at the June 3, 2020 LAFCO meeting. The budget includes appropriations totaling $1,207,712 which is a 14% increase from FY 2020. The budget assumes a roll-over of $187,927 in fund balance from the previous fiscal year and anticipates a $5,000 decrease in application fees from the previous year.

CONTACTING LAFCO'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, investors and creditors with a general overview of LAFCO's finances and to show LAFCO's accountability for the money it receives. If you have any questions regarding this report or need additional financial information, contact the Executive Officer, LAFCO of Santa Clara County, 777 North First Street, Suite 410, San Jose, CA 95112.

Basic Financial Statements

Local Agency Formation Commission of Santa Clara County

Statement of Net Position

June 30, 2020

		Governmental Activities
Assets		
Current assets:		
Cash and investments	$	620,410
Interest receivable		2,576
Total Assets	$	622,986
Deferred Outflows of Resources		
OPEB adjustments	$	27,220
Pension adjustments		164,532
Total Deferred Outflows of Resources	$	191,752
Liabilities		
Current liabilities:		
Accounts payable	$	14,102
Accrued liabilities		34,442
Unearned revenue		68,963
Total current liabilities		117,507
Noncurrent liabilities:		
Net OPEB liability		258,083
Net pension liability		890,960
Compensated absences		160,617
Total noncurrent liabilities		1,309,660
Total Liabilities	$	1,427,167
Deferred Inflows of Resources		
OPEB adjustments	$	51,768
Pension adjustments		25,077
Total Deferred Inflows of Resources	$	76,845
Net Position		
Unrestricted	$	(689,274)
Total Net Position	$	(689,274)

The notes to basic financial statements are an integral part of this statement

Local Agency Formation Commission of Santa Clara County

Statement of Activities

For the Fiscal Year Ended June 30, 2020

		Program Revenues		Net (Expense)
	Expenses	Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Position
Governmental activities:				
General government	$ 1,117,799	$ 7,587	$ 1,149,072	$ 38,860
Total governmental activities	$ 1,117,799	$ 7,587	$ 1,149,072	38,860
General revenues:				
Investment income				18,176
Change in net position				57,036
Net position July 1, 2019				(749,145)
Prior period adjustment				2,835
Net position July 1, 2019, as adjusted				(746,310)
Net position ending June 30, 2020				$ (689,274)

The notes to basic financial statements are an integral part of this statement

Local Agency Formation Commission of Santa Clara County

Balance Sheet

Governmental Funds

June 30, 2020

		General Fund
ASSETS		
Cash and investments	$	620,410
Interest receivable		2,576
Total Assets	$	622,986
LIABILITIES		
Accounts payable	$	14,102
Accrued liabilities		34,442
Unearned revenue		68,963
Total Liabilities		117,507
FUND BALANCE		
Unassigned		505,479
Total Fund Balance		505,479
Total Liabilities and Fund Balance	$	622,986

The notes to basic financial statements are an integral part of this statement

Local Agency Formation Commission of Santa Clara County

Reconciliation of the Governmental Funds
Balance Sheet to the Statement of Net Position
June 30, 2020

Total fund balance - governmental funds		$ 505,479
Amounts reported in the Statement of Net Position are different because:		
The differences between projected and actual amounts in pension and OPEB plans are not included in the plans actuarial study until the next fiscal year and are reported as deferred outflows or inflows of resources in the statement of net position as follows:		
OPEB adjustments:		
Difference between actual and expected experience		(50,085)
Difference between actual and expected earnings		(1,683)
Change in assumptions		1,368
Contribution subsequent to measurement date		25,852
Pension adjustments:		
Difference between actual and expected experience		39,412
Difference between actual and expected earnings		(10,612)
Change in assumptions		26,034
Contribution subsequent to measurement date		84,621
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term (noncurrent) liabilities at year-end consists of:		
Net OPEB liability	$ 258,083	
Net pension liability	890,960	
Compensated absences	160,617	(1,309,660)
Total net position - governmental activities		$ (689,274)

The notes to basic financial statements are an integral part of this statement

Local Agency Formation Commission of Santa Clara County

Statement of Revenues, Expenditures and Changes in Fund Balance

Governmental Funds

For the Fiscal Year Ended June 30, 2020

	General Fund
Revenues:	
Intergovernmental	$ 1,149,072
Charges for services	7,587
Investment income	18,176
Total revenues	1,174,835
Expenditures:	
Current:	
Employee services	744,439
Professional services	198,035
Commission fees	4,600
Facilities	44,478
Insurance	5,893
Supplies	3,229
Memberships	11,822
Travel	7,604
Miscellaneous	1,379
Total expenditures	1,021,479
Net change in fund balance	153,356
Fund balance - July 1, 2019	349,288
Prior period adjustment	2,835
Fund balance - July 31, 2019, as adjusted	352,123
Fund balance - June 30, 2020	$ 505,479

The notes to basic financial statements are an integral part of this statement

Local Agency Formation Commission of Santa Clara County

Reconciliation of the Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balance

to the Statement of Activities

For the Fiscal Year Ended June 30, 2020

Total net change in fund balance - governmental funds	$	153,356
In governmental funds, actual contributions to pension and OPEB plans are reported as expenditures in the year incurred. However, in the government-wide statement of activities, only the current year pension OPEB expense as noted in the plan's valuation reports is reported as an expense, as adjusted for deferred inflows and outflows of resources.		(77,751)
In the Statement of Activities, compensated absences are measured by the amount earned during the year. In governmental funds, however, expenditures for those items are measured by the amount of financial resources used (essentially the amounts paid). This year, vacation earned exceeded the amounts used.		(18,569)
Change in net position of governmental activities	$	57,036

The notes to basic financial statements are an integral part of this statement

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. General

The Local Agency Formation Commission of Santa Clara County (the "Commission" or "LAFCO") was established in 1963 to administer a complex series of statutory laws and enabling acts that serve to encourage the orderly development and reorganization of Local Government Agencies, essential to the social, fiscal and economic wellbeing of the State. The Commission operates under the authority of Government Code Section 56000 and the Cortese-Knox Hertzberg Local Government Reorganization Act of 2000.

The Commission is composed of seven members who include two county supervisors, two city council representatives, two special district representatives and one member representing the public at large. Commission members serve a four-year term.

B. Reporting Entity

LAFCO's combined financial statements include the accounts of all its operations. LAFCO evaluated whether any other entity should be included in these financial statements. The basic, but not the only, criterion for including a governmental department, agency, institution, commission, public authority, or other governmental organization in a governmental unit's reporting entity for general purpose financial reports is the ability of the governmental unit's elected officials to exercise oversight responsibility over such agencies. Oversight responsibility implies that one governmental unit is dependent on another and that the dependent unit should be reported as part of the other. Oversight responsibility is derived from the governmental unit's power and includes, but is not limited to:

- Financial interdependency
- Selection of governing authority
- Designation of management
- Ability to significantly influence operations
- Accountability for fiscal matters

Accordingly, for the year ended June 30, 2020, LAFCO does not have any component units but is a blended component unit of the County of Santa Clara.

C. Accounting Principles

The accounting policies of LAFCO conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

D. Basis of Presentation

Government-wide Financial Statements:

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the activities of LAFCO. The Statement of Net Position reports all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.

The government-wide statements are prepared using the economic resources measurement focus. This approach differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government wide statements and the statements for the governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of LAFCO's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. LAFCO does not allocate indirect expenses to functions in the statement of activities. Program revenues include charges paid by the recipients of goods or services offered by a program, as well as grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of LAFCO, with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of LAFCO.

Fund Financial Statements:

Fund financial statements report detailed information about LAFCO. The accounting and financial treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets, deferred outflows, current liabilities and deferred inflows are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balance for these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets. LAFCO has only one operating fund.

E. Basis of Accounting

Government-Wide Financial Statements:

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 the timing of related cash flows. Assessments and service charges are recognized as revenues in the year for which they are levied. Expenses are recorded when liabilities are incurred.

Governmental Fund Financial Statement:

Governmental fund financial statements (i.e., balance sheet and statement of revenues, expenditures and changes in fund balances) are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Available" means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the LAFCO, "available" means collectible within the current period or within 60 days after year-end.

Non-exchange transactions, in which the LAFCO receives value without directly giving equal value in return, include assessments and interest income. Under the accrual basis, revenue from assessments is recognized in the fiscal year for which the assessments are levied. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Deferred Outflows/Deferred Inflows of Resources:

A deferred outflow of resources is defined as a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenses/expenditure) until then. A deferred inflow of resources is defined as an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenues) until that time.

When applicable, unamortized portions of the gain and loss on refunding debt are reported as deferred inflows and deferred outflows of resources, respectively. Deferred outflows and inflows of resources are reported for the changes related to benefit plans. In addition, when an asset is recorded in governmental fund financial statements but the revenue is not available, a deferred inflow of resources is reported until such time as the revenue becomes available.

Unearned Revenue:

Unearned revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred inflows from unearned revenue. In the governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have been recorded as deferred inflows from unavailable resources.

Expenses/Expenditures:

On the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

F. <u>Fund Accounting</u>

The accounts of LAFCO are organized into one operating fund, the General Fund which has separate set of self-balancing accounts that comprise of LAFCO’s assets, deferred outflows, liabilities, deferred inflows, fund balance, revenues, and expenditures.

G. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. By state law, the Commission must adopt a final budget no later than June 15th. A public hearing must be conducted to receive comments prior to adoption. The Commissioners' satisfied these requirements.

H. Cash and Equivalents

For purposes of the statement of net position, the Commission considers all short-term highly liquid investments, including restricted assets, amounts held with fiscal agent and amounts held in the County's investment pool, to be cash and cash equivalents. Amounts held in the County's investment pool are available on demand to the Commission.

I. Cash and Investments

As described in Note 2, LAFCO's cash and investments are held with the Santa Clara County Treasury, as part of the cash and investment pool with other County Funds. In accordance with GASB Statement No. 31, investments are stated at fair value. However, the value of the pool shares in the County Treasurer's investment pool that may be withdrawn is determined on an amortized cost basis, which is different from the fair value of LAFCO's position in the pool. The County Treasurer's investment pool is subject to regulatory oversight by the Treasury Oversight Committee, as required by Section 27134 of the California Government Code. Statutes authorize the County to invest in the following:

1. Obligations of the County or any local agency and instrumentality in or of the State of California;
2. Obligations of the U.S. Treasury, agencies and instrumentalities;
3. Bankers' acceptances eligible for purchase by Federal Reserve System;
4. Commercial paper;
5. Repurchase agreements or reverse repurchase agreements;
6. Medium-term notes with a five-year maximum maturity of corporations operating within the United States and rated in the top three rating categories;
7. Guaranteed investment contracts

Investments are recorded at fair value in accordance with GASB Statement No. 72, Fair Value Measurement and Application. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction. In determining this amount, three valuation techniques are available:

- Market approach - This approach uses prices generated for identical or similar assets or liabilities. The most common example is an investment in a public security traded in an active exchange such as the NYSE.

- Cost approach - This technique determines the amount required to replace the current asset. This approach may be ideal for valuing donations of capital assets or historical treasures.

- Income approach - This approach converts future amounts (such as cash flows) into a current discounted amount.

Each of these valuation techniques requires inputs to calculate a fair value. Observable inputs have been maximized in fair value measures, and unobservable inputs have been minimized.

J. Prepaid Expenditures

LAFCO has the option of reporting expenditures in governmental funds for prepaid items either when purchased or during the benefiting period. LAFCO has chosen to report the expenditure during the benefiting period.

K. Capital Assets

Capital assets, which may include land, structures and improvements, machinery and equipment, and infrastructure assets, are reported in the government-wide financial statements. Capital assets are defined as assets with an initial individual cost of more than $5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Capital outlay is recorded as expenditures of the General Fund and as assets in the government-wide financial statements to the extent the Commission's capitalization threshold is met. Amortization of assets acquired under capital lease is included in depreciation and amortization. Currently, LAFCO has no items meeting the capital asset criteria.

L. Compensated Absences

Accumulated unpaid vacation and sick leave are recorded as a liability when future payments for such compensated absences have been earned by employees based on pay and salary rates in effect at year end. This liability is recorded in the government-wide statement of net position to reflect LAFCO's obligation to fund such costs from future operations. LAFCO includes its share of Social Security and Medicare payments made on behalf of the employees in its accrual for compensated absences. Unused vacation and sick leave are paid out upon separation from LAFCO based on the terms stated in the Memorandum of Understanding between the employees' bargaining units and LAFCO. LAFCO does not accrue for compensated absences in its governmental fund statements and recognizes liabilities for compensated absences only if they are due and payable in an event such as termination.

M. Long-Term Debt/Noncurrent Liabilities

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. LAFCO did not have any long-term debt outstanding as of June 30, 2020 but did have noncurrent obligations from benefit plans and compensated absences.

N. Accounting Estimates

The presentation 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 the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

O. Fund Balance Classifications

In accordance with Government Accounting Standards Board 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, LAFCO classifies governmental fund balances as follows:

Nonspendable fund balance includes amounts that cannot be spent either because they are not in spendable form or because of legal or contractual constraints.

Restricted fund balance includes amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

Committed fund balances includes amounts constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision-making authority and does not lapse at year-end. Committed fund balances are imposed by LAFCO's commission.

Assigned fund balance includes amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the General Manager.

Unassigned fund balance includes positive amounts within the general fund which have not been classified within the above-mentioned categories and negative fund balances in other governmental funds.

LAFCO uses restricted/committed amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, LAFCO would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

P. Net Position

Net position represents the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. In addition, deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also are included in the net investment in capital assets component of net position. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by LAFCO or through external restrictions imposed by creditors, grantors, laws or regulations of other governments. LAFCO applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Unrestricted net position reflects amounts that are not subject to any donor-imposed restrictions. This class also includes restricted contributions whose donor-imposed restrictions were met during the fiscal year. A deficit unrestricted net position may result when significant cash balances restricted for capital projects exist. Once the projects are completed, the restriction on these assets are released and converted to capital assets.

Q. Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Agency's California Public Employees' Retirement System (CalPERS) plan (the Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Plan member contributions are recognized in the period in which the contributions are due. Investments are reported at fair value.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* (GASB Statement No. 68) requires that the reported results pertain to liability and asset information within certain defined timeframes. Liabilities are based on the results of actuarial calculations performed as of June 30, 2018. For this report, the following timeframes are used for LAFCO's pension plans:

Valuation Date (VD)......................................June 30, 2018
Measurement Date (MD)...............................June 30, 2019
Measurement Period (MP).............................June 30, 2018 to June 30, 2019

R. Other Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense information about the fiduciary net position of the LAFCO's Retiree Benefits Plan (the OPEB Plan) and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis as they are reported by the OPEB Plan. For this purpose, the OPEB Plan recognizes benefit payments when due and payable in accordance with the benefit terms.

S. Upcoming Accounting and Reporting Changes

GASB Statement No. 84, *Fiduciary Activities*

The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2018. Earlier application is encouraged. LAFCO doesn't believe this statement will have a significant impact on LAFCO's financial statements.

GASB issued Statement No. 87, *Leases*

The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2019. Earlier application is encouraged. LAFCO is in the process of determining the impact this Statement will have on the financial statements.

GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of the Construction Period*

This Statement addresses interest costs incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2019. Earlier application is encouraged. LAFCO doesn't believe this statement will have a significant impact on LAFCO's financial statements.

GASB Statement No. 90, *Majority Equity Interests - an Amendment of GASB Statements No. 14 and No. 61*

The objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. This Statement also requires that a component unit in which a government has 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2018. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis. LAFCO doesn't believe this statement will have a significant impact on LAFCO's financial statements.

GASB Statement No. 91, *Conduit Debt Obligations*

The objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement also clarifies the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitment and voluntary commitments extended by issuers and arrangements associated with the debt obligations; and improving required note disclosures. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2020. Earlier application is encouraged. LAFCO doesn't believe this statement will have a significant impact on LAFCO's financial statements.

GASB Statement No. 92, *Omnibus 2020*

The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement establishes accounting and financial reporting requirements for specific issues related to leases, intra-entity transfers of assets, postemployment benefits, government acquisitions, risk financing and insurance-related activities of public entity risk pools, fair value measurements, and derivative instruments. The requirements of this Statement apply to the financial statements of all state and local governments. The requirements of this Statement were initially to be effective for financial statements for periods beginning after June 15, 2020 but have been delayed to periods beginning after June 15, 2021, pursuant to GASB Statement No. 95. Earlier application is encouraged. LAFCO is in the process of determining the impact this Statement will have on the financial statements.

GASB Statement No. 93, *Replacement of Interbank Offered Rates*

This Statement establishes accounting and financial reporting requirements related to the replacement of IBORs in hedging derivative instruments and leases. It also identifies appropriate benchmark interest rates for hedging derivative instruments. The requirements of this Statement apply to the financial statements of all state and local governments. The requirements of this Statement apply to the financial statements of all state and local governments. The requirements of this Statement were initially to be effective for financial statements for periods beginning after June 15, 2020 but have been delayed to periods beginning after June 15, 2021, pursuant to GASB Statement No. 95. Earlier application is encouraged. LAFCO is in the process of determining the impact this Statement will have on the financial statements.

GASB Statement No. 94, *Public-Private Partnerships and Public-Public Partnerships and Availability Payment Arrangements*

The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The requirements of this Statement are to be effective for financial statements for periods beginning after June 15, 2022. Earlier application is encouraged. LAFCO is in the process of determining the impact this Statement will have on the financial statements.

NOTE 2 - CASH AND INVESTMENTS

Summary of Cash and Investments

LAFCO maintained cash with the Santa Clara County Treasurer's commingled pool totaling $620,410 as of June 30, 2020.

Fair Value Measurements

GASB 72 established a hierarchy of inputs to the valuation techniques above. This hierarchy has three levels:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities.
- Level 2 inputs are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable
- Level 3 inputs are unobservable inputs, such as a property valuation or an appraisal.

Investments in the County Treasury Investment Pool are not measured using the input levels above because the District's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at $1.00 net asset value per share.

Cash in Santa Clara County Treasury

The fair value of LAFCO's investment in the county pool is reported at amounts based on LAFCO's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of the portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis. Santa Clara County investment pool funds were available for withdrawal on demand and had an average weighted maturity of 517 days.

All cash and investments are stated at fair value. Pooled investment earnings are allocated monthly based on the average cash and investment balances of the various funds of the County.

Risk Disclosures

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are described below:

a) Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to the changes in market interest rates. LAFCO manages its exposure to interest rate risk by investing in the Santa Clara County investment pool, which had a fair value of approximately $8.6 billion as of June 30, 2020.

b) Credit Risk

Credit risk is the risk of loss due to the failure of the security issuer. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investment with the County’s investment pool is governed by the County’s general investment policy. The County’s investments included U.S. government securities, medium-term corporate notes, commercial paper, certificates of deposit or obligations explicitly guaranteed by the U.S. government that are not considered to have credit risk exposure. The County’s two other investment types, LAIF and money market mutual funds, are not rated. The money pooled with the County of Santa Clara Investment Pool is not subject to a credit rating.

c) Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, LAFCO’s deposits may not be returned to it. LAFCO does not have a policy for custodial credit risk for deposits. However, the California Government code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as the money invested by LAFCO in the County of Santa Clara Investment Pool).

d) Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an investor’s holdings in a single issuer. LAFCO’s investment in the County’s commingled pool is diversified by the County Treasurer by limiting the percentage of the portfolio that can be invested in any one issuer’s name. Investments in U.S. Treasuries, U.S. Agency securities explicitly backed by the U.S., and mutual and pooled funds are not subject to this limitation. More than 5% of the County’s commingled pooled investments are invested with the Federal National Mortgage Association, Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, and Federal Farm Credit Bank.

NOTE 3 - NONCURRENT LIABILITIES

The following summarized LAFCO's noncurrent liabilities as of June 30, 2020:

Description	Balance July 01, 2019	Additions	Adjustments & Deletions	Balance June 30, 2020
Net Pension Liability	832,463	78,796	20,299	890,960
Net OPEB Liability	270,331	91,331	103,579	258,083
Compensated Absences	142,048	18,569	-	160,617
Total Noncurrent Liabilities	$ 1,244,842	$ 188,696	$ 123,878	$ 1,309,660

NOTE 4 - DEFINED BENEFIT PENSION PLAN

Plan Description

All qualified permanent and probationary employees are eligible to participate in LAFCO's Miscellaneous Employee Pension Plan (the Plan), an agent multiple employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plan are established by State statute and Authority resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website at www.calpers.ca.gov.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are equal to the product of a benefit multiplier, the employee's retirement age and final compensation. The cost of living adjustments for the CalPERS plans are applied as specified by the Public Employees' Retirement Law. The California Public Employees' Pension Reform Act (PEPRA), which took effect in January 2013, changes the way CalPERS retirement and health benefits are applied, and places compensation limits on members. As such members who established CalPERS membership on or after January 1, 2013 are known as "PEPRA" members.

The Plans' provisions and benefits in effect at June 30, 2020, are summarized as follows:

	Miscellaneous	
	Classic	PEPRA
Benefit formula	2% @ 55 2.5% @ 55	2% @ 62
Benefit vesting schedule	5 Years	5 Years
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	55-60	62
Monthly benefits as a % of eligible compensation	2.0% to 2.5%	2.00%
Required employee contribution rates	7.401%	6.750%
Required employer contribution rates	9.584%	9.584%

Employees Covered

At June 30, 2020, there were four active employees covered by the plan.

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Public Employees Retirement Fund (PERF) is determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2020, the contributions were as follows:

Contributions - employer	$	64,496
Contributions - employee		20,125
Total	$	84,621

Pension Liabilities

As of June 30, 2020, LAFCO reported a net pension liability of $890,960. LAFCO's net pension liability for the Plan is measured at a .025% proportionate share of the County of Santa Clara's miscellaneous pension plan's net pension liability, based on contributions made during the fiscal year. The net pension liability of the Plan is measured as of June 30, 2019, and the total pension liability for the Plan 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. LAFCO's proportion of the net pension liability was based on a projection of LAFCO's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. LAFCO's net pension liability for its agent multiple employer plan is measured as the total pension liability less the fiduciary net position for each plan. The change in the net pension liability for the plan is as follows:

	Total Pension Liability	Plan Fiduciary Net Position	Net pension liability
Balance at June 30, 2019	$ 2,955,886	$ 2,123,423	$ 832,463
Service cost	66,827	-	66,827
Interest	198,109	-	198,109
Differences between expected and actual experience	39,404	-	39,404
Benefit payments	(126,340)	-	(126,340)
Employer contributions	-	84,621	(84,621)
Employee contributions	-	31,754	(31,754)
Net investment income	-	130,885	(130,885)
Benefit payments	-	(126,340)	126,340
Net plan to resource movement	-	(8)	8
Administrative expense	-	(1,414)	1,414
Other	-	5	(5)
Net change	178,000	119,503	58,497
Balance at June 30, 2020	$ 3,133,886	$ 2,242,926	$ 890,960

Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

For the year ended June 30, 2020, LAFCO recognized pension expense of $156,165. At June 30, 2020, 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	
Changes of Assumptions	$	39,837	$	13,803
Differences between Expected and Actual Experience		40,074		662
Differences between Projected and Actual Investment Earnings		-		10,612
Pension Contributions Made Subsequent to Measurement Date		84,621		-
	$	164,532	$	25,077

LAFCO reported $84,621 as deferred outflows of resources related to contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ending June 30	Miscellaneous	
2020	$	49,915
2021		(5,986)
2022		5,282
2023		5,623
	$	54,834

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	2.75%
Payroll Growth	3.00%
Projected Salary Increase	(1)
Investment Rate of Return	7.375% (2)
Mortality	(3)

(1) Varies by entry age and service
(2) Net of pension plan investment expenses, including inflation
(3) Derived using CalPERS' membership data for all funds

Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.15 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.15 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 (a)	Real Return Years 11+ (b)
Global Equity	50.00%	4.80%	5.98%
Fixed Income	8.00%	1.00%	2.62%
Inflation Sensitive	28.00%	0.77%	1.81%
Private Equity	1.00%	6.30%	7.23%
Real Estate	13.00%	3.75%	4.93%
Liquidity	0.00%	0.00%	-0.92%
Total	100.00%		

(a) An expected inflation of 2% used for this period.
(b) An expected inflation of 2.92% used for this period.

Sensitivity of the Net Pension Liability to Changes in the Discount

The following presents LAFCO's net pension liability, calculated using the discount rate, as well as what 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 or 1-percentage point higher than the current rate:

	Miscellaneous
1% Decrease	6.15%
Net Pension Liability	$ 1,232,795
1% Decrease	7.15%
Net Pension Liability	$ 890,960
1% Increase	8.15%
Net Pension Liability	$ 510,444

Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

NOTE 5 - OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description

LAFCO participates in a Santa Clara County (the County) maintained cost-sharing multiple-employer defined benefit postemployment healthcare plan (the OPEB plan). The County's OPEB Plan provides healthcare benefits to eligible County, or LAFCO, employees and their dependents.

The County participates in the California Employers' Retiree Benefit Trust Fund Program (CERBT), an agent multiple-employer postemployment health plan, to fund other postemployment benefits through CalPERS. The CERBT plan's audited financial statements are available at https://www.calpers.ca.gov/docs/forms-publications/gasb-75-schedule-changes-fiduciary-net-position-2019.pdf.

Benefits Provided

All County employees hired prior to August 12, 1996, with at least five years of service after attaining age 50 are covered under the OPEB Plan upon retirement. For employees hired after August 12, 1996 and on or before June 18, 2006, the eligibility requirements were increased to a minimum of eight years of service after attaining age 50. For employees hired after June 19, 2006 and mostly on or before September 30, 2013, the eligibility requirements were increased to a minimum of ten years of service after attaining age 50, age 52 for Miscellaneous employees hired on or after January 1, 2013. For a majority of the employees hired beginning in August 2013 (mostly on and after September 30, 2013), the eligibility requirements were increased to a minimum of fifteen years of service and attaining age 50 for Safety employees and 52 for Miscellaneous employees. For all of the above, employees must retire from CalPERS directly from the County. The County does not cover premium cost associated with dependents.

Employees Covered by Benefit Terms

At June 30, 2019 (the valuation date), the benefit terms covered the following employees:

Active employees	4
Inactive employees	-
Total employees	4

Contributions

LAFCO makes contributions based on an actuarially determined rate and are approved by the authority of LAFCO's Commission through the annual budget adoption. Total contributions during the year were $25,852. Total contributions included in the measurement period were $24,639. The actuarially determined contribution was $30,704. LAFCO's contributions were 6.2% of covered employee payroll during the year.

Actuarial Assumptions

The following summarized the actuarial assumptions for the OPEB plan included in this fiscal year:

Valuation Date:	June 30, 2019
Measurement Date:	June 30, 2019
Actuarial Cost Method:	Entry-Age Actuarial Cost Method
Amortization Method:	30-Year Closed Amortization, Level Percent of
Amortization Period:	30 years
Asset Valuation Method:	Market Value
Actuarial Assumptions:	
Discount Rate	7%
Inflation	2.50%
Wage Inflation	2.75%
Salary Increases	Miscellaneous: 10.90% to 3.30%, varying by service, including wage inflation
Investment Rate of Return	7%, Net of investment expenses
Medical Cost Trend Rates:	
Non-Medicare medical plan	7% graded down to an ultimate of 4.50% over 10 years
Medicare medical plan	6.50% graded down to an ultimate of 4.50% over 8 years
Medicare Part B	4%

Discount Rate

The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially determined contribution rates. For this purpose, only employee and employer contributions that are intended to fund benefits for current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the Plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the Total OPEB Liability (TOL) as of June 30, 2019, the measurement date, for the fiscal year ended June 30, 2020.

Long-Term Expected Rate of Return

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of OPEB 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	Percentage of Portfolio	Long-Term Expected Rate of Return
International Equity	57.00%	6.960%
Fixed Income	27.00%	1.360%
Real Estate	8.00%	4.460%
Treasury Inflation Protected Securities	5.00%	3.860%
All Commodities	3.00%	3.860%
Total	100.00%	

Net OPEB Liability

LAFCO's net OPEB liability was measured as of June 30, 2019 (measurement date), and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2019 (valuation date) for the fiscal year ended June 30, 2020. The following summarizes the changes in the net OPEB liability during the year ended June 30, 2020, for the measurement date of June 30, 2019:

Fiscal Year Ended June 30, 2020 (Measurement Date June 30, 2019)	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability (Asset)
Balance at June 30, 2019	$ 504,119	$ 233,788	$ 270,331
Service cost	14,930	-	14,930
Interest in Total OPEB Liability	35,501	-	35,501
Employer contributions	-	23,466	(23,466)
Employee contributions	-	1,453	(1,453)
Difference between actual and exp experience	(30,126)	-	(30,126)
Proportionate share changes	(2,209)	(9,847)	7,639
Changes in assumptions	4,159	-	4,159
Difference between actual and exp earnings	-	14,662	(14,662)
Administrative expenses	-	(733)	733
Benefit payments	(19,358)	(19,358)	-
Implicit subsidy fullfilled	-	5,503	(5,503)
Net changes	2,897	15,146	(12,248)
Balance at June 30, 2020	$ 507,016	$ 248,934	$ 258,083

Covered Employee Payroll	$ 402,829
Total OPEB Liability as a % of Covered Employee Payroll	125.86%
Plan Fid. Net Position as a % of Total OPEB Liability	49.10%
Service Cost as a % of Covered Employee Payroll	3.71%
Net OPEB Liability as a % of Covered Employee Payroll	64.07%

Deferred Inflows and Outflows of Resources

At June 30, 2020, LAFCO reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between actual and expected experience	$ -	$ 50,085
Difference between actual and expected earnings	-	1,683
Change in assumptions	1,368	-
OPEB contribution subsequent to measurement date	25,852	-
Totals	$ 27,220	$ 51,768

Of the total amount reported as deferred outflows of resources related to OPEB, $25,852 resulting from LAFCO contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the net OPEB liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30,	
2021	$ (12,176)
2022	(12,176)
2023	(11,131)
2024	(6,946)
2025	(3,583)
Thereafter	(4,388)
Total	$ (50,400)

OPEB Expense

The following summarizes the OPEB expense by source during the year ended June 30, 2020:

Service cost	$ 14,930
Interest in TOL	35,501
Expected investment income	(16,037)
Other	(5,503)
Change in proportionate shares	10,132
Employee contributions	(1,453)
Difference between actual and expected experience	(10,945)
Difference between actual and expected earnings	(1,001)
Change in assumptions	(230)
Administrative expenses	733
OPEB Expense	**$ 26,127**

The following summarizes changes in the net OPEB liability as reconciled to OPEB expense during the year ended June 30, 2020:

Net OPEB liability ending	$	258,083
Net OPEB liability begining		(270,331)
Change in net OPEB liability		(12,248)
Changes in deferred outflows		(2,581)
Changes in deferred inflows		21,322
Employer specific changes in proportionate share		(10,132)
Employer contributions and implict subsidy		29,766
OPEB Expense	**$**	**26,127**

Sensitivity to Changes in the Discount Rate

The net OPEB liability of LAFCO, as well as what LAFCO's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher, is as follows:

	Discount Rate		
	(1% Decrease)	**7%**	**(1% Increase)**
Net OPEB Liability (Asset)	$ 320,518	$ 258,083	$ 207,042

Sensitivity to Changes in the Healthcare Cost Trend Rates

The net OPEB liability of LAFCO, as well as what LAFCO's net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than current healthcare cost trend rates, is as follows

	Trend Rate		
	(1% Decrease)	**4%**	**(1% Increase)**
Net OPEB Liability (Asset)	$ 196,393	$ 258,083	$ 339,835

NOTE 6 - COMMITMENTS AND CONTINGENCIES

Litigation

LAFCO may be exposed to various claims and litigation during the normal course of business. However, management believes there were no matters that would have a material adverse effect on LAFCO's financial position or results of operations as of June 30, 2020.

Operating Leases

LAFCO is under a current lease for building space at 777 North First Street, San Jose, California. The lease has a sixty-two-month term that expires on March 31, 2022. The base rent ranges from $3,404 to $3,982 which includes a 4% increase on the first of April every year.

As of June 30, 2020, the future minimum lease payments were as follows:

Fiscal Year Ended June 30,	Amount
2021	$ 46,254
2022	39,820
Total	$ 86,074

Total rent expense for the year ended June 30, 2020 was $44,478.

NOTE 7 - RISK MANAGEMENT

LAFCO 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. LAFCO is a member of the Special District Risk Management Authority (SDRMA). During the fiscal year ended June 30, 2020, LAFCO had the following coverages subject to the terms, conditions and exclusions as provided in the Memorandum of Coverage from SDRMA:

	Limits
Property	
Property	$ 1,000,000,000
Boiler and Machinery	$ 100,000,000
Pollution	$ 2,000,000
Cyber	Limits on File
General Liability	
Bodily Injury	$ 2,500,000
Property Damage	$ 2,500,000
Public Officials Personal	$ 500,000
Employment Benefits	$ 2,500,000
Employee/Public Officials E&O	$ 2,500,000
Employment Practices Liability	$ 2,500,000
Employee/Public Officials Dishonesty	$ 1,000,000
Auto Liability	
Auto Bodily Injury	$ 2,500,000
Auto Property Damage	$ 2,500,000
Uninsured Motorist	Limits on File
Workers' Compensation	
Employers Liability	$ 5,000,000
Workers' Compensation	Statutory

Workers' compensation coverage as noted above is for Commissioners while employees are covered by Santa Clara County. There have not been any claims in any of the last three fiscal years and there were no reductions in LAFCO's insurance coverage during the current year. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage.

NOTE 8 - SUBSEQUENT EVENT

Management has evaluated all subsequent events from the statement of financial position date of June 30, 2020, through the date the financial statements were available to be issued, October 11, 2020. Beginning in March 2020, the United States economy began suffering adverse effects from the COVID 19 Virus Crisis ("CV19 Crisis"). As of the date of issuance of the financial statements, LAFCO had not suffered a material adverse impact from the CV19 Crisis. However, the future impact of the CV19 Crisis cannot be reasonably estimated.

REQUIRED SUPPLEMENTARY INFORMATION

Local Agency Formation Commission of Santa Clara County

Schedule of Revenues, Expenditures and Changes in Fund Balance

Budget to Actual (GAAP)

General Fund

For the Fiscal Year Ended June 30, 2020

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual (GAAP Basis)	Positive - (Negative)
Revenues:				
Intergovernmental	$ 1,145,712	$ 1,145,712	$ 1,149,072	$ 3,360
Charges for services	35,000	35,000	7,587	(27,413)
Investment income	6,000	6,000	18,176	12,176
Total revenues	1,186,712	1,186,712	1,174,835	(11,877)
Expenditures:				
Current:				
Employee services	772,591	772,591	744,439	28,152
Professional services	305,853	305,853	198,035	107,818
Commission fees	10,000	10,000	4,600	5,400
Facilities	44,478	44,478	44,478	-
Insurance	6,000	6,000	5,893	107
Supplies	21,500	21,500	3,229	18,271
Memberships	11,836	11,836	11,822	14
Travel	19,400	19,400	7,604	11,796
Miscellaneous	2,500	2,500	1,379	1,121
Total expenditures	1,194,158	1,194,158	1,021,479	172,679
Net change in fund balance	(7,446)	(7,446)	153,356	160,802
Fund balance beginning	349,288	349,288	349,288	-
Prior period adjustment	2,835	2,835	2,835	-
Fund balance beginning - adjusted	352,123	352,123	352,123	-
Fund balance ending	$ 344,677	$ 344,677	$ 505,479	$ 160,802

LAFCO employs budget control by object codes and by individual appropriation accounts. Budgets are prepared on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. Expenditures cannot legally exceed appropriations by major object code. The originally adopted and final revised budgets for the General Fund are presented as Required Supplementary Information. The basis of budgeting is the same as GAAP.

Local Agency Formation Commission of Santa Clara County

Schedule of Contributions for Pension Plans
For the Fiscal Year Ended June 30, 2020

Fiscal Year Ended	2015	2016	2017	2018	2019	2020
Actuarially Determined Contributions (ADC)	$ 50,865	$ 56,192	$ 64,817	$ 72,514	$ 77,923	$ 84,621
Contributions in Relation to ADC	50,865	56,192	64,817	72,514	77,923	84,621
Contribution Deficiency (Excess)	-	-	-	-	-	-
Covered Payroll	**$ 322,075**	**$ 335,288**	**$ 356,470**	**$ 381,587**	**$ 421,278**	**$ 390,298**
Contributions as a Percentage of Covered Payroll	**15.79%**	**16.76%**	**18.18%**	**19.00%**	**18.50%**	**21.68%**

Notes to Schedule:

Valuation Date: June 30, 2019

Assumptions Used: Entry Age Normal
Inflation Assumed at 2.75%.
Investment Rate of Returns set at 7.5%.
The probabilities of mortality are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011. Pre-retirement and Post-retirement mortality rates include 20 years of projected mortality improvement using Scale BB published by the Society of Actuaries.
Asset valuation methis is Market Value of Assets.
Payroll growth 3.00%.
The probabilities of Retirement are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011.

Fiscal year 2015 was the first year of implementation, therefore only five years are shown.

The CalPERS discount rate was increased from 7.5% to 7.65% in fiscal year 2016 and then decreased from 7.65% to 7.15% in fiscal year 2018.

The CalPERS mortality assumptions was adjusted in fiscal year 2019.

Local Agency Formation Commission of Santa Clara County

Schedule of Changes in Net Pension Liability

For the Fiscal Year Ended June 30, 2020

Fiscal Year	2015	2016	2017	2018	2019	2020
Total pension liability						
Service cost	$ 54,769	$ 54,109	$ 56,283	$ 66,427	$ 72,114	$ 66,827
Interest	162,515	171,403	180,987	189,609	206,148	198,109
Changes of assumptions	-	(42,028)	-	158,690	(28,601)	-
Differences between expected and actual experience	-	(3,558)	3,559	(2,638)	19,945	39,404
Benefit payments	(94,224)	(101,138)	(108,619)	(116,090)	(130,376)	(126,340)
Change in proportionate share	-	-	-	-	-	-
Net change in Total Pension Liability	123,060	78,787	132,210	295,998	139,230	178,000
Total pension liability - beginning	2,186,600	2,309,660	2,388,448	2,520,658	2,816,656	2,955,886
Total pension liability - ending	$ 2,309,660	$ 2,388,448	$ 2,520,658	$ 2,816,656	$ 2,955,886	$ 3,133,886
Plan fiduciary net position						
Employer contributions	$ 50,865	$ 56,192	$ 64,817	$ 72,514	$ 77,923	$ 84,621
Employee contributions	27,292	26,336	28,002	29,734	31,795	31,754
Net investment income	266,077	39,872	9,509	199,967	174,067	130,885
Benefit payments	(94,224)	(101,138)	(108,619)	(116,090)	(130,376)	(126,340)
Net plan to resource movement	-	(156)	47	(28)	3	(8)
Administrative expense	-	(2,032)	(1,099)	(2,651)	(3,199)	(1,414)
Other	-	-	-	-	(6,074)	5
Net change in plan fiduciary net position	250,011	19,074	(7,342)	183,446	144,139	119,503
Plan fiduciary net position - beginning	1,534,095	1,784,106	1,803,180	1,795,838	1,979,284	2,123,423
Plan fiduciary net position - ending	$ 1,784,106	$ 1,803,180	$ 1,795,838	$ 1,979,284	$ 2,123,423	$ 2,242,926
Net pension liability	$ 525,555	$ 585,268	$ 724,820	$ 837,372	$ 832,463	$ 890,960
Plan fiduciary net position as a percentage of the total pension liability	77.25%	75.50%	71.24%	70.27%	71.84%	71.57%
Covered payroll	312,413	322,075	335,288	356,470	381,587	421,278
Net pension liability as a percentage of covered payroll	168.22%	181.72%	216.18%	234.91%	218.16%	211.49%
Total pension Liability as a percentage of covered payroll	739.30%	741.58%	751.79%	790.15%	774.63%	743.90%

Fiscal year 2015 was the first year of implementation, therefore only five years are shown.

The CalPERS discount rate was increased from 7.5% to 7.65% in fiscal year 2016 and then decreased from 7.65% to 7.15% in fiscal year 2018.

The CalPERS mortality assumptions were adjusted in fiscal year 2019.

Local Agency Formation Commission of Santa Clara County

Schedule of Contributions for OPEB Plans

For the Fiscal Year Ended June 30, 2020

Fiscal Year Ended	2018	2019	2020
Actuarially determined contribution (ADC)	$ 29,697	$ 29,697	$ 30,704
Less: actual contribution in relation to ADC	(34,427)	(24,639)	(25,852)
Contribution deficiency (excess)	$ (4,730)	$ 5,058	$ 4,852
Covered employee payroll	$ 349,612	$ 397,559	$ 402,829
Contrib. as a % of covered employee payroll	9.85%	6.20%	6.42%

Notes to Schedule:

Assumptions and Methods

Valuation Date:	June 30, 2019
Measurement Date:	June 30, 2019
Actuarial Cost Method:	Entry-Age Actuarial Cost Method
Amortization Method:	30-Year Closed Amortization, Level Percent of Payroll
Amortization Period:	30 years
Asset Valuation Method:	Market Value
Actuarial Assumptions:	
Discount Rate	7.00%
Inflation	2.50%
Wage Inflation	2.75%
Salary Increases	Miscellaneous: 9.75% to 3.25%, vary by service, including wage inflation. Safety: 15.95% to 4.25%, vary by service, including wage inflation.
Investment Rate of Return	7.0%, Net of investment expenses
Medical Cost Trend Rates:	
Non-Medicare medical plan	6.75% graded down to an ultimate of 4.50% over 9 years
Medicare medical plan	6.25% graded down to an ultimate of 4.50% over 7 years
Medicare Part B	4.50%

Other Notes

GASB 75 requires a schedule of contributions for the last ten fiscal years, or for as many years as are available if less than ten years are available. GASB 75 was adopted as of June 30, 2018.

There were no changes in benefit terms.

There were no changes in discount rates, inflation, or wage inflation.

Local Agency Formation Commission of Santa Clara County

Schedule of Changes in Net OPEB Liability
For the Fiscal Year Ended June 30, 2020

Fiscal Year Ended	2018	2019	2020
Total OPEB liability			
Service cost	$ 14,472	$ 13,122	$ 14,930
Interest	34,597	20,649	35,501
Differences between expected and actual experience	(40,235)	(3,650)	(30,126)
Changes of assumptions	(9,061)	3,835	4,159
Benefit payments	(16,867)	(8,877)	(19,358)
Proportionate share changes	-	21,414	(2,209)
Other	-	(13,486)	-
Net change in Total OPEB Liability	(17,095)	33,007	2,897
Total OPEB Liability - beginning	488,207	471,112	504,119
Total OPEB Liability - ending	$ 471,112	$ 504,119	$ 507,016
Plan fiduciary net position			
Employer contributions	$ 28,891	$ 44,336	$ 23,466
Proportionate share changes	-	8,578	(9,847)
Employee contributions	1,325	-	1,453
Net investment income	16,679	1,156	14,662
Benefit payments	(16,867)	(8,877)	(19,358)
Implicit subsidy fullfilled	-	-	5,503
Other	-	(126)	-
Administrative expense	(563)	-	(733)
Adjustments	3,999	-	-
Net change in plan fiduciary net position	33,464	45,067	15,146
Plan fiduciary net position - beginning	155,257	188,721	233,788
Plan fiduciary net position - ending	$ 188,721	$ 233,788	$ 248,934
Net OPEB liability (asset)	$ 282,391	$ 270,331	258,083
Plan fiduciary net position as a percentage of the total OPEB liability	40.06%	46.38%	49.10%
Covered Employee Payroll	$ 339,998	$ 349,612	$ 397,559
Net OPEB liability as a percentage of covered employee payroll	83.06%	77.32%	64.92%
Total OPEB liability as a percentage of covered employee payroll	138.56%	144.19%	127.53%

Other Notes

GASB 75 requires a schedule of contributions for the last ten fiscal years, or for as many years as are available if less than ten years are available. GASB 75 was adopted as of June 30, 2018.

There were no changes in benefit terms.

There were no changes in discount rates, inflation, or wage inflation.

OTHER INDEPENDENT AUDITOR'S REPORTS

Chavan and Associates, llp
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*

To the Commissioners
Local Agency Formation Commission of Santa Clara County
San Jose, California

We have audited, 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, the financial statements of LAFCO as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise LAFCO's basic financial statements, and have issued our report thereon dated October 11, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered 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 LAFCO's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting 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 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

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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 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.

C & A LLP

October 11, 2020
San Jose, California

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To the Commission
Local Agency Formation Commission of Santa Clara County

We have audited the basic financial statements of the Local Agency Formation Commission of Santa Clara County as of and for the year ended June 30, 2020, and have issued our report thereon dated October 11, 2020. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility under Generally Accepted Auditing Standards and *Government Auditing Standards*

As communicated in our engagement letter, our responsibility, as described by professional standards, is to form and express an opinion(s) about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Local Agency Formation Commission of Santa Clara County solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Other Information in Documents Containing Audited Financial Statements

Pursuant to professional standards, our responsibility as auditors for other information in documents containing Local Agency Formation Commission of Santa Clara County's audited financial statements doesn't extend beyond the financial information identified in the audit report, and we are not required to perform any procedures to corroborate such other information.

Our responsibility also includes communicating to you any information which we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.

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Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to management.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Local Agency Formation Commission of Santa Clara County is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during June 30, 2020. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on 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 markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements include accumulated depreciation related to capital assets and unfunded liabilities and expenses based on assumptions in actuarial studies performed on defined benefit pension plans (GASB 68 and GASB 75).

We evaluated the key factors and assumptions used to develop the identified estimates and determined that it is reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting Local Agency Formation Commission of Santa Clara County's financial statements relate to: cash and investments, capital assets, long-term obligations and defined benefit pension plans.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

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Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. None of the misstatements identified by us as a result of our audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole or applicable opinion units.

In addition, professional standards require us to communicate to you all material, corrected and uncorrected amisstatements that were brought to the attention of management as a result of our audit procedures. There were no material, corrected or uncorrected misstatements noted during the audit.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the Local Agency Formation Commission of Santa Clara County's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in a separate letter dated October 11, 2020.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Findings or Issues

In the normal course of our professional association with the Local Agency Formation Commission of Santa Clara County, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Local Agency Formation Commission of Santa Clara County's auditors.

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

C & A LLP

October 11, 2020
San Jose, California

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Chavan and Associates, llp
Certified Public Accountants

Local Agency Formation Commission of Santa Clara County
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Introduction and Internal Controls

In planning and performing our audit of the basic financial statements of the , as of and for the year ended June 30, 2020, 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, we considered ’s internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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 entity’s internal control. Accordingly, we do not express an opinion on the effectiveness of ’s internal control over financial reporting.

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 LAFCO’s financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. 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.

Upcoming Accounting Pronouncements

The following is a summary of new accounting pronouncements from the Financial Accounting Standards Board:

GASB Statement No. 84, *Fiduciary Activities*

The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2018 but have been delayed to periods

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beginning after December 15, 2019, pursuant to GASB Statement No. 95. Earlier application is encouraged. LAFCO doesn't believe this statement will have a significant impact on LAFCO's financial statements.

GASB issued Statement No. 87, *Leases*

The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2019 but have been delayed to periods beginning after December 15, 2021, pursuant to GASB Statement No. 95. Earlier application is encouraged. LAFCO doesn't believe this statement will have a significant impact on LAFCO's financial statements.

GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of the Construction Period*

This Statement addresses interest costs incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2019 but have been delayed to periods beginning after December 15, 2020, pursuant to GASB Statement No. 95. Earlier application is encouraged. LAFCO doesn't believe this statement will have a significant impact on LAFCO's financial statements.

GASB Statement No. 90, *Majority Equity Interests - an Amendment of GASB Statements No. 14 and No. 61*

The objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. This Statement also requires that a component unit in which a government has 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2018, but have been delayed to periods beginning after December 15, 2019, pursuant to GASB Statement No. 95.

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The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis. LAFCO doesn't believe this statement will have a significant impact on LAFCO's financial statements.

GASB Statement No. 91, *Conduit Debt Obligations*

The objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement also clarifies the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitment and voluntary commitments extended by issuers and arrangements associated with the debt obligations; and improving required note disclosures. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2020 but have been delayed to periods beginning after December 15, 2021, pursuant to GASB Statement No. 95. Earlier application is encouraged. LAFCO doesn't believe this statement will have a significant impact on LAFCO's financial statements.

GASB Statement No. 92, *Omnibus 2020*

The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement establishes accounting and financial reporting requirements for specific issues related to leases, intra-entity transfers of assets, postemployment benefits, government acquisitions, risk financing and insurance-related activities of public entity risk pools, fair value measurements, and derivative instruments. The requirements of this Statement apply to the financial statements of all state and local governments. The requirements of this Statement were initially to be effective for financial statements for periods beginning after June 15, 2020 but have been delayed to periods beginning after June 15, 2021, pursuant to GASB Statement No. 95. Earlier application is encouraged. LAFCO doesn't believe this statement will have a significant impact on LAFCO's financial statements.

GASB Statement No. 93, *Replacement of Interbank Offered Rates*

This Statement establishes accounting and financial reporting requirements related to the replacement of IBORs in hedging derivative instruments and leases. It also identifies appropriate benchmark interest rates for hedging derivative instruments. The requirements of this Statement apply to the financial statements of all state and local governments. The requirements of this Statement apply to the financial statements of all state and local governments. The requirements of this Statement were initially to be effective for financial statements for periods beginning after June 15, 2020 but have been delayed to periods beginning after June 15, 2021, pursuant to GASB Statement No. 95. Earlier

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application is encouraged. LAFCO doesn't believe this statement will have a significant impact on LAFCO's financial statements.

GASB Statement No. 94, *Public-Private Partnerships and Public-Public Partnerships and Availability Payment Arrangements*

The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The requirements of this Statement are to be effective for financial statements for periods beginning after June 15, 2022. Earlier application is encouraged. LAFCO doesn't believe this statement will have a significant impact on LAFCO's financial statements.

Purpose of Communication

The purpose of this communication, which is an integral part of our audit, is to describe, for management and those charged with governance, the scope of our testing of internal control and the results of that testing, and communicate additional information that may be relevant to future Organization decision making. Accordingly, this communication is not intended to be and should not be used for any other purpose.

C & A LLP

October 11, 2020
San Jose, California

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Chavan and Associates, llp
Certified Public Accountants

October 11, 2020

The Honorable Commissioners
Local Agency Formation Commission of Santa Clara County
San Jose, California

This letter is provided in connection with our engagement to audit the basic financial statements of Local Agency Formation Commission of Santa Clara County (the Commission) as of and for the year ended June 30, 2020. Professional standards require that we communicate with you certain items including our responsibilities with regard to the financial statement audit, the compliance audit, and the planned scope and timing of our audit.

Our Responsibilities

As stated in our engagement letter dated July 27, 2018, we are responsible for conducting our audit in accordance with auditing standards generally accepted in the United States of America (U.S. GAAS), *Government Auditing Standards* of the Comptroller General of the United States of America for the purpose of forming and expressing opinions on the financial statements. Our audit does not relieve you or management of your respective responsibilities.

With respect to any nonattest services we perform, the Commission's management is responsible for (a) making all management decisions and performing all management functions; (b) assigning a competent individual to oversee the services; (c) evaluating the adequacy of the services performed; (d) evaluating and accepting responsibility for the results of the services performed; and (e) establishing and maintaining internal controls, including monitoring ongoing activities. Nonattest services include the following:

1. Preparation of the basic financial statements.
2. Preparation of a template MD&A for the Commission to utilize in its preparation of the MD&A.
3. Preparation of updated tables for the MD&A (no analysis will be provided).
4. Preparation of RSI schedules except for the MD&A.
5. Preparation of the notes to financial statements and note disclosures related to each deliverable previously noted.

These items will be prepared from information prepared and provided by the Commission and/or third parties during our audit, such as the Commission's trial balance or actuarial valuation reports. We will not prepare communication or create any of the information to be included in these schedules. The objective is to present this information in the Commission's reporting packages as required by GASB.

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Planned Scope of the Audit

Our audit will include examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. Our audit is designed to provide reasonable, but not absolute, assurance about whether the financial statements as a whole are free of material misstatement, whether due to error, fraudulent financial reporting, misappropriation of assets, or violations of laws or governmental regulations. Because of this concept of reasonable assurance and because we will not examine all transactions, there is a risk that material misstatements may exist and not be detected by us.

Our audit will include obtaining an understanding of the entity and its environment, including its internal control, sufficient to assess the risks of material misstatement of the financial statements and as a basis for designing the nature, timing, and extent of further audit procedures. However, we will communicate to you at the conclusion of our audit, significant matters that are relevant to your responsibilities in overseeing the financial reporting process, including any material weaknesses, significant deficiencies, and violation of laws or regulations that come to our attention.

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

Respectfully,

C & A LLP

San Jose, California

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SANTA CLARA LAFCO

Local Agency Formation Commission of Santa Clara County
777 North First Street
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October 11, 2020

Chavan & Associates, LLP
1475 Saratoga Ave, Suite 180
San Jose, CA 95129

This representation letter is provided in connection with your audit of the basic financial statements including government-wide financial statements and fund financials statements of the Local Agency Formation Commission of Santa Clara County (LAFCO) as of June 30, 2020 and for the year then ended, and the related notes to the financial statements, for the purpose of expressing opinions on whether the basic financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows, where applicable, of the various opinion units of the LAFCO in accordance with accounting principles generally accepted for governments in the United States of America (U.S. GAAP).

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

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of October 11, 2020:

Financial Statements

- We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter for the preparation and fair presentation of the financial statements of the various opinion units referred to above in accordance with U.S. GAAP.
- We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
- We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- We acknowledge our responsibility for compliance with the laws, regulations, and provisions of contracts and grant agreements.
- We have reviewed, approved, and taken responsibility for the financial statements and related notes.

- We have a process to track the status of audit findings and recommendations, as applicable.
- We have identified and communicated to you all previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
- Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP, as applicable.
- All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
- We have reviewed and approved the various adjusting journal entries that were proposed by you for recording in our books and records and reflected in the financial statements.
- The effects of uncorrected misstatements summarized and aggregated by you during the current engagement are immaterial, both individually and in the aggregate, to the applicable opinion units and to the financial statements as a whole.
    - There were no uncorrected misstatements to be evaluated
- The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP, if applicable.
- All component units, as well as joint ventures with an equity interest, are included and other joint ventures and related organizations are properly disclosed, if applicable.
- All funds and activities are properly classified.
- All funds that meet the quantitative criteria in GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus* as amended, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, for presentation as major are identified and presented as such and all other funds that are presented as major are considered important to financial statement users.
- All components of net position, nonspendable fund balance, and restricted, committed, assigned, and unassigned fund balance are properly classified and, if applicable, approved.
- Our policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position/fund balance are available is appropriately disclosed and net position/fund balance is properly recognized under the policy.
- All revenues within the statement of activities have been properly classified as program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
- All expenses have been properly classified in or allocated to functions and programs in the statement of activities, and allocations, if any, have been made on a reasonable basis.

- All interfund and intra-entity transactions and balances have been properly classified and reported.
- Special items and extraordinary items have been properly classified and reported, if applicable.
- Deposit and investment risks have been properly and fully disclosed.
- Capital assets, including infrastructure assets, are properly capitalized, reported, and if applicable, depreciated.
- All required supplementary information is measured and presented within the prescribed guidelines.

- With regard to investments and other instruments reported at fair value:
  - The underlying assumptions are reasonable and they appropriately reflect management's intent and ability to carry out its stated courses of action.
  - The measurement methods and related assumptions used in determining fair value are appropriate in the circumstances and have been consistently applied.
  - The disclosures related to fair values are complete, adequate, and in accordance with U.S. GAAP.
  - There are no subsequent events that require adjustments to the fair value measurements and disclosures included in the financial statements.
- With respect to the attached nonattest service(s), we have performed the following:
  - Made all management decisions and performed all management functions;
  - Assigned a competent individual to oversee the services;
  - Evaluate the adequacy of the services performed;
  - Evaluated and accepted responsibility for the result of the service performed; and
  - Established and maintained internal controls, including monitoring ongoing activities.
- Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, line of credit, or similar arrangements have been properly disclosed.
- We believe that the actuarial assumptions and methods used to measure pension and other postemployment benefit liabilities and costs for financial accounting purposes are appropriate in the circumstances.

Required Supplementary Information

With respect to the required supplementary information accompanying the financial statements (as identified in the audit report table of contents):

- We acknowledge our responsibility for the presentation of the required supplementary information in accordance with U.S. GAAP and GASB.
- We believe the required supplementary information, including its form and content, is measured and fairly presented in accordance with U.S. GAAP and GASB.

- The methods of measurement or presentation have not changed from those used in the prior period except for the effects from the implementation of new GASB statements.
- We believe the following significant assumptions or interpretations underlying the measurement or presentation of the pension and OPEB schedules, and the basis for our assumptions and interpretations, are reasonable and appropriate in the circumstances:
    - Pension required supplementary information:
        - Significant assumptions include the actuarial cost method, amortization method, amortization period, inflation rates, investment rate of return and mortality tables.
        - The basis for these assumptions comes from information provided by CalPERS in their audited GASB 68 Accounting Valuation Reports and annual valuation reports used to determine the annual required contributions.
    - Other post-employment benefits required supplementary information:
        - Significant assumptions include the actuarial cost method, amortization method, amortization period, inflation rates, investment rate of return, mortality tables, and healthcare cost trends rate.
        - The basis for these assumptions comes from information provided by Segal in their Actuarial Valuation report as of June 30, 2019 for County of Santa Clara.

Information Provided

- We have provided you with:
    - Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements of the various opinion units referred to above, such as records, documentation, meeting minutes, and other matters;
    - Additional information that you have requested from us for the purpose of the audit; and
    - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- All transactions have been recorded in the accounting records and are reflected in the financial statements.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
    - Management;
    - Employees who have significant roles in internal control; or
    - Others where the fraud could have a material effect on the financial statements.
- We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, vendors, regulators, or others.
- We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the financial statements.

- We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware, as applicable.
- There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices.
- The Local Agency Formation Commission of Santa Clara County has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
- We have identified and disclosed to you the laws, regulations, and provisions of contracts and grant agreements that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
- There are no:
    - Violations or possible violations of laws or regulations, or provisions of contracts or grant agreements whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, including applicable budget laws and regulations.
    - Unasserted claims or assessments that our lawyer has advised are probable of assertion and must be disclosed in accordance with GASB-62.
    - Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB-62.
    - Continuing disclosure consent decree agreements or filings with the Securities and Exchange Commission and we have filed updates on a timely basis in accordance with the agreements (Rule 240, 15c2-12).
- The Local Agency Formation Commission of Santa Clara County has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset or future revenue been pledged as collateral, except as disclosed to you.
- We have complied with all aspects of grant agreements and other contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
- We have provided to you our views on reported audit findings, conclusions, and recommendations, as well as planned corrective actions.

npalacherla

(Neelima Palacherla, Executive Officer)