SAN DIEGO LOCAL AGENCY FORMATION COMMISSION

SAN DIEGO, CALIFORNIA

ANNUAL FINANCIAL REPORT

JUNE 30, 2023

O'CONNOR & COMPANY

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O'CONNOR & COMPANY

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INDEPENDENT AUDITORS' REPORT

Commissioners
San Diego Local Agency Formation Commission
San Diego, California

Report on the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities and the major fund of the San Diego Local Agency Formation Commission as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise San Diego Local Agency Formation Commission's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of San Diego Local Agency Formation Commission, as of June 30, 2023, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of San Diego Local Agency Formation Commission, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and 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. In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about San Diego Local Agency Formation Commission's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the Unites States of America will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with auditing standards generally accepted in the Unites States of America, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 San Diego Local Agency Formation Commission's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about San Diego Local Agency Formation Commission's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (pages 3-6) and the required supplementary information (page 30-35), which follows this report letter, and the other required supplementary information 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.

O'Connor & Company

O'Connor & Company

Novato, California
May 30, 2024

This section of San Diego County Local Agency Formation Commission's (LAFCo's or the Commission's) basic financial statements presents management's overview and analysis of the financial activities of the organization for the fiscal year ended June 30, 2023. We encourage the reader to consider the information presented here in conjunction with the basic financial statements as a whole.

The required financial statements include the Statement of Net Position and Governmental Funds Balance Sheet; and the Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances.

These statements are supported by notes to the basic financial statements. All sections must be considered together to obtain a complete understanding of the financial picture of LAFCo.

Financial Highlights

- LAFCo finished June 30, 2023 with a net position of $20,628, which includes all pension, post-employment liabilities. This amount represents an overall change of $51,392 from the prior fiscal year total of $(30,764).

Fund Level

- LAFCo finished June 30, 2023 with a total fund balance of $1,613,310. The unassigned portion of the fund balance totaled $1,000,810 with the remainder - $612,500 - dedicated to specified uses as follows:
  - The committed portion of the LAFCo fund balance totaled $550,000 and was dedicated for opportunity and stabilization purposes.
  - The assigned portion of the LAFCo fund balance totaled $62,500 and was dedicated for special legal expenses and/or authorized fee waivers.
- LAFCo's fund balance on June 30, 2023 represents an overall change of $108,369 over the prior fiscal year. This change represents the overall difference between LAFCo's actual operating revenues and actual operating expenses during the fiscal year.

The Basic Financial Statements

The Basic Financial Statements comprise the Combined Government-wide Financial Statements and the Fund Financial Statements; these two sets of financial statements provide two different views of LAFCo's financial activities and financial position.

The Government-wide Financial Statements provide a longer-term view of LAFCo's activities as a whole and comprise the Statement of Net Position and the Statement of Activities. The Statement of Net Position provides information about the financial position of LAFCo, including all its capital assets and long-term liabilities on a full accrual basis, like that used by corporations. The Statement of Activities provides information about all LAFCo's revenues and all its expenses, also on a fully accrual basis, with the emphasis on measuring net revenues or expenses of LAFCo's programs. The Statement of Activities explains in detail the change in Net Position for the year.

All LAFCo's activities are grouped into Government Activities, as explained below.

The Fund Financial Statements report LAFCo's operations in more detail than the Government-wide statements and focus primarily on the short-term activities of LAFCo's Major Funds. The Fund Financial Statements measure only current revenues and expenditures and fund balances; they exclude capital assets, long-term debt, and other long-term amounts.

Major Funds account for the major financial activities of LAFCo and are presented individually. Major Funds are explained below.

The Government-wide Financial Statements

Government-wide Financial Statements are prepared on the accrual basis, which means they measure the flow of all economic resources of LAFCo. The Statement of Net Position and the Statement of Activities present information about the following:

Governmental Activities – LAFCo's basic services are governmental activities. These services are supported by specific general revenues from local agencies.

Fund Financial Statements

The Fund Financial Statements provide detailed information about each of LAFCo's most significant funds, called Major Funds. The concept of Major Funds, and the determination of which are Major Funds, was established by GASB Statement No. 34 and replaces the concept of combining like funds and presenting them in total. Instead, each Major Fund is presented individually, with all Non-major Funds summarized and presented only in a single column. Major Funds present the major activities of LAFCo for the year and may change from year to year because of changes in the pattern of LAFCo's activities. In LAFCo's case, there is only one Major Governmental Fund.

Governmental Fund Financial Statements are prepared on a modified accrual basis, which means they measure only current financial resources and uses. Capital assets and other long-lived assets, along with long-term liabilities, are not presented in the Governmental Fund Financial Statements.

Comparisons of Budget and Actual financial information are presented for the General Fund.

Governmental Activities

Table 1
Governmental Net Position

	2023 Governmental Activities	2022 Governmental Activities
Current assets	$ 1,770,011	$ 1,647,828
Right to use assets, net of amortization	998,077	1,117,846
Total assets	2,768,088	2,765,674
Deferred outflows of resources	1,150,593	617,431
Current liabilities	156,701	142,887
Non-current liabilities	3,391,240	2,535,566
Total liabilities	3,547,941	2,678,453
Deferred inflows of resources	350,112	735,416
Net position		
Net investment in capital assets	(58,500)	(30,752)
Unrestricted	79,128	(12)
Total net position	$ 20,628	$ (30,764)

The Statement of Activities presents program revenues and expenses and general revenues in detail. All of these are elements in the Changes in Governmental Net Position summarized below.

Table 2
Changes in Governmental Net Position

	2023 Governmental Activities	2022 Governmental Activities
Expenses		
General government	$ 2,231,836	$ 1,980,999
Total expenses	2,231,836	1,980,999
Revenues		
Program revenues:		
Charges for services	310,014	196,351
Total program revenues	310,014	196,351
General revenues:		
Apportionment	1,804,266	1,693,700
Slate grants	131,105	80,372
Interest income	37,843	5,087
Total general revenues	1,973,214	1,779,159
Total revenues	2,283,228	1,975,510
Change in net position	$ 51,392	$ (5,489)

Overview of Required Financial Statements

LAFCo's financial records are managed by the agency in combination with maintaining accounts with the County of San Diego (primary) and San Diego County Credit Union (secondary) as of June 30, 2023.

- The Condensed Statement of Net Position provides an overview of LAFCo's assets (or resources) and liabilities (or obligations).
- The Condensed Statement of Revenues, Expenditures and Changes in Net Position summarizes LAFCo's revenues, expenditures, and change in fund balance. The Supplemental Schedules of Revenues, Expenditures, and Changes in Fund Balance, Budget and Actual contained in the audit report provides detailed information regarding (a) budgeted revenues and expenses compared to (b) actual revenues and expenses.

Agency Assets

LAFCo's assets and deferred outflows at June 30, 2023 totaled $3,918,681. Current assets with the expectation they could be readily liquidated represent over 45% of the total amount and are tied to cash and investments. Non-current assets make up 55% of the total amount and are tied to the right to use assets and specifically office space lease.

Agency Liabilities

LAFCo's liabilities and deferred inflows at June 30, 2023 totaled $3,898,053. Current liabilities representing obligations owed in the near term represent 4% of the total amount and are largely attributed to covering accounts payable and accrued expenses. Non-current liabilities make up 96% of the total and are predominately tied to LAFCo's pension obligations through the San Diego County Employees' Retirement Association and office space lease liability.

Conditions Affecting Current Financial Position
LAFCo's current economic condition, as it appears on the balance sheet reflects financial stability. The Commission and its Executive Officer will continue to maintain a watchful eye over expenditures and remain committed to sound and transparent fiscal management practices to deliver the highest quality service to the people of San Diego County. This includes utilizing the fund balance to offset and lower local agency apportionments so long as LAFCo maintains a minimum unassigned balance of no less than 33.3% of budgeted operating expenses. There are no known conditions adversely affecting the Commission's current financial condition.

Capital & Right to Use Assets

At June 30, 2023 LAFCo had $-0- in capitalized furniture and equipment. The Commission's capital assets are discussed in detail in Note 4.

At June 30, 2023 LAFCo had 998,077 in capitalized right to use assets consisting of LAFCo office space. The Commission's right to use assets is discussed in detail in Note 5.

Debt Administration

LAFCo made all scheduled repayments of existing debt. Each of LAFCo's debt issues is discussed in detail in Note 5 to the basic financial statements. As of June 30, 2023, LAFCo's debt comprised:

Net pension liability	$ 2,106,969
Pension obligation bonds	128,562
Compensated absences	67,615
Other post-employment benefits	31,517
Lease liability	1,056,577
Total	$ 3,391,240

Economic Outlook and Major Initiatives

LAFCo is responsible under statute to annually review its organizational needs and adopt an operating budget accordingly with mandatory funding drawn from local agencies. State law also specifies that the operating budget shall be equal to the budget adopted for the previous fiscal year unless LAFCo formally finds any reduced costs will allow the Commission to nonetheless meet its prescribed regulatory and planning duties. These statutory provisions provide LAFCo full discretion in setting up and collecting local agency apportionments to meet budgeted expenses with the latter aligned to support annual workplans.

It is anticipated near-term annual workplans will continue to focus LAFCo resources in preparing municipal service reviews and associated sphere of influence updates in the northern and coastal communities in San Diego County.

Contacting LAFCo's Financial Management

The basic financial statements are intended to provide citizens, local funding agencies, and creditors with a general overview of LAFCo's finances and accountability therein. If there are any questions or a need for additional financial information, the LAFCo Executive Officer can be reached at (619) 321-3380 or at San Diego Local Agency Formation Commission, 2550 Fifth Avenue, Suite 725, San Diego, CA 92103.

Additional financial information – including past fiscal year audits – is available online at www.sdlafco.org.

San Diego Local Agency Formation Commission
STATEMENT OF NET POSITION
June 30, 2023

ASSETS	
Cash and investments	$ 1,708,664
Interest receivable	61,347
Total current assets	1,770,011
Noncurrent assets:	
Right to use assets net accumulated amortization	998,077
Total noncurrent assets	998,077
Total assets	2,768,088
DEFERRED OUTFLOW OF RESOURCES	
Deferred outflow of resources - pension	1,141,012
Deferred outflow of resources - OPEB	9,581
Total deferred outflow of resources	1,150,593
LIABILITIES	
Accounts payable	128,495
Accrued expenses	28,206
Total current liabilities	156,701
Noncurrent liabilities:	
Lease liability	1,056,577
Compensated absences	67,615
Pension obligation bonds	128,562
Net OPEB liability	31,517
Net pension liability	2,106,969
Total noncurrent liabilities	3,391,240
Total liabilities	3,547,941
DEFERRED INFLOW OF RESOURCES	
Deferred inflow of resources - pension	350,112
Deferred inflow of resources - OPEB	-
Total deferred inflow of resources	350,112
NET POSITION	
Net Investment in capital assets	(58,500)
Unrestricted	79,128
Total net position	$ 20,628

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

San Diego Local Agency Formation Commission
STATEMENT OF ACTIVITIES
For the year ended June 30, 2023

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants & Contributions	Net (Expense) Revenues and Changes in Net Position: Governmental Activities
Governmental activities:				
General government	$ 2,195,343	$ 310,014	$ 131,105	$ (1,754,224)
Interest	36,493	-	-	(36,493)
Total governmental activities	$ 2,231,836	$ 310,014	$ 131,105	(1,790,717)
General revenues:				
Apportionment				1,804,266
Investment income				37,843
Total general revenues				1,842,109
Change in net position				51,392
Net position beginning				(30,764)
Net position ending				$ 20,628

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

San Diego Local Agency Formation Commission

GOVERNMENTAL FUND BALANCE SHEET

June 30, 2023

	General
ASSETS	
Cash and investments	$ 1,708,664
Interest receivable	61,347
Total assets	$ 1,770,011
LIABILITIES	
Accounts payable	$ 128,495
Accrued expenses	28,206
Total liabilities	156,701
FUND BALANCE	
Committed:	
Stabilization	250,000
Opportunity	300,000
Assigned	62,500
Unassigned	1,000,810
Total fund balance	1,613,310
Total liabilities and fund balances	$ 1,770,011

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

San Diego Local Agency Formation Commission
Reconciliation of the
GOVERNMENTAL FUND - BALANCE SHEET
with the Governmental Activities
STATEMENT OF NET POSITION
For the year ended June 30, 2023

TOTAL FUND BALANCE - TOTAL GOVERNMENTAL FUNDS	$ 1,613,310
Amounts reported for Governmental Activities in the Statement of Net Position are different from those reported in the Governmental Funds above because of the following:	
CAPITAL and RIGHT TO USE ASSETS	
Capital Assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Funds.	-
Right to use leased asset capital outlay expenditures which were capitalized, net of accumulated amortization.	998,077
LONG-TERM ASSETS AND LIABILITIES	
The assets and liabilities below are not due and payable in the current period and therefore are not reported in the Funds:	
Deferred outflows	1,150,593
Deferred inflows	(350,112)
Net pension liability	(2,106,969)
OPEB	(31,517)
Pension obligation bonds	(128,562)
Compensated absences	(67,615)
Lease liability	(1,056,577)
NET POSITION OF GOVERNMENTAL ACTIVITIES	$ 20,628

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

San Diego Local Agency Formation Commission

GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

For the year ended June 30, 2023

		General
Revenues		
Apportionment	$	1,804,266
Intergovernmental		131,105
Proposal fees		310,014
Investment income		37,843
Total revenues		2,283,228
Expenditures:		
Salaries and benefits		1,202,404
Services and supplies		814,897
Debt service:		
Principal		121,065
Interest		36,493
Total expenditures		2,174,859
Excess (deficiency) of revenues and transfer in over (under) expenditures and transfers out		108,369
Fund balance beginning of period		1,504,941
Fund balance end of period	$	1,613,310

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

San Diego Local Agency Formation Commission
Reconciliation of the
GOVERNMENTAL FUND STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE
with the
STATEMENT OF ACTIVITIES
For the year ended June 30, 2023

The schedule below reconciles the Net Changes in Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance, which measures only changes in current assets and current liabilities on the modified accrual basis, with the Change in Net Position of Governmental Activities reported in the Statement of Activities, which is prepared on the full accrual basis.

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	$ 108,369
Amounts reported for governmental activities in the Statement of Activities are different because of the following:	
CAPITAL ASSETS TRANSACTIONS	
Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.	
Purchases of capital assets are added back to the fund balance	-
Depreciation expense is deducted from the fund balance	-
Governmental Funds report right to use assets as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as amortization expense.	
Amortization expense is deducted from the fund balance	(119,769)
ACCRUAL OF NON-CURRENT ITEMS	
The amounts below included in the Statement of Activities do not provide or (require) the use of current financial resources and therefore are not reported as revenue or expenditures in the governmental funds (net change).	
Repayment of debt service is reported as an expenditure in governmental funds and, thus, has the effect of reducing fund balances because current financial resources have been used. For the Agency as a whole, however, the principal payments reduce the expense in the Statement of Activities. Liabilities in the Statement of Net Position and do not result in an expense in the Statement of Activities.	
Net change in pension liability	(971,067)
Net change in deferred inflows and outflows	918,466
Net change in pension obligation bonds	29,044
Net change in OPEB liability	8,723
Net change in compensated absences	(14,395)
Net change in lease liability	92,021
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	$ 51,392

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

NOTE 1 - REPORTING ENTITY

Organization of LAFCo

San Diego Local Agency Formation Commission (LAFCo or the Commission) is a political subdivision of the State of California and responsible for regulating the formation and development of local governmental agencies and municipal service areas under the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (CKH). This includes timing the establishment, expansion, and reorganization of local government agencies and their public services to meet current and future community needs. LAFCo informs their regulatory powers through various administrative and planning activities with an increasing emphasis on performance measurement. There are currently more than 100 local agencies - cities, towns, and special districts - under LAFCo's oversight in San Diego County.

State Law requires that County Auditors apportion the net operating cost of LAFCos among the membership categories represented on each Commission. Net operating costs for the San Diego LAFCo are apportioned based upon the following formula: two-sevenths to the County of San Diego; one-seventh to the City of San Diego; two-sevenths among the remaining seventeen cities within the County of San Diego; and two-sevenths among independent special districts. Formulas in State Law stipulate how apportionment within the city and special district classes are determined. State Law also authorizes LAFCo to establish a schedule of fees and service charges to recover the reasonable costs of providing the service for which fees are charged.

San Diego Local Agency Formation Commission is an independent agency and its budget is not subject to County approval.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

LAFCo's basic financial statements are prepared in conformity with U.S. generally accepted accounting principles. The Governmental Accounting Standards Board (GASB) is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.A.

B. Basis of Accounting

The *basic financial statements* of the San Diego LAFCo are composed of the following:

(a) Government-wide financial statements
(b) Fund financial statements
(c) Notes to the basic financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all the activities of LAFCo.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a function or segment. Program revenues include charges for services that are restricted to meeting the operational or capital requirements of a particular function or segment. Apportionments, investment income, and other items not properly included among program revenues are reported instead as general revenues.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Accounting (continued)

Government-wide financial statements are presented using the *economic resources measurement focus* and the *accrual basis of accounting*. Under the economic resource's measurement focus, all (both current and long-term) economic resources and obligations of the reporting government are reported in the government-wide financial statements. *The basis of accounting* refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Under the *accrual basis of accounting*, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB Statement No. 33. Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as expenditures. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as other financing sources. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as expenditures.

Fund Financial Statements

The fund financial statements provide information about the LAFCo funds. The underlying accounting system of LAFCo is organized and operated based on separate funds, each of which is a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and how spending activities are controlled.

In the fund financial statements, governmental funds are presented using the *modified accrual basis of accounting*. Revenues are recognized when they become *measurable* and *available* as net current assets. *Measurable* means that the amounts can be estimated or otherwise determined. *Available* means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. LAFCo uses an availability period of 60 days for all revenues. Charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period to the extent normally collected within the availability period. Other revenue items are measurable and available where cash is received from the government.

In the fund financial statements, governmental funds are presented using the *current financial resources measurement focus*. This means that only current assets and current liabilities are generally included on their balance sheets. The reported fund balance (net current assets) is a measure of "available spendable resources." Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period. Due to the nature of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by noncurrent liabilities. Since they do not affect net current position, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities. Amounts expended to acquire capital assets are recorded as *expenditures* in the year that resources were expended, rather than as fund assets. The proceeds of long-term debt are recorded as *other financing sources* rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Accounting (continued)

Non-exchange transactions, in which LAFCo gives or receives value without directly receiving or giving equal value in exchange, include taxes, grants, entitlements, and donations. On the accrual basis, revenue from taxes is recognized in the fiscal year for which the taxes are levied or assessed.

LAFCo may fund programs with a combination of charges for services and general revenues. Thus, both restricted and unrestricted net position may be available to finance program expenditures.

Governmental Fund Balances
Fund balances are reported in the fund financial statements in the following classifications:

Non-spendable Fund Balance
Non-spendable Fund Balance - this includes amounts that cannot be spent because they are either not spendable in form (such as inventory) or legally or contractually required to be maintained intact (such as endowments).

Spendable Fund Balance
Restricted Fund Balance - this includes amounts that can be spent only for specific purposes stipulated by the constitution, external resource providers, or through enabling legislation. If the Commission action limiting the use of funds is included in the same action (legislation) that created (enables) the funding source, then it is restricted.

Committed Fund Balance - this includes amounts that can be used only for the specific purposes determined by a formal action of the Commission. It includes legislation (Commission action) that can only be overturned by new legislation requiring the same type of voting consensus that created the original action. Therefore, if the Commission action limiting the use of the funds is separate from the action (legislation) that created (enables) the funding source, then it is committed, not restricted. The San Diego LAFCo considers a resolution to constitute a formal action of the Board of Commissioners for the purposes of establishing committed fund balance.

Assigned Fund Balance - this includes amounts that are designated or expressed by the Commission but does not require a formal action like a resolution or ordinance. The Commission has delegated the ability of the Executive Officer to assign up to $125,000, for specific purposes.

Unassigned Fund Balance - this includes the remaining spendable amounts which are not included in one of the other classifications.

Net Position Flow Assumption - Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. To calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are applied. It is the government's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Accounting (concluded)

Fund Balance Flow Assumption - Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). To calculate the amounts to report as restricted, committed, assigned and unassigned fund balance in the governmental fund financial statements flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Net Position

Net Position is the excess of all LAFCo's assets over all its liabilities, regardless of fund. Net Position is divided into three captions under GASB Statement No. 34. These captions apply only to Net Position, which is determined only at the government-wide level, and are described below:

Net investment in capital assets describes the portion of Net Position that is represented by the current net book value of LAFCo's capital assets, less the outstanding balance of any debt issued to finance these assets. For the year ended June 30, 2023, the lease liability of $1,056,577 exceeded the right to use asset balance of $998,077 by ($58,500).

Restricted describes the portion of Net Position that is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions that LAFCo cannot unilaterally alter.

Unrestricted describes the portion of Net Position that is not restricted to use.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as a separate column in the fund financial statements.

The San Diego LAFCo reports the following major governmental fund:

The General Fund is used to account for resources traditionally associated with the organization, which are not required legally or by sound financial management to be accounted for in another fund.

C. Cash and Investments

Cash and cash equivalents include amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the government. Investments are reported in the accompanying balance sheet at fair value, except for certain certificates of deposit and investment contracts that are reported at cost because they are not transferable, and they have terms that are not affected by changes in market interest rates. Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation, maturity, or sale of investments.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Fair Value Measurement

GASB Statement No. 72, *Fair Value Measurements and Application*, establishes a fair value hierarchy consisting of three broad levels: Level 1 inputs consist of quoted prices (unadjusted) for identical assets and liabilities in active markets that a government can access at the measurement date, Level 2 inputs consist of inputs other than quoted prices that are observable for an asset or liability, either directly or indirectly, that can include quoted prices for similar assets or liabilities in active or inactive markets, or market-corroborated inputs, and Level 3 inputs have the lowest priority and consist of unobservable inputs for an asset or liability. The valuation method used for rental properties is the Leased Fee Market method, which is dependent on the income generated from the rental properties.

LAFCo did not have any investments subject to the recurring fair value measurements as of June 30, 2023.

E. Capital Assets

Capital assets are recorded at cost for purchases more than $7,500 that have an expected useful life of three years or more. Capital assets used in operations are depreciated over their estimated useful lives using the straight-line method in the government-wide financial statements. Depreciation is charged as an expense against operations and accumulated depreciation is reported on the respective balance sheet. The useful life used for depreciation purposes is as follows:

Machinery and equipment	3-10 years
Furniture and fixtures	5-7 years

F. Right to Use Assets

The right to use assets are recorded at the discounted cost, plus additional costs and fees, less incentives, and credits for leases subject to GASB 87 guidance. This asset consists of the right to use office space. The related leases are discussed in the Lease subsection of Note 6. The right to use assets are amortized on a straight-line basis over the terms of the related leases.

G. Lease

LAFCo recognizes a right to use assets and a lease liability in government-wide financial statements.

At the commencement of a lease, LAFCo initially measures the lease liability at the present value of the payments expected to be paid during the lease terms. Subsequently, the lease liability is reduced be the principal portion of lease payments paid. The right to use assets is initially measured as the initial amount of the lease payable, adjusted for lease payments paid at or before the lease commencement date. Subsequently, the right to use asset is amortized on a straight-line basis over the life of the lease term.

Key estimates and judgments include how LAFCo determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- LAFCo uses their incremental borrowing rate of 3.00% to discount leases.
- The lease terms include the noncancellable period of the lease. Lease payments included in the measurement of the lease liability is composed of annual adjustments in the amount of 3.00% annually.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Lease (concluded)

LAFCo monitors changes in circumstances that would require a remeasurement of its lease and will measure the lease liability and right to use assets if certain changes occur that are expected to significantly affect the amount of the lease receivable.

H. Compensated Absences

Permanent LAFCo employees earn from 10 to 25 vacation days a year, depending upon their length of employment, and 13 sick days a year. Employees can carry forward up to twice their annual allotment in earned but unused vacation days. Upon termination or retirement, permanent employees are entitled to receive compensation at their current base salary for all unused vacation leave.

I. Pensions

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported by the San Diego County Employees Retirement Association (SDCERA). For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value. SDCERA audited financial statements are publicly available reports that can be obtained at SDCERA's website under Forms and Publications.

GASB No. 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date (VD)	June 30, 2022
Measurement Date (MD)	June 30, 2022
Measurement Period (MP)	July 1, 2021 to June 30, 2022

J. Other Post-Employment Benefits (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 and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported of the San Diego County Employees Retirement Association (SDCERA). For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value. SDCERA audited financial statements are publicly available reports that can be obtained at SDCERA's website under Forms and Publications. Generally accepted accounting principles require that the reported results must pertain to liability and fiduciary net position information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date (VD)	June 30, 2022
Measurement Date (MD)	June 30, 2022
Measurement Period (MP)	July 1, 2021 to June 30, 2022

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

K. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. LAFCo reports deferred outflows related to pensions and OPEB in this category and are on the statement of net position.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. LAFCo reports deferred inflows related to pensions and OPEB in this category.

L. Estimates

The presentation of basic 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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

M. Prior Year Data

Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the San Diego LAFCo's prior year financial statements, from which this selected financial data was derived. Certain minor reclassifications of prior year data have been made to enhance their comparability with current year's figures.

N. LAFCo Budget

Pursuant to Section 56381, et seq of the Government Code, LAFCo adopts a proposed budget by May 1 and a final budget by June 15 of each year. Budgets are adopted on a basis consistent with U.S. generally accepted accounting principles. Budget/actual comparisons in this report use this budgetary basis. These budgeted amounts are as originally adopted or as amended by LAFCo. Individual amendments were not material in relation to the original appropriations that were amended. Expenditures were under appropriations by $86,984 for the fiscal year ending June 30, 2023.

NOTE 3 - CASH AND INVESTMENTS

Cash and investments as of June 30, 2023, consisted of the following:

Demand deposits	$ 48,376
County of San Diego Investment Pool	1,660,288
Total cash and investments	$ 1,708,664

A. Investments Authorized by the San Diego LAFCo's Investment Policy

LAFCo's investment policy authorizes investments in the undermentioned agencies/institutions:

- State Local Agency Investment Fund (LAIF)
- County of San Diego Investment Pool

NOTE 3 - CASH AND INVESTMENTS (concluded)

B. Disclosures Relating to 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 changes in market interest rates. The County of San Diego investment pool has a weighted average maturity of 398 days. For additional information see the County of San Diego's Comprehensive Annual Financial Report. This report can be obtained at the Auditor-Controller County of San Diego office located at the 1600 Pacific Highway, San Diego, California, 92101.

C. Disclosure Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The San Diego County Investment Pool was rated AAA by Standards and Poor as of June 30, 2023.

D. Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for deposits and investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

The California Government Code requires California banks and savings and loan associations to secure an entity's deposits by pledging government securities with a value of 110% of an entity's deposits. California law also allows financial institutions to secure entity deposits by pledging first trust deed mortgage notes having a value of 150% of an entity's total deposits. The entity's Treasurer may waive the collateral requirement for deposits which are fully insured up to $250,000 by the FDIC. The collateral for deposits in federal and state-chartered banks is held in safekeeping by an authorized agent of depository recognized by the State of California Department of Banking. The collateral for deposits with savings and loan associations is generally held in safekeeping by the Federal Home Loan Bank in San Francisco, California as an agent of depository. These securities are physically held in an undivided pool for all California public agency depositors.

NOTE 4 - CAPITAL ASSETS

A summary of changes in capital assets follows:

	Balance 6/30/22	Additions	Retirements	Balance 6/30/23
Capital assets being depreciated:				
Furniture & equipment	$ 27,102	$ -	$ -	$ 27,102
Total capital assets	27,102	-	-	27,102
Less: accumulated depreciation				
Furniture & equipment	(27,102)	-	-	(27,102)
Total accumulated depreciation	(27,102)	-	-	(27,102)
Total capital assets being depreciated, net	$ -	$ -	$ -	$ -

The depreciation allocation for general government for the ending June 30, 2023 was $-0-.

NOTE 5 - RIGHT TO USE ASSETS

A summary of the changes in right to use assets follows:

	Balance 6/30/22	Additions	Retirements	Balance 6/30/23
Right to use assets being amortized:				
Office space lease	$ 1,227,635	$ -	$ -	$ 1,227,635
Total right to use assets	1,227,635	-	-	1,227,635
Less: accumulated amortization				
Office space lease	109,789	119,769	-	229,558
Total accumulated amortization	109,789	119,769	-	229,558
Total right to use assets being. amortized, net	$ 1,117,846	$ (119,769)	$ -	$ 998,077

The amortization allocation for general government for the year ending June 30, 2023 was $119,769.

NOTE 6 - LEASES

LAFCo entered a non-cancellable operating lease for approximately 3,279 rentable square feet for administrative facilities commencing August 1, 2021. Rental increases by 3.00% annually over the life of the 123-month lease agreement expiring October 31, 2031. The lease liability is measured at an incremental borrowing rate of 3.00%. This rate was determined using the historic 20-year treasury rate as well as current and expected market conditions. The book value of LAFCo's right to use asset for the year ending June 30, 2023 was $998,077, see Note 5 above for detail.

Future minimum rental payments required under the above lease agreement are as follows:

Year End June 30	Principal	Interest	Total
2024	$ 98,776	$ 30,351	$ 129,127
2025	105,770	27,292	133,062
2026	112,976	24,020	136,996
2027	120,402	20,530	140,932
2028	128,419	16,808	145,227
2029	136,713	12,842	149,555
2030	145,259	8,624	153,883
2031	154,431	4,141	158,572
2032	53,831	338	54,168
Total	$ 1,056,577	$ 144,946	$ 1,201,523

NOTE 7 - LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities for the year ended June 30, 2023:

	Balance 6/30/22	Additions	Deletions	Balance 6/30/23	Current Portion
Pension obligation bond	$ 157,606	$ -	$ 29,044	$ 128,562	$ 40,000
Net pension liability	1,135,902	971,067	-	2,106,969	-
Other Post-Employment Benefits	40,240	-	8,723	31,517	-
Compensated absences	53,220	14,395	-	67,615	-
Lease liability	1,148,598	-	92,021	1,056,577	98,776
Total	$ 2,535,566	$ 985,462	$ 129,788	$ 3,391,240	$ 138,776

NOTE 7 - LONG-TERM LIABILITIES (concluded)

The San Diego LAFCo participates in the County of San Diego County Employee Retirement Association's (SDCERA) pension plan as discussed further in Note 9. As such they are liable for a share of the County's Taxable Pension Obligation Bonds (POB). POBs are issued by the County to reduce its pension unfunded actuarial liability and to achieve interest rate savings by issuing bonds at interest rates which are less than the assumed rate of return earned on proceeds placed in the SDCERA pension plan. POBs also have been issued to refund previously issued POB debt. Because current federal tax law restricts the investment of the proceeds of tax-exempt bonds in higher-yielding taxable securities, POBs are issued on a taxable basis. The County of San Diego has issued a total of six series of Pension Obligation Bonds in 2002, 2004 and 2008, with maturities ranging from August 15, 2015 to August 15, 2026. All bonds were issued at variable interest rates ranging from 3.28-6.03%. Additional information on the bonds can be found in the County of San Diego's Comprehensive Annual Financial Report. The LAFCo's proportionate share of the County's total obligation is 0.034%. The amount collected per year for LAFCo fluctuates year to year because it is based on the respective payrolls, which is affected by several factors (i.e. pay raises, new hires, retirees, etc.). This can result in over or under collection from the agency. The County will not bill LAFCo for an under collection or refund LAFCo for an over collection. Whatever is over/under collected for LAFCo per year is applied to the outstanding principal balance so there is the likelihood that principal balance does not conform to the amortization schedule.

The following is a summary of debt service requirements to maturity for LAFCo's Share of the County's Pension Obligation Bonds:

Year Ending June 30	Principal	Interest	Total
2024	$ 40,000	$ 3,445	$ 43,445
2025	45,000	2,253	47,253
2026	43,562	1,193	44,755
Total	$ 128,562	$ 6,891	$ 135,453

Compensated Absences
LAFCo's policies relating to compensated absences are described in Note 2. This liability, to be paid in future years from the general fund, is $67,615on June 30, 2023.

NOTE 8 - INSURANCE

Insurance is provided on behalf of LAFCo by the County of San Diego Insurance Policy. LAFCo pays its pro-rata share of insurance costs to the County. For coverage limits see the County of San Diego's Comprehensive Annual Financial Report. This report can be obtained at the Auditor-Controller County of San Diego office located at 1600 Pacific Highway, San Diego, California, 92101. LAFCO also carries commercial insurance coverage for general liability and professional errors and omissions risks of loss.

NOTE 9 - RETIREMENT PLAN

Plan Description
LAFCo employees who work in a permanent position for at least 20 hours each week are eligible to participate in the San Diego County Employees Retirement Association (SDCERA) cost-sharing multiple employers defined benefit pension plan. All eligible LAFCo employees are considered General Members. The plan was established under the County Employees Retirement Law of 1937. A nine-member Board of Retirement oversees the plan for five employers. SDCERA issues a publicly available report that includes financial statements and required supplementary information. The SDCERA financial report may be obtained by writing to SDCERA: 227 Rio Bonito Way, Suite 2000, San Diego, California 92108.

NOTE 9 - RETIREMENT PLAN (continued)

Benefits Provided
SDCERA 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 based on years of credited service, equal to one year of full-time employment. The Plans' provisions and benefits in effect on June 30, 2023, are summarized as follows:

	General Members			
Hire date	March 8, 2002 to August 28, 2009 (Tier A)	August 28, 2009 to December 31, 2012 (Tier B)	January 1, 2013 to June 30, 2018 (Tier C)	On or after July 1, 2018 (Tier D)
Benefit formula	3.00% @ 60	2.62% @ 62	2.50% @ 67	1.62% @ 65
Benefit vesting schedule	5 years service	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life	monthly for life
Retirement age	50-65	50-65	55-67	52-65
Required employee contribution rates	10.63-18.40%	7.66-14.62%	9.19%	6.51%
Required employer contribution rates	44.32%	44.32%	37.66%	35.02%

Contribution Description
Section 20814(c) of the California Public Employees' Retirement Law (PERL) 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. The total plan contributions are determined through the SDCERA annual actuarial valuation process. 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. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. All members are required to make contributions to SDCERA regardless of the retirement plan in which they are included.

Actuarial Methods and Assumptions used to determine Total Pension Liability
For the measurement period ending June 30, 2022 (the measurement date), the total pension liability was remeasured by revaluing the total pension liability as of June 30, 2021 (before the roll forward) to include the following actuarial assumptions that the Retirement Board has adopted for use in the pension funding valuation as of June 30, 2022 and using this revalued total pension liability in rolling forward the results from June 30, 2021 to June 30, 2022:

Actuarial Cost Method	Entry Age Actuarial Cost Method
Asset Valuation Method	Market Value of Assets
Actuarial Assumptions	
Discount Rate	6.50%
Inflation	2.50%
Payroll Growth	3.90% to 10.50%
Investment Rate of Return	6.50%, net of pension plan investment expense, incl. inflation

Discount Rate
The discount rate used to measure the Total Pension Liability was 6.50% as of June 30, 2022 and June 30, 2021, respectively. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rates and that employer contributions will be made at rates equal to the actuarially determined contribution rates. For this purpose, only employer contributions that are intended to fund benefits for current plan members and their beneficiaries are included.

NOTE 9 - RETIREMENT PLAN (continued)

Projected employer contributions that are intended to fund the service costs for future members and their beneficiaries, as well as projected contributions from future 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 pension plan investments was applied to all periods of projected benefit payments to determine the TPL as of both June 30, 2021, and June 30, 2019.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These returns 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, adding expected inflation, and subtracting expected investment expenses and a risk margin. The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation but before deducting investment expenses, are shown in the following two tables. As indicated in the table headings, this information was used in the derivation of the long-term expected investment rate of return assumption in the June 30, 2022 and June 30, 2021 actuarial valuations. This information will change every three years based on the actuarial experience study (as it did between the 2021 and 2022 valuations).

June 30, 2022 **Asset Class**	**Target Allocation**	**Long-Term Expected Arithmetic Real Rate of Return**
Large Cap Equity	19.00%	5.40%
Small Cap Equity	3.00%	6.17%
Developed International Equity	15.00%	6.13%
Global Equity	11.50%	6.20%
Emerging Market Equity	5.00%	8.17%
High Yield Bonds	6.40%	2.76%
Bank Loan	0.60%	2.02%
Real Estate	7.40%	4.59%
Private Equity	5.00%	10.83%
Private Credit	1.00%	5.93%
Timberland	0.80%	4.44%
Farmland - Row Crops	0.70%	5.62%
Infrastructure	1.50%	6.02%
Real Estate (Non-Core)	2.60%	7.94%
Intermediate Duration Bonds - Gov't	10.30%	-0.24%
Intermediate Duration Bonds - Credit	10.20%	0.70%
Total	**100.00%**	**4.80%**

1 The investment return assumption for funding purposes is developed net of both investment and administrative expenses; however, the same investment return assumption is used for financial reporting purposes, where it is considered gross of administrative expenses.

NOTE 9 - RETIREMENT PLAN (continued)

The Net Pension Liability (NPL) for each membership class is the Total Pension Liability (TPL) minus the Plan Net Position. The Total Pension Liability for each membership class is obtained from internal valuation results. The Plan Net Position for each membership class was estimated by adjusting the value of assets for each membership class by the ratio of the total SDCERA Plan Net Position to total SDCERA value of assets.

The NPL is allocated based on the actual employer contributions within the membership class.

(1) First calculate the ratio of employer's contributions to the total contributions for the membership class. This ratio is multiplied by the NPL for the membership class to determine the employer's proportionate share of the NPL for the membership class.

(2) The liability for Section 415(m) Replacement Benefit Program for each employer is added to the respective employers. San Diego LAFCo does not have a liability in this category.

(3) NPL is equal to NPL in (1) and NPL in (2) above.

The following table shows the Plan's proportionate share of the net pension liability over the measurement period:

	Net Pension Liability
Balance at: 6/30/2022	$ 2,106,969

LAFCo's proportionate share of the net pension liability as of June 30, 2021 and 2022 was as follows:

Proportion - June 30, 2021	0.048%
Proportion - June 30, 2022	0.044%
Change - Increase (Decrease)	(0.001)%

Sensitivity of the Net Pension Liability to Changes in the Discount Rate
The following presents the net pension liability of the Plan as of the Measurement Date, calculated using the discount rate of 7.00 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.00 percent) or 1 percentage-point higher (8.00 percent) than the current rate:

	Discount Rate - 1% (5.50%)	Current Discount Rate (6.50%)	Discount Rate + 1% (7.50%)
Plan's Net Pension Liability	$ 3,173,272	$ 2,106,970	$ 1,237,630

Subsequent Events
There were no subsequent events that would materially affect the results presented in this disclosure.

Recognition of Gains and Losses
Under GASB 68, deferred inflows and deferred outflows of resources related to pensions are recognized in pension expense systematically over time. The first amortized amounts are recognized in pension expense for the year the gain or loss occurs.

NOTE 9 - RETIREMENT PLAN (concluded)

The remaining amounts are categorized as deferred inflows and deferred outflows to be recognized in future pension expenses. The amortization period differs depending on the source of the gain or loss:

Difference between projected and actual earnings
All other amounts
5-year straight-line amortization

Straight-line amortization over the average expected remaining service lives of all members that are provided with benefits (active, inactive, and retired as of the beginning of the measurement period).

The expected average remaining service lifetime (EARSL) is calculated by dividing the total future service years by the total number of plan participants (active, inactive, and retired). The EARSL for the Plan was 4.86 years, which was calculating each active employee's expected remaining service life as the present value of $1 per year of future service at zero percent interest, setting the remaining service life to zero for each nonactive or retired member, and then dividing the sum of the amounts by the total number of active employees, nonactive and retired members.

Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions
For the measurement period ending June 30, 2022 (the measurement date), LAFCo recognized a pension expense of $314,088 for the Plan.

As of the June 30, 2022 measurement date, LAFCo reports other amounts for the Plan as deferred outflow and deferred inflow of resources related to pensions as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 257,963	$ -
Differences between actual and expected experience	9,405	64,108
Changes in assumptions	342,240	-
Net difference between projected and actual earnings on pension plan investments	386,125	-
Change in proportion and differences between employer contributions and proportionate share of contributions	145,279	286,004
Total	$ 1,141,012	$ 350,112

$257,963 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2024.

Other amounts reported as deferred outflows and inflows of resources in the previous chart, including the employer-specific item, will be recognized in future pension expense as follows:

Year ended June 30:	Deferred Outflows/Inflows of Resources
2024	$ (221,629)
2025	110,084
2026	9,713
2027	191,511
Thereafter	-

NOTE 10 - OTHER POST-EMPLOYMENT BENEFITS

Plan Description
Effective July 1, 2007, LAFCo commenced contributing to the SDCERA Retiree Health Plan, (SDCERA-RHP) a cost-sharing multiple-employer defined benefit health plan administered by SDCERA. The Retirement Act assigns LAFCo to establish and amend health allowance benefits to the SDCERA Board of Retirement. The retiree health plan provides a non-taxable health insurance allowance to Tier I and Tier II retirees. Health insurance allowances range from $200 per month to $400 per month based on members' service credits. SDCERA issues a publicly available report that includes financial statements and required supplementary information. The SDCERA financial report may be obtained by writing to SDCERA: 227 Rio Bonito Way, Suite 2000, San Diego, California 92108.

Benefits provided.
SDCERA provides Health Insurance Allowance benefits to eligible employees after retirement. All General and Safety Tier I and Tier II members are in the membership classifications eligible for the HIA. The HIA Plan is closed to members in the other Tiers.

Employees Covered
As of the June 30, 2022 measurement date, the following current and former employees were covered by the benefit terms under the HIA:

Active employees	6
Inactive employees or beneficiaries currently receiving benefits	3
Total	9

Contributions
The SDCERA RHP and its contribution requirements are established by Memoranda of Understanding with the applicable employee bargaining units and may be amended by agreements between LAFCo and the bargaining units. The annual contribution is based on the actuarially determined contribution. For the fiscal year ended June 30, 2023, LAFCo's cash contributions were $9,947.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB
At June 30, 2023, LAFCo reported a liability of $31,517 for its proportionate share of the collective net OPEB liability.

The collective net OPEB liability was measured as of June 30, 2022, and the total OPEB liability used to calculate the collective net OPEB liability was determined by an actuarial valuation as of June 30, 2022. LAFCo's proportion of the collective net OPEB liability was based on a projection of the Commission's share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2022, LAFCo's proportion was 0.050% percent, which was equal to its proportion measure as of December 31, 2021 (0.050% percent). For the fiscal year ended June 30, 2023, LAFCo recognized OPEB expense of $2,132. As of fiscal year, ended June 30, 2023, LAFCo reported deferred outflows of resources related to OPEB from the following sources:

NOTE 10 - OTHER POST-EMPLOYMENT BENEFITS (continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB Contributions after measurement date	$ 8,190	$ -
Differences between projected and actual earnings on investments	1,391	-
Total	$ 9,581	$ -

$8,190 reported as deferred outflows of resources related to contributions after the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2024.

Other amounts reported as deferred outflows of resources related to OPEB will be recognized as expense as follows:

Year ended June 30:	Deferred Outflows/Inflows of Resources
2025	$ (309)
2026	(295)
2027	(209)
Thereafter	(578)

Actuarial Methods and Assumptions
The Total OPEB Liability as of June 30, 2022 and June 30, 2021 was determined by an actuarial valuation as of June 30, 2022 and June 30, 2021, respectively. The actuarial assumptions used in the valuation were based on the results of an experience study for the period from July 1, 2020, through June 30, 2021. They are the same as the assumptions used in the June 30, 2022 funding actuarial valuations for SDCERA HIA. In particular, the following actuarial assumptions were applied to all periods included in the measurement:

Actuarial Cost Method:	Entry Age Level Percent of Pay Actuarial Cost Method
Actuarial Assumptions:	
Discount Rate	6.50%
Inflation	2.50%
Salary Increases	3.90% to 10.50%
Health Care Trend	7.25% graded to ultimate 4.50% over 8 years.
HIA subsidy increases	0.00%

Discount Rate
The discount rate used to measure the total OPEB liability was 6.50% as of June 30, 2022, and 6.50% as of June 30, 2020. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made at rates equal to the actuarially determined contribution rates. For this purpose, only 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 (if any) for future members and their beneficiaries, as well as projected contributions (if any) from future 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.

NOTE 10 - OTHER POST-EMPLOYMENT BENEFITS (concluded)

Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability as of both June 30, 2022, and 2021.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate
The following presents the net OPEB liability of SDCERA as of June 30, 2020, calculated using the discount rate of 7.00%, as well as what SDCERA's NOL would be if it were calculated using a discount rate that is 1 percentage-point lower (5.50%) or 1 percentage-point higher (7.50%) than the current rate:

	Healthcare Rate - 1% (5.50%)	Current Healthcare Rate (6.50%)	Healthcare Rate + 1% (7.50%)
Plan's Net OPEB Liability	$ 31,243	$ 31,517	$ 31,770

NOTE 11 - RELATED PARTY TRANSACTIONS

LAFCo reimburses the County for the annual cost of participating in County administered workers' compensation and liability insurance plans, employee benefit programs, and payroll and information technology support services. LAFCo also made lease payments to the County for their operating office space. Total lease payments including lease liability reduction and interest expenses made to San Diego County during fiscal year ended June 30, 2023 were $119,769. LAFCO completed its lease with the County of San Diego for office space in August 2021.

NOTE 12 - CONTINGENCIES

LAFCo may be involved from time to time in various claims and litigation arising in the ordinary course of business. LAFCo management, based upon the opinion of legal counsel, is of the opinion that the ultimate resolution of such matters should not have a material adverse effect on LAFCo's financial position or results of operations.

REQUIRED SUPPLEMENTARY INFORMATION

San Diego Local Agency Formation Commission
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
Required Supplemental Information
Budget and Actual
General Fund (Unaudited)
For the period ended June 30, 2023

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenue:				
Apportionment	$ 1,804,266	$ 1,804,266	$ 1,804,266	$ -
State grants	215,500	215,500	131,105	(84,395)
Proposal fees	170,000	170,000	310,014	140,014
Investment and other income	70,898	70,898	37,843	(33,055)
Total revenue	2,260,664	2,260,664	2,283,228	22,564
Expenditures:				
Salaries and benefits	1,291,635	1,291,635	1,202,404	89,231
Services and supplies	970,208	970,208	814,897	155,311
Debt service				
Principal	-	-	121,065	(121,065)
Interest	-	-	36,493	(36,493)
Total expenditures and debt service	2,261,843	2,261,843	2,174,859	86,984
Excess (deficit) of revenue over expenditures	$ (1,179)	$ (1,179)	108,369	$ 109,548
Fund balance, beginning of period			1,504,941	
Fund balance, end of period			$ 1,613,310	

NOTE 1 - BUDGETARY REPORTING

San Diego LAFCo adopted an annual budget prepared on the modified accrual basis for the General Fund, which is consistent with generally accepted accounting principles (GAAP). The adopted budget can be amended by the San Diego LAFCo to change both appropriations and estimated revenues as unforeseen circumstances come to management's attention. Increases and decreases in revenue and appropriations and transfers between funds require the San Diego LAFCo's approval. However, the Executive Officer may authorize changes within funds. Expenditures may not exceed total appropriations at the individual fund level. It is the practice of the management to review the budget with the Commission on a quarterly basis and, if necessary, recommend changes.

San Diego Local Agency Formation Commission
As of June 30, 2023
Last 10 Years
SCHEDULE OF THE COMMISSION'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Measurement Date	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Proportion of the net pension liability	0.037%	0.047%	0.048%	0.042%	0.032%	0.041%	0.039%	0.036%	0.042%	0.043%
Proportionate share of the net pension liability	$ 2,106,969	$ 1,135,902	$ 2,305,366	$ 1,686,072	$ 1,091,200	$ 1,501,659	$ 1,661,381	$ 1,023,368	$ 893,715	$ 1,231,811
Covered - employee payroll	$ 589,480	$ 708,838	$ 672,154	$ 615,474	$ 444,760	$ 507,984	$ 462,897	$ 411,232	$ 444,346	$ 446,796
Proportionate share of the net pension liability as a percentage of covered-employee payroll	357%	160%	343%	274%	245%	296%	359%	249%	201%	276%
Plan fiduciary net position as a percentage of the total pension liability	72.19%	87.15%	72.77%	75.99%	78.9%	76.1%	70.9%	78.3%	81.9%	75.5%

San Diego Local Agency Formation Commission
As of June 30, 2023
Last 9 Years
SCHEDULE OF CONTRIBUTIONS

Fiscal Year Ending June 30	2023	2022	2021	2020	2019	2018	2017	2016	2015
Contractually required contribution (actuarially determined)	$ 238,695	$ 293,766	$ 293,416	$ 209,786	$ 172,020	$ 166,680	$ 180,945	$ 135,423	$ 142,703
Contributions in relation to the actuarially determined contributions	(238,695)	(293,766)	(293,416)	(209,786)	(172,020)	(166,680)	(180,945)	(135,423)	(142,703)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered-employee payroll during the fiscal year	$ 664,309	$ 708,838	$ 672,154	$ 615,474	$ 444,760	$ 507,984	$ 462,897	$ 411,232	$ 444,346
Contributions as a percentage of covered-employee payroll	35.93%	41.44%	43.65%	34.09%	38.68%	32.81%	39.09%	32.93%	32.12%

*Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

San Diego Local Agency Formation Commission
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGE IN THE NET OPEB LIABILITY AND RELATED RATIOS
For the year ended June 30, 2023

Measurement Date	2022	2021	2020	2019	2018	2017
Plan's Proportion of the Net OPEB Liability (Asset)	0.042%	0.053%	0.050%	0.050%	0.037%	0.044%
Plan's Proportionate Share of the Net OPEB Liability (Asset)	$ 31,518	$ 40,240	$ 50,032	$ 56,490	$ 47,526	$ 63,154
Plan's Covered Payroll	$ 589,480	$ 708,838	$ 672,154	$ 615,474	$ 444,760	$ 507,984
Plan's Proportionate Share of the Net OPEB Liability (Asset) as a percentage of its Covered Payroll	5.35%	5.677%	7.444%	9.178%	10.686%	12.432%
Plan's Proportion of the Fiduciary Net Position	32.73%	31.570%	19.700%	14.730%	10.120%	6.920%
Plan's Proportionate Share of the Fiduciary net Position as a percentage of the Plan's Total OPEB Liability	32.73%	3.167%	5.076%	14.730%	10.120%	6.920%
Plan's Proportionate Share of Aggregate Employer Contributions	0.042%	0.053%	0.050%	0.050%	0.037%	0.044%

Notes to Schedule:
The schedules present information to illustrate the changes in San Diego LAFCO's net OPEB liability over a ten year period when the information is available. San Diego LAFCO adopted GASB 75 for the fiscal year ending June 30, 2018.

San Diego Local Agency Formation Commission

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CONTRIBUTIONS - OPEB

For the year ended June 30, 2023

Measurement Date	2022	2021	2020	2019	2018	2017
Actuarial Determined Contribution	$ 7,754	$ 7,743	$ 9,946	$ 10,106	$ 7,282	$ 7,256
Contributions in relation to the actuarially determined contribution	(7,754)	(7,743)	(9,946)	(10,106)	(7,282)	(7,256)
	$ -	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 708,838	$ 672,154	$ 615,474	$ 444,760	$ 507,984	$ 462,897
Contributions as a percentage of covered payroll	1.09%	1.15%	1.62%	2.27%	1.43%	1.57%

Notes to Schedule:

The schedules present information to illustrate changes in San Diego LAFCO's contributions over a ten year period when the information is available.

GASB 75 requires this information for plans funding with OPEB trusts to be reported in the employer's Required Supplemental Information for 10 years or as many years as are available upon implementation. The plan was not funded with an OPEB trust prior to June 30, 2018. San Diego LAFCO adopted GASB 75 for the fiscal year ending June 30, 2018.