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AGENDA REPORT
Business | Action

May 3, 2021

TO: Commissioners

FROM: Keene Simonds, Executive Officer
Ruth Arellano, Executive Assistant
Erica Blom, Administrative Assistant

SUBJECT: **Outside Audit Report on Fiscal Year 2019-2020**

SUMMARY

The San Diego County Local Agency Formation Commission (LAFCO) will review an outside audit prepared by R.J. Ricciardi (San Rafael) for the financial statements issued for 2019-2020. The audit concludes all tested transactions were accompanied by sufficient documentation and no material weaknesses were identified. The audited fund balance finished at $1,629,738 and reflects a year-end improvement of $141,505 or 9.5% from the prior fiscal year and the result of an operating surplus attributed to additional application fees. The audit and accompanying management letter are being presented to the Commission to accept and file as well as to provide direction to the Executive Officer on related matters going forward.

BACKGROUND

Accounting Procedures

San Diego LAFCO's financial transactions are managed by the Executive Officer and divided between maintaining accounts with the County of San Diego and San Diego County Credit Union. Accounts with the County serve as the primary depository for the fund balance and used for most receivable/payable transactions. LAFCO maintains these accounts through a County issued PeopleSoft license via the Auditor-Controller's Office. An account with the San

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Diego County Credit Union is separately used to cover relatively small and/or time sensitive transactions and provides LAFCO access to its own credit line. Transactions within this account are maintained through QuickBooks. Management of all LAFCO accounts is also aided through a contract with Leaf and Cole LLP (San Diego) to provide monthly bookkeeping and reconciliation services.[1]

DISCUSSION

This item is for San Diego LAFCO to review an outside audit prepared by R.J. Ricciardi on the financial statements prepared by staff for 20219-2020. The report is part of the adopted workplan and accompanied by a management letter to the Commission addressing R.J. Ricciardi findings with respect to compliance and internal controls. A summary of key items drawn from the audit follow and further detailed in the management and analysis section and/or in the accompanying management letter.

- LAFCO finished 2019-2020 with a total audited fund balance of $1,629,738; a change over the prior fiscal year of $141,505 or 9.5% and the result of a net operating surplus. The ending fund balance is entirely unrestricted with $954,738 unassigned.

- LAFCO's audited net position at the end of 2019-2020 – which includes all pension liabilities consistent with Government Accounting Standard Board Guidelines No. 67 and 68 – totaled $217,246 and represents a change of 11.9%.

- No adjustments were necessitated as a result of the audit process.

- The management letter notes one of two recommended improvements observed in the prior fiscal year audit have been implemented and involves the Executive Officer initialing all bank and credit card statements. The other earlier recommendation – establishing an accounting and fraud prevention manual – has not been implemented. No new recommendations have been identified as part of this audit.

ANALYSIS

The outside audit and accompanying management letter from R.J. Ricciardi affirmatively attest San Diego LAFCO's financial statements accurately reflect the Commission's financial position for 2019-2020. It also attests no material weaknesses and/or omissions were identified in LAFCO's accounting records for the fiscal year. Overall, the Commission experienced a notable improvement in its audited fund balance of nearly 10% from $1,488,233 to $1,629,738. This improvement is largely attributed to the implementation of a new fee schedule and the surplus of additional application fees. Staff separately recognizes the value in implementing the remaining recommendation from the 2018-2019 audit to develop a

[1] San Diego LAFCO amended its fiscal policies in March 2009 to establish an annual outside audit process. Davis Farr (Irvine) prepared the first outside audit covering 2008-2009 and proceeded to prepare annual audits thereafter through 2017-2018. The Commission transitioned outside auditing services to R.J. Ricciardi beginning with 2018-2019.

procedures manual to formally guide accounting activities. Work on this recommendation, however, remains paused due to COVID and limitations therein to coordinate with the County of San Diego Auditor-Controller's Office given its financial interties with the Commission.

RECOMMENDATION

It is recommended San Diego LAFCO formally receive and accept the outside audit and associated management letter for 2019-2020 and provide any direction to staff going forward. This recommendation is provided as Alternative One in the proceeding section.

ALTERNATIVES FOR ACTION

The following alternatives are available to San Diego LAFCO through a single motion:

Alternative One (recommended):
Receive and accept the audit report and accompanying management letter for 2019-2020 with any related direction going forward.

Alternative Two:
Continue the item to the next regular meeting and provide direction to staff for additional information as needed.

PROCEDURES

This item has been placed on the agenda for action as part of San Diego LAFCO's business calendar. The following procedures, accordingly, are recommended.

1) Receive verbal report from staff unless waived.
2) Commission discussion.
3) Consider the staff recommendation.

On behalf of staff,



Keene Simonds
Executive Officer

Attachments:

1) Audit Management Letter
2) Outside Audit for 2019-2020

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SAN DIEGO LOCAL AGENCY FORMATION COMMISSION

SAN DIEGO, CALIFORNIA

BASIC FINANCIAL STATEMENTS

JUNE 30, 2020

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INDEPENDENT AUDITORS' REPORT

Commissioners
San Diego Local Agency Formation Commission
San Diego, California

Report on the Financial Statements
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, 2020, and the related notes to the financial statements, which collectively comprise the San Diego Local Agency Formation Commission's basic financial statements as listed in the table of contents.

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

Auditor's Responsibility
Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the 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 our 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, we consider internal control relevant to San Diego Local Agency Formation Commission's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the San Diego Local Agency Formation Commission'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 major fund of the San Diego Local Agency Formation Commission, as of 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.

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Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 3-7) and the required supplementary information (page 30-35), 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.

R. J. Ricciardi, Inc.

R. J. Ricciardi, Inc.
Certified Public Accountants

San Rafael, California
April 13, 2021

This section of San Diego 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, 2020. 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, 2020 with net position of $217,246. This amount represents an overall change of $23,173 from the prior fiscal year total of $194,073. The net position includes all pension and post-employment liabilities.
- LAFCo finished the fiscal year ending on June 30, 2020 with an operating net of $141,515.
- Government Accounting Standards Board (GASB) guidelines (Nos. 67 and 68) necessitate that net pension liabilities be reported on the balance sheet to provide a clearer picture of financial obligations. Accordingly, and based on these pension liability requirements, LAFCo's net position at June 30, 2020 totaled $217,246. This total marks an increase in net position of $23,174.

Fund Level

- LAFCo finished June 30, 2020 with a total fund balance of $1,629,738. The unassigned portion of the fund balance totaled $954,738 with the remainder - $675,000 - dedicated to specified uses as follows:
- The committed portion of the fund balance totaled $550,000 was dedicated for opportunity and stabilization purposes.
- The assigned portion of the fund balance totaled $125,000 was dedicated for special and/or unique legal expenses.

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 as a whole, including all of its capital assets and long-term liabilities on the full accrual basis, similar to that used by corporations. The Statement of Activities provides information about all of LAFCo's revenues and all of its expenses, also on the full 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 of 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 as a whole.

The Statement of Net Position and the Statement of Activities present information about the following: *Governmental Activities* – LAFCo's basic services are considered to be 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 as a result 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 the 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

	2020 Governmental Activities	2019 Governmental Activities
Current assets	$ 1,713,047	$ 1,546,390
Capital assets, net of depreciation	189	2,418
Total assets	1,713,236	1,548,808
Deferred outflows of resources	807,474	435,434
Current liabilities	83,309	58,172
Non-current liabilities	1,988,711	1,399,816
Total liabilities	2,072,020	1,457,988
Deferred inflows of resources	231,444	332,181
Net position		
Investment in capital assets	189	2,418
Unrestricted	217,057	191,655
Total net position	$ 217,246	$ 194,073

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

	2020 Governmental Activities	2019 Governmental Activities
Expenses		
General government	$ 1,926,179	$ 1,821,316
Total expenses	1,926,179	1,821,316
Revenues		
Program revenues:		
Charges for services	204,419	83,254
Total program revenues	204,419	83,254
General revenues:		
Intergovernmental	1,703,700	1,664,894
Interest income	41,234	32,629
Total general revenues	1,744,934	1,697,523
Total revenues	1,949,353	1,781,047
Change in net position	$ 23,174	$ (40,269)

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 and San Diego County Credit Union as of June 30, 2020. (LAFCo also maintained accounts with Wells Fargo before closing in October 2018.)

- 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, Changes in Fund Balance, Budget and Actual contained in the audit 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, 2020 totaled $2,520,710. Assets classified as current with the expectation they could be readily liquidated represent over 99% of the total amount and are tied to cash and investments. Assets classified as non-current make up the remainder and are tied to capital assets and specifically office equipment.

Agency Liabilities

LAFCo's liabilities and deferred inflows at June 30, 2020 totaled $2,303,464. Liabilities classified as current representing obligations owed in the near-term are largely attributed to covering accounts payable and accrued expenses. Liabilities classified as non-current make up the remainder and bulk of the total and are predominately tied to LAFCo's pension obligations.

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. There are no known conditions adversely affecting the Commission's current financial condition.

Capital Assets

At June 30, 2020 LAFCo had $190 in capitalized furniture and equipment. The Commission's capital assets are discussed in detail in Note 4.

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, 2020, LAFCo's debt comprised:

Net pension liability	$	1,686,073
Pension obligation bonds		209,809
Compensated absences		36,334
Other post-employment benefits		56,490
Total	$	1,988,706

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 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 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 (858) 614-7755 or at San Diego Local Agency Formation Commission, 9335 Hazard Way, Suite 200, San Diego, CA 92123.

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

San Diego Local Agency Formation Commission
STATEMENT OF NET POSITION
June 30, 2020

ASSETS	
Cash and investments	$ 1,711,688
Interest receivable	1,359
Total current assets	1,713,047
Noncurrent assets:	
Capital assets, net	189
Total assets	1,713,236
DEFERRED OUTFLOW OF RESOURCES	
Deferred outflow of resources - pension	797,150
Deferred outflow of resources - OPEB	10,324
Total deferred outflow of resources	807,474
LIABILITIES	
Accounts payable	49,327
Accrued expenses	33,982
Long-term liabilities:	
Compensated absences	36,334
Pension obligation bonds	209,814
Net OPEB liability	56,490
Net pension liability	1,686,073
Total liabilities	2,072,020
DEFERRED INFLOW OF RESOURCES	
Deferred inflow of resources - pension	231,386
Deferred inflow of resources - OPEB	58
Total deferred inflow of resources	231,444
NET POSITION	
Invested in capital assets	189
Unrestricted	217,057
Total net position	$ 217,246

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, 2020

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Capital Grants & Contributions	Net (Expense) Revenues and Changes in Net Position: Governmental Activities
Governmental activities:				
General government	$ 1,914,944	$ 204,419	$ -	$ (1,710,525)
Interest	11,235	-	-	(11,235)
Total governmental activities	$ 1,926,179	$ 204,419	$ -	(1,721,760)
General revenues:				
Apportionment				1,703,700
Investment income				41,234
Total general revenues				1,744,934
Change in net position				23,174
Net position beginning				194,072
Net position ending				$ 217,246

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

San Diego Local Agency Formation Commission
GOVERNMENTAL FUND BALANCE SHEET
June 30, 2020

	General
ASSETS	
Cash and investments	$ 1,711,688
Interest receivable	1,359
Total assets	$ 1,713,047
LIABILITIES	
Accounts payable	$ 49,327
Accrued expenses	33,982
Total liabilities	83,309
FUND BALANCE	
Committed:	
Stabilization	250,000
Opportunity	300,000
Assigned	125,000
Unassigned	954,738
Total fund balance	1,629,738
Total liabilities and fund balances	$ 1,713,047

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, 2020

TOTAL FUND BALANCE - TOTAL GOVERNMENTAL FUNDS	$	1,629,738
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 ASSETS		
Capital Assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Funds.		189
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		807,474
Deferred inflows		(231,444)
Net pension liability		(1,686,073)
OPEB		(56,490)
Pension obligation bonds		(209,809)
Non-current portion of compensated absences		(36,339)
NET POSITION OF GOVERNMENTAL ACTIVITIES	$	217,246

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, 2020

	General
Revenues	
Apportionment	$ 1,703,700
Proposal fees	204,419
Investment income	41,234
Total revenues	1,949,353
Expenditures:	
Salaries and benefits	1,267,032
Services and supplies	502,587
Debt service:	
Principal	26,984
Interest	11,235
Total expenditures	1,807,838
Excess (deficiency) of revenues and transfer in over (under) expenditures and transfers out	141,515
Fund balance beginning of period	1,488,223
Fund balance end of period	$ 1,629,738

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, 2020

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	$	141,515
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		(2,228)
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		(222,833)
Net change in pension obligation bonds		26,985
Net change in OPEB liability		91,773
Net change in compensated absences		(12,038)
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	$	23,174

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. *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

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 considered to be 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 considered to be 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.

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Accounting (continued)

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

Nonspendable Fund Balance
Nonspendable 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 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. In order 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 considered to be applied. It is the government's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

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). In order 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Accounting (concluded)

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:

Invested in capital assets, net of related debt 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.

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.

D. Fair Value Measurement

Certain assets and liabilities are required to be reported at fair value. The fair value framework provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). These levels are determined by the Commission's Executive Officer based on a review of the investment class, structure and what kind of securities are held in the portfolio. The three levels of fair value hierarchy are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Fair Value Measurement (concluded)

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly and fair value is determined through the use of models or other valuation methodologies including:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in markets that are inactive;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement. These unobservable inputs reflect the LAFCo's own assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). These unobservable inputs are developed based on the best information available in the circumstances and may include the LAFCo's own data.

E. Capital Assets

Capital assets are recorded at cost for purchases in excess of $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. Compensated Absences

Permanent San Diego 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.

G. 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Pensions (concluded)

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, 2018
Measurement Date (MD)	June 30, 2019
Measurement Period (MP)	July 1, 2018 to June 30, 2019

H. 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, 2019
Measurement Date (MD)	June 30, 2019
Measurement Period (MP)	July 1, 2018 to June 30, 2019

I. 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. These are reported 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.

J. 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

K. 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 in order to enhance their comparability with current year figures.

L. 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.

NOTE 3 - CASH AND INVESTMENTS

Cash and investments as of June 30, 2020, consisted of the following:

Demand deposits	$ 92,012
County of San Diego Investment Pool	1,619,676
Total cash and investments	$ 1,711,688

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

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, 2020.

NOTE 3 - CASH AND INVESTMENTS (concluded)

D. Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Commission 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 investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, the Commission will not be able to recover the value of its investments or collateral securities that are in the possession of another party. The California Government Code and the San Diego LAFCo's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the government unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure San Diego LAFCo deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial risk does not apply to an organization's indirect investment in securities through the use of mutual funds or government investment pools.

Fair Value Reporting - Investments
The Commission's holdings were an uncategorized input and not defined as a Level 1-3 input.

NOTE 4 - CAPITAL ASSETS

A summary of changes in capital assets follows:

	Balance at June 30, 2019	Additions	Deletions	Balance at June 30, 2020
Furniture and equipment	$ 31,950	$ -	$ -	$ 31,950
Total	31,950	-	-	31,950
Less accumulated depreciation	(29,533)	(2,228)	-	(31,761)
Fixed assets, net	$ 2,417	$ (2,228)	$ -	$ 189
Depreciation allocation:				
General government				$ 2,228

NOTE 5 - LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities for the year ended June 30, 2020:

	Balance at June 30, 2019	Additions	Deletions	Balance at June 30, 2020	Current
Pension obligation bonds	$ 236,794	$ -	$ 26,985	$ 209,809	$ 26,984
Net pension liability	1,091,200	594,873	-	1,686,073	-
Other post-employment benefits	47,526	8,964	-	56,490	-
Compensated absences	24,296	12,038	-	36,334	-
Total	$ 1,399,816	$ 615,875	$ 26,985	$ 1,988,706	$ 26,984

NOTE 5 - 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 7. 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 a number of factors (i.e. pay raises, new hires, retires, etc.). This can result in an 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
2021	$ 26,984	$ 9,275	$ 36,259
2022	35,000	7,553	42,553
2023	40,000	5,566	45,566
2024	40,000	3,445	43,445
2025	45,000	2,253	47,253
2026-2027	22,830	1,193	24,023
Total	$ 209,814	$ 29,285	$ 239,099

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, on June 30, 2020 is $36,334.

NOTE 6 - 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.

NOTE 7 - 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.

NOTE 7 - RETIREMENT PLAN (continued)

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 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, 2020, are summarized as follows:

	General Members			
Hire date	March 8, 2002 to August 28, 2009 (Tier A)	August 28, 2009 to January 1, 2013 (Tier B)	On or after January 1, 2013 (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
Monthly benefits, as a % of eligible compensation	2.00% - 3.00%	1.34% - 2.62%	1.30% - 2.50%	1.30% - 2.50%
Required employee contribution rates	12.14%	9.54%	8.27%	6.5%
Required employer contribution rates	39.95%	39.95%	39.95%	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, 2019 (the measurement date), the total pension liability was remeasured by revaluing the total pension liability as of June 30, 2018 (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, 2019 and using this revalued total pension liability in rolling forward the results from June 30, 2018 to June 30, 2019:

Actuarial Cost Method	Entry Age Actuarial Cost Method
Asset Valuation Method	Market Value of Assets
Actuarial Assumptions	
Discount Rate	7.00%
Inflation	2.75%
Payroll Growth	4.15% to 10.50%
Investment Rate of Return	7.00%, net of pension plan investment expense, including inflation

NOTE 7 - RETIREMENT PLAN (continued)

Discount Rate

The discount rate used to measure the Total Pension Liability was 7.00% and 7.25% as of June 30, 2019 and June 30, 2018, 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.

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 pension plan investments was applied to all periods of projected benefit payments to determine the TPL as of both June 30, 2019 and June 30, 2018.

The long-term expected rate of return on pension plan investments was determined in 2019 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 weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation and deducting expected investment expenses.

The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected investment rate of return assumptions are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Large Cap Equity	18.00%	5.44%
Small Cap Equity	2.00%	6.18%
Developed International Equity	15.00%	6.54%
Global Equity	5.80%	6.45%
Emerging Markets Equity	7.00%	8.73%
High Yield Bonds	6.00%	3.64%
Intermediate Bonds	19.20%	1.25%
Private Real Estate (Core)	7.20%	4.51%
Private Real Estate (Non-Core)	1.80%	5.82%
Private Equity	7.00%	9.00%
Infrastructure	4.50%	5.83%
Hedge Funds	4.00%	4.90%
Private Debt	1.00%	6.50%
Timber	0.75%	4.34%
Farmland	0.75%	5.63%
Total	100.000%	

NOTE 7 - 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: 6/30/2019	$ 1,686,073

LAFCo's proportionate share of the net pension liability as of June 30, 2018 and 2019 was as follows:

Proportion - June 30, 2018	0.032%
Proportion - June 30, 2019	0.042%
Change - Increase (Decrease)	(0.01%)

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% (6.00%)	Current Discount Rate (7.00%)	Discount Rate + 1% (8.00%)
Plan's Net Pension Liability	$ 2,677,037	$ 1,687,073	$ 875,918

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

NOTE 7 - RETIREMENT PLAN (concluded)

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, 2019 (the measurement date), LAFCo recognized a pension expense of $356,446 for the Plan.

As of the June 30, 2019 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	$ 255,293	$ -
Differences between actual and expected experience	32,927	66,903
Changes in assumptions	217,070	-
Net difference between projected and actual earnings on pension plan investments	25,409	-
Change in proportion and differences between employer contributions and proportionate share of contributions	266,451	164,483
Total	$ 797,150	$ 231,386

$255,293 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, 2021.

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
2021	$ 132,849
2022	8,290
2023	60,069
2024	109,263
Thereafter	-

NOTE 8 - 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, 2019 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	2
Total	8

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, 2020, LAFCo's cash contributions were $10,167.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB
At June 30, 2020, LAFCo reported a liability of $56,490 for its proportionate share of the collective net OPEB liability.

The collective net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the collective net OPEB liability was determined by an actuarial valuation as of June 30, 2019. 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, 2019, LAFCo's proportion was 0.050% percent, which was more than its proportion measure as of December 31, 2018 (0.037% percent). For the fiscal year ended June 30, 2020, LAFCo recognized OPEB expense of $19,012. As of fiscal year ended June 30, 2020, LAFCo reported deferred outflows of resources related to OPEB from the following sources:

NOTE 8 - OTHER POST-EMPLOYMENT BENEFITS (continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB Contributions subsequent to measurement date	$ 10,167	$ -
Differences between projected and actual earnings on investments	157	58
Total	$ 10,324	$ 58

$10,167 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, 2021.

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
2021	$ 42
2022	42
2023	(3)
2024	18
Thereafter	-

Actuarial Methods and Assumptions

The Total OPEB Liability as of June 30, 2019 and June 30, 2018 was determined by an actuarial valuation as of June 30, 2019 and June 30, 2018, respectively. The actuarial assumptions used in the valuation were based on the results of an experience study for the period from July 1, 2015 through June 30, 2018. They are the same as the assumptions used in the June 30, 2019 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	7.00%
Inflation	3.00%
Salary Increases	General: 4.25% to 10.25%, including inflation
Health Care Trend	6.75% graded to ultimate 4.50% over 9 years
HIA subsidy increases	0.00%

Discount Rate

The discount rate used to measure the total OPEB liability was 7.00% as of June 30, 2019 and 7.25% as of June 30, 2018. 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.

NOTE 8 - OTHER POST-EMPLOYMENT BENEFITS (concluded)

Projected employer contributions that are intended to fund the service costs (if any) for future plan members and their beneficiaries, as well as projected contributions (if any) 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 pension plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability as of both June 30, 2019 and 2018.

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, 2019, 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 (6.00%) or 1 percentage-point higher (8.00%) than the current rate:

	Healthcare Rate - 1% (6.00%)	Current Healthcare Rate (7.00%)	Healthcare Rate + 1% (8.00%)
Plan's Net OPEB Liability	$ 61,327	$ 56,490	$ 52,253

NOTE 9 - 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 makes lease payments to the County for their operating office space. Total lease payments made to San Diego County during fiscal year ended June 30, 2020 were $81,877. The following is a schedule of future minimum lease payments required under the operating lease agreement with the County:

Year ended June 30:	Minimum Lease Payments
2021	$ 83,924

NOTE 10 - 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.

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) began to spread among various countries, including the United States. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, multiple jurisdictions in the U.S., including California, have declared a state of emergency and issued shelter-in-place orders in response to the outbreak. Since all Commission staff are considered "essential", the immediate impact to the Commission's operations includes new restrictions on employees' work location and planning heightened sanitation awareness requirements on office staff. It is anticipated that the impacts from this pandemic will continue for some time. As of the report date, the financial impact of the coronavirus outbreak cannot be measured.

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, 2020

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenue:				
Apportionment	$ 1,703,700	$ 1,703,700	$ 1,703,700	$ -
Proposal fees	125,000	125,000	204,419	79,419
Investment and other income	87,600	87,600	41,234	(46,366)
Total revenue	1,916,300	1,916,300	1,949,353	33,053
Expenditures:				
Salaries and benefits	1,219,183	1,189,183	1,267,032	(77,849)
Services and supplies	697,117	727,117	502,587	224,530
Debt service				
Principal	-	-	26,984	(26,984)
Interest	-	-	11,235	(11,235)
Total expenditures	1,916,300	1,916,300	1,807,838	108,462
Excess (deficit) of revenue over expenditures	$ -	$ -	141,515	$ 141,515
Fund balance, beginning of period			1,488,223	
Fund balance, end of period			$ 1,629,738	

NOTE 1 - BUDGETARY REPORTING

San Diego County 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 County 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 County 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, 2020
Last 6 Years

SCHEDULE OF THE COMMISSION'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Measurement Date	2019	2018	2017	2016	2015	2014
Proportion of the net pension liability	0.042%	0.032%	0.041%	0.056%	0.050%	0.056%
Proportionate share of the net pension liability	$ 1,686,072	$ 1,091,200	$ 1,501,659	$ 1,661,384	$ 1,023,368	$ 893,715
Covered - employee payroll	$ 615,474	$ 444,760	$ 505,077	$ 462,897	$ 411,232	$ 444,346
Proportionate share of the net pension liability as a percentage of covered-employee payroll	274%	245%	297%	359%	249%	201%
Plan fiduciary net position as a percentage of the total pension liability	76.0%	78.9%	75.6%	70.5%	84.6%	87.1%

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

San Diego Local Agency Formation Commission
As of June 30, 2020
Last 6 Years
SCHEDULE OF CONTRIBUTIONS

Fiscal Year Ending June 30	2020	2019	2018	2017	2016	2015
Contractually required contribution (actuarially determined)	$ 209,786	$ 172,020	$ 166,680	$ 180,945	$ 135,423	$ 142,703
Contributions in relation to the actuarially determined contributions	(209,786)	(172,020)	(166,680)	(180,945)	(135,423)	(142,703)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -
Covered-employee payroll during the fiscal year	$ 615,474	$ 444,760	$ 439,767	$ 505,077	$ 462,897	$ 411,232
Contributions as a percentage of covered-employee payroll	34.09%	38.68%	37.90%	35.83%	29.26%	34.70%

*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, 2020

Measurement Period	2019	2018	2017
Plan's Proportion of the Net OPEB Liability (Asset)	0.050%	0.037%	0.044%
Plan's Proportionate Share of the Net OPEB Liability (Asset)	$ 56,490	$ 47,526	$ 63,154
Plan's Covered Payroll	$ 615,474	$ 444,760	$ 505,077
Plan's Proportionate Share of the Net OPEB Liability (Asset) as a percentage of its Covered Payroll	9.180%	10.690%	12.432%
Plan's Proportion of the Fiduciary Net Position	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	14.730%	10.120%	6.920%
Plan's Proportionate Share of Aggregate Employer Contributions	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, 2020

Measurement Period	2019	2018	2017
Actuarial Determined Contribution	$ 10,106	$ 7,282	$ 7,256
Contributions in relation to the actuarially determined contribution	(10,106)	(7,282)	(7,256)
	$ -	$ -	$ -
Covered payroll	$ 615,474	$ 505,077	$ 439,767
Contributions as a percentage of covered payroll	1.64%	1.44%	1.65%

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.

SAN DIEGO LOCAL AGENCY FORMATION COMMISSION

BOARD OF COMMISSIONERS & MANAGEMENT REPORT

For the Year Ended
JUNE 30, 2020

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Commissioners
San Diego Local Agency Formation Commission
San Diego, California

In planning and performing our audit of the basic financial statements of San Diego Local Agency Formation Commission (LAFCo) for the fiscal year ended June 30, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements but not for the purpose of expressing an opinion on the effectiveness of its internal control. Accordingly, we do not express an opinion on the effectiveness of San Diego Local Agency Formation Commission's internal control.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affect the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses, as defined above. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

During our audit, we noted certain matters involving internal controls and other operational matters that are presented for your consideration in this report. We will review the status of these comments during our next engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are not intended to be all-inclusive, but rather represent those matters that we considered worthy of your consideration. Our comments and recommendations are submitted as constructive suggestions to assist you in strengthening controls and procedures; they are not intended to reflect on the honesty or integrity of any employee. We will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist San Diego Local Agency Formation Commission in implementing the recommendations.

This report is intended solely for the information and use of management, the Commissioners, and officials of the federal and state grantor agencies and should not be used by anyone other than these specified parties.

We thank San Diego Local Agency Formation Commission's staff for its cooperation during our audit.

R.J. Ricciardi, Inc.

R.J. Ricciardi, Inc.
Certified Public Accountants

San Rafael, California
April 13, 2021

1101 FIFTH AVENUE, SUITE 360 SAN RAFAEL, CA 94901 TEL (415) 457-1215 FAX (415) 457-6735 www.rjrcpa.com

Commissioners
San Diego Local Agency Formation Commission
San Diego, California

We have audited the basic financial statements of the governmental activities and major fund of San Diego Local Agency Formation Commission (LAFCo) for the year ended June 30, 2020. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated June 10, 2020, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of LAFCo. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Qualitative Aspects of Accounting Practices
Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by LAFCo are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by LAFCo during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. We evaluated the key factors and assumptions used to develop the accounting estimates in determining that they are reasonable in relation to the financial statements taken as a whole. The most sensitive estimate(s) affecting the financial statements were:

- Management's estimate of the Pension Obligation Bonds Payable is based on information provided by the County of San Diego. We evaluated the key factors and assumptions used to develop the Pension Obligation Bonds Payable in determining that it is reasonable in relation to the financial statements taken as a whole.

- Management's estimate of transactions related to net pension and OPEB liabilities is based on information provided by the County of San Diego based on actuarial reports. We evaluated the key factors and assumptions used to develop the amounts by the actuary and determined that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

- Capital asset lives and depreciation expense;
- Fair value of investments and financial instruments;
- Compensated absences calculations;
- Post-employment benefit and pension plan actuarial computations.

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Difficulties Encountered in Performing the Audit
We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements (Audit Adjustments)
Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

Disagreements with Management
For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations
We have requested certain representations from management that are included in the management representation letter dated April 13, 2021.

Management Consultations with Other Independent Accountants
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to LAFCo's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as LAFCo's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters
We applied certain limited procedures to Management's Discussion and Analysis, Schedule of the Plan's Proportionate Share of the Net Pension Liability, Schedule of Plan Contributions, Schedule of the Plan's Proportionate Share of the Net OPEB Liability and Related Ratios, Schedule of OPEB Contributions, and Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

This report is intended solely for the information and use of management and the Board of Commissioners of San Diego Local Agency Formation Commission and others within the organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

Current Year Observations

Nothing came to our attention.

Prior Year Observations

1) Debit/Bank and Credit Card Statement Approvals

Observation:

During the course of our audit of San Diego Local Agency Formation Commission (the Commission), we noted the Credit Card and Bank Statements approval was not documented.

Recommendation:

We recommended the Executive Officer initial the statements to document approval.

Status:

This recommendation has been implemented.

2) Written Accounting, Administrative and Fraud Procedures Manual

Observation:

During the course of our audit, we noted that the Commission does not have a formal accounting, administrative and fraud procedures manual. This manual would document the Commission's internal controls to safeguard assets and accounting records. This manual would also note the Commission's policies regarding prevention, detection and deterrence of fraud and would serve as a training guide for new employees.

Recommendation:

We recommended the Commission develop and maintain an up to date accounting, administrative and fraud procedures manual.

Status:

This recommendation has not been implemented.