7a

AGENDA REPORT
Business | Action

August 3, 2026

TO: Chair Becker and Commissioners

FROM: Keene Simonds, Executive Officer
Erica Sellen, Commission Clerk

SUBJECT: **Outside Audit Report on Fiscal Year 2025**

SUMMARY

The San Diego County Local Agency Formation Commission (LAFCO) will receive an outside audit report on the financial statements for Fiscal Year 2025. The audit was performed by Davis Farr LLP (Irvine) and results in an unmodified – or "clean" – opinion, with no material weaknesses in internal control and no instances of reportable noncompliance identified. The audited fund balance totals $1.578 million, reflecting a year-end decrease of ($129,971) – or (7.6%) – from the prior fiscal year total of $1.708 million and tying to a planned use of reserves authorized by the Commission in adopting and subsequently amending the fiscal year 2024-2025 budget. The audit report and accompanying required communications from the outside auditor are presented to the Commission for formal acceptance and filing and to provide direction to staff on related matters moving forward.

BACKGROUND

Accounting Procedures

San Diego LAFCO's financial transactions are managed by the Executive Officer through accounts maintained with the County of San Diego and San Diego County Credit Union. County accounts serve as the primary depository for the fund balance and are used for most receivable and payable transactions. LAFCO maintains these accounts through a County-

Administration
Keene Simonds, Executive Officer
2550 Fifth Avenue, Suite 725
San Diego, California 92103
T 619.321.3380
E lafco@sdcounty.ca.gov
www.sdlafco.org

Paloma Aguirre, County of San Diego
Joel Anderson, County of San Diego
Monica M. Steppe, Alt., County of San Diego
Chair Kristi Becker, City of Solana Beach
Dane White, City of Escondido
John McCann, Alt., City of Chula Vista
Stephen Whitburn, City of San Diego
Marni von Wilpert, Alt., City of San Diego
Vice Chair Barry Willis, Alpine Fire Protection
Jo MacKenzie, Vista Irrigation
David Drake, Alt., Rincon del Diablo
Brigette Browning, General Public
Eileen Delaney, Alt., General Public

issued PeopleSoft license via the Auditor-Controller's Office. An account with the San Diego County Credit Union is used separately to cover relatively small and 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 throughout the fiscal year is supported through a contract with Tri-Star Advisors to provide monthly bookkeeping and reconciliation services.

Transition in Financial Support Services

Fiscal year 2025 marks a transition in San Diego LAFCO's financial support services. LAFCO engaged a new independent auditor (August 2025) and a new contract bookkeeper (March 2026) in the same cycle, following the conclusion of the prior engagements. The transition extended the timeline for completing the fiscal year 2024-2025 audit relative to the Commission's customary calendar. Staff has taken steps to return to that customary schedule beginning with fiscal year 2025-2026.

DISCUSSION

This item is for San Diego LAFCO to receive an outside audit prepared by Davis Farr LLP (Irvine) on the financial statements for FY2025. The audit is part of the prior fiscal year work plan and is accompanied by two additional communications from the independent auditor. The first provides information to the Commission regarding the conduct of the audit and significant audit matters, while the second reports the results of the auditor's consideration of internal controls and compliance with Government Auditing Standards. An outline of key items drawn from the audit package follows and is further detailed in the management's discussion and analysis section included in the report.

- The Commission finished June 30, 2025 with a fund balance of $1,577,977, reflecting a decrease from the prior fiscal year of ($129,971) – (7.6%). This change results from a planned operating shortfall in two parts: a $63,132 draw on reserves authorized in adopting the fiscal year 2024-2025 budget to moderate the increase in agency apportionments, and a fourth-quarter amendment authorizing an additional $119,246 to cover professional services costs. Actual use of reserves totaled $129,971 against $182,378 authorized, leaving $52,407 of the authorization unspent.

- The Commission's committed reserves of $750,000 were not touched during the fiscal year. Stabilization held at $250,000 and Opportunity at $500,000 throughout. The entire draw was absorbed by assigned and unassigned balances.

- The Commission finished June 30, 2025 with a net position of ($65,228), which includes all accrued long-term liabilities and primarily comprises employee retirement costs. This concluding amount represents a decrease of $65,134 from the prior audited close of ($94), consisting of a $40,959 restatement of beginning net position for the implementation of GASB Statement No. 101 and a $24,175 decrease in the current year.

- The auditor identified two uncorrected misstatements totaling $12,500, each immaterial both individually and in the aggregate to the financial statements taken as a whole. The first is a $2,500 accounts payable timing item involving an invoice recorded entirely in Fiscal Year 2025 that covered service days in the following year. The second is $10,000 in payroll tax on accrued leave, a component newly reportable under GASB Statement No. 101. Neither affects the auditor's opinion.

ANALYSIS

The outside audit and accompanying communications from Davis Farr LLP provides a clean opinion that San Diego LAFCO's financial statements accurately reflect the Commission's financial position as of June 30, 2025. The auditor identified no material weaknesses in internal control and no instances of reportable noncompliance. With respect to the year-over-year decrease in fund balance, it is a product of Commission action rather than an operating deficiency. The Commission has for several cycles authorized planned draws on reserves to moderate the increase in apportionments charged to member agencies. Fiscal Year 2025 continued this practice, although actual results outperformed the budget on both revenue and expense sides, and the reserve draw finished below what was authorized. Looking ahead, cumulative drawdowns have brought unassigned reserves closer to the floor established under Policy F-101. Consistent with this trajectory, in adopting the Fiscal Year 2027 budget the Commission elected not to use reserves to moderate agency apportionment increases. Last, regarding the two uncorrected misstatements, neither requires any change to the audited financial statements. The accounts payable item reverses on its own in Fiscal Year 2026, and staff will record the compensated absences amount as part of 2026's close, consistent with the second-year application of Statement No. 101.

RECOMMENDATION

It is recommended San Diego LAFCO take actions in consideration of receiving the outside audit report on Fiscal Year 2025 consistent with Alternative One below.

ALTERNATIVES FOR ACTION

The following alternatives are available to San Diego LAFCO:

Alternative One (recommended):

1. Receive the outside audit report and accompanying communications from Davis Farr LLP for Fiscal Year 2025

2. Accept and file the report as presented.

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

PROCEDURES

This item has been placed on the Commission's agenda for action as part of the business calendar. The following procedures are recommended in the consideration of this item:

1) Receive verbal presentation from staff unless waived.
2) Invite comments from interested audience members.
3) Discuss and consider the recommendation.

Respectfully,



Keene Simonds
Executive Officer

Attachments:

1) Outside Audit for FY2024-2025
2) Independent Auditor's Report
3) Auditor's Responsibility in Relation to the Financial Statement Audit

SAN DIEGO LOCAL AGENCY FORMATION COMMISSION

Basic Financial Statements

Year ended June 30, 2025

(With Independent Auditors' Report Thereon)

SAN DIEGO LOCAL AGENCY FORMATION COMMISSION

Basic Financial Statements

Year ended June 30, 2025

TABLE OF CONTENTS

	Page
Independent Auditors' Report	1
Management's Discussion and Analysis	4
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	11
Statement of Activities	12
Fund Financial Statements:	
Governmental Fund:	
Balance Sheet	14
Reconciliation of the Balance Sheet of Governmental Fund to the Statement of Net Position	15
Statement of Revenues, Expenditures and Changes in Fund Balances	16
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	17
Notes to the Basic Financial Statements	18
Required Supplementary Information:	
Schedule of the Plan's Proportionate Share of the Net Pension Liability And Related Ratios	42
Schedule of Plan Contributions	43
Schedule of the Plan's Proportionate Share of the Net OPEB Liability And Related Ratios	44
Schedule of OPEB Contributions	45
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	46
Notes to Required Supplementary Information	47

DavisFarr
CERTIFIED PUBLIC ACCOUNTANTS

Davis Farr LLP
18201 Von Karman Avenue | Suite 1100 | Irvine, CA 92612
Main: 949.474.2020 | Fax: 949.263.5520

Board of Commissioners
San Diego Local Agency Formation Commission
San Diego, California

Independent Auditors' Report

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities and the major fund of the San Diego Local Agency Formation Commission (the LAFCO) as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the LAFCO's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the LAFCO as of June 30, 2025, 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 (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

Emphasis of Matter

As described further in Notes 1 and 9 to the financial statements, during the year ended June 30, 2025, the LAFCO implemented Governmental Accounting Standards Board (GASB) Statement No. 101, Compensated Absences. As a result, the beginning net position has been restated. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

The LAFCO's 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 the LAFCO's ability to continue as a going concern for one year after the date that the financial statements are issued.

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 there is not a guarantee that an audit conducted in accordance with GAAS 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 control. Misstatements are considered material if there is a substantial likelihood that, individually or in aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, 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 the LAFCO'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 the LAFCO'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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the M*anagement's Discussion and Analysis, Schedule of the Plan's Proportionate Share of the Net Pension Liability and Related Ratios, Schedule of Plan Contributions, Schedule of the Plan's Proportionate Share of the Net OPEB Liability and Related Ratios, Schedule of OPEB Contributions, Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual - General Fund* be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Report on Summarized Comparative Information

The financial statements of the San Diego Local Agency Formation Commission for the year ended June 30, 2024 were audited by other auditors who report dated June 25, 2025 expressed an unmodified audit opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2024, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 23, 2026 on our consideration of the LAFCO internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the LAFCO's internal control over financial reporting and compliance.

DavisFarr LLP

Irvine, California
July 23, 2026

San Diego County Local Agency Formation Commission

Management's Discussion and Analysis
Year Ended June 30, 2025

1. Overview

a) This section presents management's discussion and analysis of the financial performance of the San Diego County Local Agency Formation Commission (San Diego LAFCO) for the fiscal year ended June 30, 2025. It should be read in conjunction with the basic financial statements and accompanying notes.

b) This report follows a transition in the Commission's financial support services, including the planned engagement of a new independent auditor and a new contract bookkeeper. The transition extended the timeline for completing the FY2025 audit, and LAFCO has taken steps to return to its customary reporting schedule beginning with FY2026.

2. Financial Highlights

a) San Diego LAFCO's fund balance at the end of FY2025 declined $129,971, from $1,707,948 to $1,577,977. The change in the fund balance ties directly to a planned operating shortfall in two parts.

- Budgeted use of reserves – $63,132. In adopting the FY2025 budget, the Commission authorized a planned draw on reserves to moderate the increase in apportionments charged to the County, City of San Diego, at large cities, and the independent special districts. This reflects deliberate Commission policy rather than an operating deficiency.

- Amended use of reserves - $119,246 authorized, $66,839 required. A fourth-quarter amendment authorized an additional $119,246 in reserve use to cover cost overruns within the Services and Supplies Unit, specific to professional services, which finished at $698,558 against an original budget appropriation of $445,767. The overrun was driven by two items: outside counsel retained to negotiate a memorandum of understanding with the Port of San Diego, and the concentration of a consultant's two-year engagement on the municipal service review of wholesale water providers, the bulk of which was billed within FY2025 to accommodate the consultant's availability. Because budget appropriations are controlled at the unit level, the Services and Supplies appropriation had to be raised to a ceiling sufficient to cover the overrun, while the reserve transfer was sized only to what the Commission expected to require after projected savings and revenue overperformance. Favorable variances ultimately exceeded expectations. Actual use of reserves totaled $129,971 against $182,378 authorized, leaving $52,407 of the authorization unspent.

b) LAFCO's committed reserves of $750,000 set at the beginning of FY2025 were not touched. Stabilization held at $250,000 and Opportunity at $500,000 throughout the year. The entire draw of reserves was absorbed by unassigned and assigned balances.

c) LAFCO's total liabilities declined $530,782, from $3,447,305 to $2,916,523, led by a $361,696 reduction in the net pension liability (to $1,695,504) and a $17,292 reduction in the net OPEB liability (to $5,259), together with reductions in the lease liability and pension obligation bonds. These were partially offset by changes in compensated absences: a $40,959 restatement of the beginning balance on implementation of GASB Statement No. 101, and a $30,205 net increase during FY2025. Additional details in Note. No. 4.

d) LAFCO's total fund balance (modified accrual) at year end was $1,577,977, or approximately 60% of FY2025 regular operating expenditures of $2,641,683. Under Commission policy, reserve designations are established at the beginning of each fiscal year from available cash balances: a minimum of 33.3% of operating costs is held as unassigned, with amounts above that floor committed or assigned. The Commission's committed reserves of $750,000 are held in addition to that unassigned minimum.

3. Financial Statements

a) San Diego LAFCO's basic financial statements comprise government-wide statements, fund financial statements, and the notes. The government-wide statements report on the agency as a whole using the accrual basis, and capture long-term obligations – pension, OPEB, and the office lease – that do not appear on the fund statements. The fund financial statements report the General Fund, LAFCO's only fund, on the modified accrual basis. This is the presentation that most closely tracks the budget the Commission adopts and monitors quarterly.

b) Readers should expect the two presentations to differ materially, and the reconciliations that follow the fund statements bridge the difference.

c) Effective FY2025, San Diego LAFCO implemented GASB Statement No. 101, which revises the recognition and measurement of compensated absence leave liabilities. The implementation reduced the beginning net position by $40,959, restating the July 1, 2024 balance from ($94) to ($41,053). See Note No. 9.

d) LAFCO's government wide net position (full accrual) with the restated beginning balance of ($41,053) decreased to ($65,228) – a difference of ($24,175).

4. Budgetary Analysis

a) San Diego LAFCO adopted a FY2025 budget of $2,912,230 in matching expenses and revenues on May 6, 2024.

- Budgeted expenses were divided between four cost categories: salaries and benefits to support 8.0 full-time positions at $1,468,773; services and supplies at $959,364, including office space and contracting with the County of San Diego for payroll, benefits administration, and information technology; grant awards (State pass-throughs) at $450,000; and debt service at $34,092.

- Budgeted revenues were divided between five funding categories: local agency apportionments based on statutory formula at $2,184,098 and invoiced between the County of San Diego, City of San Diego, other cities, and independent special districts; application fees at $200,000; investment income at $15,000; grant awards (State pass-throughs) at $450,000; and a $63,132 draw on fund balance reserves applied to limit the increase in agency apportionments.

b) LAFCO amended the budget at year-end to align the Services and Supplies appropriation with actual professional services costs, driven by two high-priority items: outside counsel to negotiate a memorandum of understanding with the Port of San Diego, and the concentration of a consultant's two-year engagement on the municipal service review of wholesale water providers, the bulk of which was billed within FY2025 to accommodate the consultant's availability around their academic schedule. Because appropriations are controlled at the unit level – each category must close with a positive balance – Services and Supplies was raised $252,791 to $1,212,155. The transfer from fund balance was increased $119,246 to $182,378, sized to what the Commission expected to actually require after projected cost savings and revenue overperformance. The amended budget accordingly carries $3,165,021 in expense authority against $3,031,476 in identified funding, with the $133,545 difference expected to be absorbed by end-of-year cost savings.

c) Actual results in FY2025 outperformed the amended budget.

- Regular operating revenues of $2,547,960 exceeded budget by $148,862, led by the mid-year addition of the San Diego Unified Port District as an apportioning agency under a negotiated funding agreement, lifting apportionments $110,789 above budget; application fees finished $12,386 ahead, and investment income $25,687 ahead at nearly triple its assumption.

- Regular operating expenditures of $2,641,683 finished $39,245 below budget, with Services and Supplies $58,426 under its amended appropriation, offset by Salaries and Benefits closing $19,181 above appropriation. This latter overrun stems principally from County-administered pension costs passed through after LAFCO closed its books in July but before the County closed its own in August; it does not reflect spending beyond the Commission's authorization. State pass-through grants moved in tandem on both sides of the ledger – revenues $288,778 and expenditures $286,121 below budget on project timing – with a net operating effect under $3,000.

5. Changes in Actuals

a) The following table shows actuals and changes between FY2025 and FY2024:

Audited actuals — FY2025 vs. FY2024

Revenues	FY2025	FY2024	Change	Expenditures	FY2025	FY2024	Change
Apportionments	2,294,887	2,033,861	+12.8%	Salaries + benefits	1,487,954	1,319,441	+12.8%
Application fees	212,386	194,596	+9.1%	Services + supplies	1,153,729	827,314	+39.5%
Investment income	40,687	46,129	-11.8%	Debt service – principal	150,770	129,778	+16.2%
Intergovernmental	161,222	127,075	+26.9%	Debt service – interest	46,700	30,490	+53.2%
Total revenues	**2,709,182**	**2,401,661**	+12.8%	**Total expenditures**	**2,839,153**	**2,307,023**	+23.1%
				Net change in fund balance	**(129,971)**	**94,638**	
				Fund balance, end of year	**1,577,977**	**1,707,948**	-7.6%

6. Condensed Comparative Tables: Net Position

a) The following table provides a two-year summary of San Diego LAFCO's government-wide net position between FY2025 and FY2024:

Condensed Statement of Net Position — FY2025 vs. FY2024

	FY2025	FY2024	% Chg	$ Chg		FY2025	FY2024	% Chg	$ Chg
Assets					**Liabilities**				
Current	1,759,983	1,962,140	-10.3%	(202,157)	Current	373,565	420,044	-11.1%	(46,479)
Non-current	758,539	878,308	-13.6%	(119,769)	Non-current	2,542,958	3,027,261	-16.0%	(484,303)
Total assets	**2,518,522**	**2,840,448**	-11.3%	(321,926)	**Total liabilities**	**2,916,523**	**3,447,305**	-15.4%	(530,782)
Deferred outflows of resources					**Deferred inflows of resources**				
Pensions	688,668	855,648	-19.5%	(166,980)	Pensions	365,097	258,373	+41.3%	106,724
OPEB	9,648	9,488	+1.7%	160	OPEB	446	—	n/a	446
Total deferred outflows	**698,316**	**865,136**	-19.3%	(166,820)	**Total deferred inflows**	**365,543**	**258,373**	+41.5%	107,170
Net position									
Net investment in capital assets	(93,492)	(79,493)	-17.6%	(13,999)	Unrestricted	28,264	79,399	-64.4%	(51,135)
Total net position						**(65,228)**	**(94)**	n/m	**(65,134)**

Reconciliation of net position

Net position, beginning of year, as previously reported	(94)
Implementation of GASB Statement No. 101	(40,959)
Net position, beginning of year, as restated	**(41,053)**
Change in net position, FY2025	(24,175)
Net position, end of year	**(65,228)**

7. Economic Outlook and Major Initiatives

a) LAFCO is responsible under statute to annually review its organizational needs and adopt an operating budget accordingly, funded through mandatory apportionments drawn from the local agencies it serves. State law further provides that the operating budget shall equal the budget adopted for the prior fiscal year unless the Commission affirmatively finds that reduced costs will still allow it to meet its prescribed regulatory and planning duties. Within that framework, the Commission has the authority to set and collect apportionments sufficient to meet its adopted budget, with expenses aligned to support the annual work plan. Near-term work plans are anticipated to continue focusing LAFCO's resources on advancing its municipal service review program, together with processing applicant proposals and related requests.

8. Contacting LAFCO's Financial Management

a) The basic financial statements are intended to provide citizens, local funding agencies, and creditors a general overview of LAFCO's finances and to demonstrate its accountability.

b) Questions about this report, or requests for additional financial information, may be directed to the Executive Officer, San Diego Local Agency Formation Commission, 2550 Fifth Avenue, Suite 725, San Diego, CA 92103, or (619) 321-3380. Past fiscal-year audits are available online at www.sdlafco.org.

KEENE SIMONDS
Executive Officer

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

SAN DIEGO LOCAL AGENCY FORMATION COMMISSION
Statement of Net Position
June 30, 2025
(With comparative information for the prior year)

	Governmental Activities	
	2025	2024
Assets:		
Current assets		
Cash and investments (note 2)	$ 1,732,937	1,919,968
Interest receivable	357	4,290
Due from other government	26,689	37,882
Total current assets	1,759,983	1,962,140
Noncurrent assets		
Capital assets, net (note 3)	758,539	878,308
Total assets	2,518,522	2,840,448
Deferred outflow of resources:		
Deferred outflow of resources - pension (note 6)	688,668	855,648
Deferred outflow of resources - OPEB (note 7)	9,648	9,488
Total deferred outflow of resources	698,316	865,136
Liabilities:		
Current liabilities:		
Accounts payable	139,851	208,598
Accrued liabilities	42,155	45,596
Long-term liabilities:		
Due within one year:		
Lease liability (note 4)	112,976	105,770
Pension obligation bonds (note 4)	45,000	45,000
Compensated absences (note 4)	33,583	15,080
Total current liabilities	373,565	420,044
Noncurrent liabilities:		
Lease liability (note 4)	739,055	852,031
Pension obligation bonds (note 4)	7,560	52,560
Compensated absences (note 4)	95,580	42,919
Net pension liability (note 6)	1,695,504	2,057,200
Net OPEB liability (note 7)	5,259	22,551
Total noncurrent liabilities	2,542,958	3,027,261
Total liabilities	2,916,523	3,447,305
Deferred inflow of resources:		
Deferred inflow of resources - pension (note 6)	365,097	258,373
Deferred inflow of resources - OPEB (note 6)	446	-
Total deferred outflow of resources	365,543	258,373
Net position:		
Investment in capital assets	(93,492)	(79,493)
Unrestricted	28,264	79,399
Total net position	$ (65,228)	(94)

See accompanying notes to the basic financial statements.

SAN DIEGO LOCAL AGENCY FORMATION COMMISSION
Statement of Activities
Year ended June 30, 2025
(With comparative information for the prior year)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Contributions and Grants	Program Revenues: Capital Contributions and Grants	Net (Expense) Revenue and Changes in Net Position - Governmental Activities: 2025	Net (Expense) Revenue and Changes in Net Position - Governmental Activities: 2024
Governmental activities:						
General government	$ 2,686,657	212,386	161,222	-	(2,313,049)	(2,070,222)
Interest	46,700	-	-	-	(46,700)	(30,490)
Total governmental activities	$ 2,733,357	212,386	161,222	-	(2,359,749)	(2,100,712)
General revenues:						
Apportionment					2,294,887	2,033,860
Investment income					40,687	46,129
Total general revenues					2,335,574	2,079,989
Change in net position					(24,175)	(20,723)
Net position, beginning of year, as previously reported					(94)	20,629
Implementation of GASB 101					(40,959)	-
Net position, beginning, as restated					(41,053)	20,629
Net position, end of year					$ (65,228)	(94)

See accompanying notes to the basic financial statements.

FUND FINANCIAL STATEMENTS

SAN DIEGO LOCAL AGENCY FORMATION COMMISSION
Balance Sheet
Governmental Fund
June 30, 2025
(With comparative information for the prior year)

	General Fund	
	2025	2024
Assets		
Cash and investments (note 2)	$ 1,732,937	1,919,968
Interest receivable	357	4,290
Due from other government	26,689	37,882
Total assets	$ 1,759,983	1,962,140
Liabilities and Fund Balance		
Liabilities:		
Accounts payable	$ 139,851	208,598
Accrued liabilities	42,155	45,594
Total liabilities	182,006	254,192
Fund balance:		
Committed:		
Stabilization	250,000	250,000
Opportunity	500,000	300,000
Assigned:		
Contingency	100,000	62,500
Unassigned	727,977	1,095,448
Total fund balance	1,577,977	1,707,948
Total liabilities and fund balance	$ 1,759,983	1,962,140

See accompanying notes to the basic financial statements.

SAN DIEGO LOCAL AGENCY FORMATION COMMISSION
Reconciliation of the Balance Sheet of Governmental Fund to the Statement of Net Position
June 30, 2025

Fund balances of governmental funds	$ 1,577,977
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital Related Items	
When capital assets (property, plant, equipment) that are to be used in governmental activities are purchased or constructed, the cost of those assets are reported as expenditures in governmental funds. However, the Statement of Net Position includes those capital assets among the assets of San Diego LAFCO as a whole.	
Capital assets	1,227,635
Accumulated depreciation	(469,096)
Long-Term Liability Transactions	
Long-term liabilities applicable to San Diego LAFCO's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities. All liabilities (both current and long-term) are reported in the Statement of Net Position.	
Net pension liability	(1,695,504)
Pension obligation bonds payable	(52,560)
Net OPEB liability	(5,259)
Lease liability	(852,031)
Compensated absences	(129,163)
Deferred Outflows and Inflows of Resources	
Certain deferred outflows and inflows of resources are not due and payable in the current period and are not current assets or financial resources, therefore these items are not reported in the governmental funds.	
Deferred outflows - pension related	688,668
Deferred outflows - OPEB related	9,648
Deferred inflows - pension related	(365,097)
Deferred inflows - OPEB related	(446)
Net position of governmental activities	$ (65,228)

See accompanying notes to the basic financial statements.

SAN DIEGO LOCAL AGENCY FORMATION COMMISSION
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Fund
Year ended June 30, 2025
(With comparative information for the prior year)

	General Fund	
	2025	2024
Revenues:		
Apportionment	$ 2,294,887	2,033,861
Intergovernmental	161,222	127,075
Proposal fees	212,386	194,596
Investment income	40,687	46,129
Total revenues	2,709,182	2,401,661
Expenditures:		
General government:		
Salaries and benefits	1,487,954	1,319,441
Service and supplies	1,153,729	827,314
Debt service:		
Principal	150,770	129,778
Interest	46,700	30,490
Total expenditures	2,839,153	2,307,023
Excess (deficiency) of revenues over (under) expenditures	(129,971)	94,638
Fund balance at beginning of year	1,707,948	1,613,310
Fund balance at end of year	$ 1,577,977	1,707,948

See accompanying notes to the financial statements.

SAN DIEGO LOCAL AGENCY FORMATION COMMISSION
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
to the Statement of Activities
Year ended June 30, 2025

Net changes in fund balances - total governmental funds	$ (129,971)

Amounts reported for governmental activities in the Statement of Activities are different because:

Capital Related Items

When capital assets that are to be used in governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in governmental funds. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation expense	(119,769)

Long-Term Debt Transactions

Some expenses reported in the Statement of Activities do not require the use of current financial resources. Therefore, these expenses are not reported as expenditures in governmental funds. 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 liabilities in the Statement of Net Position and do not result in an expense in the Statement of Activities.

Net change in net pension liability	87,992
Net change in pension obligation bonds	45,000
Net change in lease liability	105,772
Net change in net OPEB liability	17,006
Net change in compensated absences	(30,205)
Change in net position of governmental activities	$ (24,175)

See accompanying notes to the basic financial statements.

(1) Summary of Significant Accounting Policies

a. Description of the Reporting Entity

San Diego Local Agency Formation Commission (LAFCO) 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 and their public services to meet current and future community needs. LAFCO inform 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 LAFCO's among the membership categories represented on each Commission. Net operating costs for the San Diego LAFCO are apportioned: 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 is 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.

The San Diego LAFCO is an independent agency and its budget is not subject to County approval.

b. Basis of Presentation

The financial statements of the LAFCO have been prepared in conformity with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

c. Basis of Accounting and Measurement Focus

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

(1) Summary of Significant Accounting Policies (Continued)

Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all the activities of the San Diego 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. Assessments, investment income, and other items not properly included among program revenues are reported instead as general revenues.

Government-wide financial statements are presented using the *economic resources measurement focus* and the *accrual basis of accounting*. Under the economic resources 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. The San Diego LAFCO uses an availability period of 60 days for all revenues.

(1) Summary of Significant Accounting Policies (Continued)

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.

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.

(1) Summary of Significant Accounting Policies (Continued)

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 may delegate the ability of an employee or committee to assign uses of specific funds, for specific purposes. Such delegation of LAFCO has not yet been granted.

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.

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

(1) Summary of Significant Accounting Policies (Continued)

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.

d. 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.

e. 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). 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.

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

(1) Summary of Significant Accounting Policies (Continued)

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.

f. 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

g. 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. The LAFCO's asset consists of right to use office space. The related lease is discussed in Note 4. The to use assets are amortized on a straight-line basis over the term of the related lease.

h. Leases

LAFCO recognizes the right to use assets and a lease liability in the 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 by the principal portion of the lease payments paid. The right to use assets are 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 3.0% to discount leases
- The lease terms include the non-cancellable period of the lease. Lease payments included in the measurement of the lease liability is composed of annual adjustments in the amount of 3.0% annually.

(1) Summary of Significant Accounting Policies (Continued)

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.

i. 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. During the year ended June 30, 2025, the LAFCO adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 101, Compensated Absences, which seeks to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences.

j. 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 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, 2023
Measurement Date (MD)	June 30, 2024
Measurement Period (MP)	July 1, 2023 to June 30, 2024

k. Other Postemployment 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.

(1) Summary of Significant Accounting Policies (Continued)

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, 2024
Measurement Date (MD)	June 30, 2024
Measurement Period (MP)	July 1, 2023 to June 30, 2024

l. 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 in this category.

m. 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.

n. 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.

(2) Cash and Investments

Cash and investments as of June 30, 2025, consist of the following:

Demand deposits	$ 133,178
County of San Diego Investment Pool	1,599,759
Total cash and investments	$ 1,732,937

a. Investments Authorized by the San Diego LAFCO's Investment Policy

San Diego LAFCO's investment policy authorizes the following investment types:

Authorized Investments	Maximum Maturity	Percentage of Portfolio	Investment in One Issuer
U.S. Treasury Obligations	5 years	None	None
Agency Obligations	5 years	None	35%
Local Agency Obligations	5 years	30%	10%
Bankers' Acceptances	180 days	40%	5%
Commercial Paper	397 days	40%	10%
Medium Term Notes	5 years	30%	10%
Negotiable Certificates of Deposit	5 years	30%	10%
Repurchase Agreements	1 year	40%	10%
Reverse Repurchase Agreements	92 days	20%	10%
Collateralized Certificates of Deposit	13 months	5%	5%
Insured Deposit Accounts	13 months	5%	5%
Money Market Funds	N/A	20%	10%
Local Government Investment Pools (LGIPs)	N/A	5%	5%
Local Agency Investment Fund (LAIF)	N/A	5%	None
Pass-Through Securities	5 years	20%	10%
Supranationals	5 years	30%	10%

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 are. The County of San Diego investment portfolio has a weighted average maturity of 562 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.

(2) Cash and Investments (Continued)

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, 2025.

d. Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, an organization 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, an organization 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.

(3) Capital Assets

A summary of changes in capital assets follows:

	Balance at July 1, 2024	Additions	Deletions	Balance at June 30, 2025
Capital assets:				
Equipment	$ 17,335	-	-	17,335
Right to use asset - office lease	1,227,635	-	-	1,227,635
	1,244,970	-	-	1,244,970
Accumulated depreciation:				
Equipment	(17,335)	-	-	(17,335)
Right to use asset - office lease	(349,327)	(119,769)	-	(469,096)
	(366,662)	(119,769)	-	(486,431)
Total	$ 878,308	(119,769)	-	758,539

(4) Long-Term Liabilities

The following is a summary of changes in long-term liabilities for the year ended June 30, 2025:

	Balance at July 1, 2024	Additions	Deletions	Balance at June 30, 2025	Due within one year
Pension obligation bonds	$ 97,560	-	(45,000)	52,560	45,000
Lease liability	957,801	-	(105,770)	852,031	112,976
Compensated absences*	98,958	30,205	-	129,163	33,583
Total	$ 1,154,319	30,205	(150,770)	1,033,754	191,559

*Compensated absences as of July 1, 2024 were restated due to the implementation of Governmental Accounting Standards Board (GASB) Statement No. 101. Additionally, the change is presented as a net change.

a. Pension Obligation Bonds

The San Diego LAFCO participates in the County of San Diego County Employee Retirement Association's (SDCERA) pension plan as discussed further in Note 6. 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.

(4) Long Term Liabilities (Continued)

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 Annual Comprehensive Financial Report. The LAFCO's proportionate share of the County's total obligation is 0.034%. 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
2026	$ 45,000	1,193	46,193
2027	7,560	-	7,560
Total	$ 52,560	1,193	53,753

b. Lease Liability

LAFCO entered a non-cancellable operating lease for approximately 3,279 rentable square feet for administrative facilities commencing August 1, 2021. Rent increases 3.0% annually over the 123-month lease agreement, expiring October 31, 2031. The lease liability is measured at an incremental borrowing rate of 3.0%. This rate was determined using the historic 20-year treasury rate. The balance of the liability at June 30, 2025 is $852,031.

Future minimum payments required under the lease are as follows:

Year Ending June 30	Principal	Interest	Total
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
2031-2032	208,262	4,479	212,741
Total	$ 852,031	87,303	939,334

(5) Insurance

Insurance is provided on behalf of the San Diego LAFCO by the County of San Diego Insurance Policy. The San Diego 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.

(6) Retirement Plan

Plan Description

San Diego 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 San Diego 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.

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, 2025, are summarized as follows:

	General Members			
Hire date	Prior to March 8, 2002 (Tier I)	March 8, 2002 to August 2009 (Tier A)	August 28, 2009 to January 1, 2013 (Tier B)	On or after January 1, 2013 (Tier C)
Benefit formula	2.62% @ 62	3.00% @ 60	2.62% @ 62	2.50% @ 67
Benefit vesting schedule	5 years service	5 years of service	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life	monthly for life	monthly for life
Retirement age	50-65	50-65	50-65	55-67
Required employee contribution rates	12.42%	14.21%	11.34%	10.04%
Required employer contribution rates	47.87%	47.87%	47.87%	41.01%

(6) Retirement Plan, (Continued)

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, 2024 (the measurement date), the total pension liability was remeasured by revaluing the total pension liability as of June 30, 2023 (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, 2024 and using this revalued total pension liability in rolling forward the results from June 30, 2023 to June 30, 2024:

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, including inflation

Discount Rate

The projection of cash flows used to determine the discount rate assumes 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. 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 FNP 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 June 30, 2024.

(6) Retirement Plan, (Continued)

The long-term expected rate of return on pension plan investments1 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 arithmetic rate of return for the portfolio by weighting the expected arithmetic 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 (approved by the Board) 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 table. This information was used in the derivation of the long-term expected investment rate of return assumption for the actuarial funding valuation as of June 30, 2024. This information will change every three years based on the actuarial experience study.

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Large Cap U.S Equity	19.00%	5.40%
Small Cap U.S Equity	3.00%	6.17%
Developed International Equity	15.00%	6.13%
Global Equity	11.50%	6.20%
Emerging Markets 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%
Infrastructure	1.50%	6.02%
Farmland	0.70%	5.62%
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%	

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 valuation value of assets for each membership class by the ration of the total SDCERA Plan Net Position to total SDCERA valuation value of assets.

(6) Retirement Plan, (Continued)

The NPL is allocated based on the actual employer contributions with 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:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (c) = (a) - (b)
Balance at: 6/30/2023	$ 7,892,594	5,835,393	2,057,201
Balance at: 6/30/2024	7,862,281	6,166,777	1,695,504
Net Changes	$ 30,313	(331,384)	361,697

The LAFCO's proportionate share of the net pension liability as of June 30, 2023 and 2024 was as follows:

Proportion – June 30, 2023	0.037%
Proportion – June 30, 2024	0.035%
Change – Increase (Decrease)	(0.002%)

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 6.50 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 (5.50 percent) or 1 percentage-point higher (7.50 percent) than the current rate:

(6) Retirement Plan, (Continued)

	Discount Rate – 1% (5.50%)	Current Discount Rate (6.50%)	Discount Rate + 1% (7.50%)
Plan's Net Pension Liability	$ 2,805,005	1,695,504	790,304

Recognition of Gains and Losses

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:

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

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

For the measurement period ending June 30, 2024 (the measurement date), San Diego LAFCO recognized a pension expense of $263,035 for the Plan.

As of the June 30, 2024 measurement date, San Diego LAFCO reports other amounts for the Plan as deferred outflow and deferred inflow of resources related to pensions as follows:

(6) Retirement Plan, (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to measurement date	$ 352,251	-
Change of assumptions	138,850	-
Differences between expected and actual experience	181,081	28,611
Net difference between projected and actual earnings on pension plan investments	-	121,559
Changes in proportion and differences between employer contributions and proportionate share of contributions	16,486	214,927
Total	$ 688,668	365,097

$352,251 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, 2026.

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:

Fiscal year ended June 30:	Deferred Outflows/(Inflows) of Resources
2026	$ (45,339)
2027	128,466
2028	(61,642)
2029	(50,165)
2030	-
Thereafter	-
Total	$ (28,680)

(7) Other Post-Employment Benefits

Plan Description

Effective July 1, 2007, the San Diego 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 the 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, 2024 measurement date, the following current and former employees were covered by the benefit terms under the HIA:

Active employees	5
Inactive employees or beneficiaries currently receiving benefits	2
Total	7

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 the LAFCO and the bargaining units. The annual contribution is based on the actuarially determined contribution. For the fiscal year ended June 30, 2025, the LAFCO's cash contributions were $9,648.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2025, the Commission reported a liability of $5,259 for its proportionate share of the collective net OPEB liability.

(7) Other Post-Employment Benefits (Continued)

The collective net OPEB liability was measured as of June 30, 2024, and the total OPEB liability used to calculate the collective net OPEB liability was determined by an actuarial valuation as of June 30, 2024. The Commission'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 project contributions of all participating employers, actuarially determined. At June 30, 2024, the Commission's proportion was 0.042% percent.

For the fiscal year ended June 30, 2025, LAFCO recognized OPEB income of $7,401. As of fiscal year ended June 30, 2025, LAFCO reported deferred outflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to measurement date	$ 9,648	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	446
Total	$ 9,648	446

$9,648 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the fiscal year ended June 30, 2026.

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

Fiscal year ended June 30:	Deferred Outflows/(Inflows) of Resources
2026	$ (126)
2027	245
2028	(336)
2029	(229)
2030	-
Thereafter	-
Total	$ (446)

Actuarial Methods and Assumptions

The Total OPEB Liability as of June 30, 2024 was determined by an actuarial valuation as of June 30, 2024.

(7) Other Post-Employment Benefits (Continued)

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, 2023 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	General: 3.90% to 10.50%, including inflation
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 TOL was 6.50% as of June 30, 2024. 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 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 Fiduciary Net Position (FNP) was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the TOL as of June 30, 2024.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of 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 and by adding expected inflation and deducting expected investment expenses and a risk margin. The target allocation and projected arithmetic real rates of return for each measurement class, after deducting inflation, but before reduction for investment expenses are summarized in the following table. These values were used in the derivation of the long-term expected investment rate of return assumption in the June 30, 2024 actuarial valuation and will change every three years based on the actuarial experience study (as it did between the 2021 and 2022 valuations).

(7) Other Post-Employment Benefits (Continued)

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Large Cap U.S Equity	19.00%	5.40%
Small Cap U.S Equity	3.00%	6.17%
Developed International Equity	15.00%	6.13%
Global Equity	11.50%	6.20%
Emerging Markets 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 Asset (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%	

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued SDCERS financial report.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the Net OPEB Liability of LAFCO if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate, for measurement period ended June 30, 2024:

	Discount Rate – 1% (5.50%)	Current Discount Rate (6.50%)	Discount Rate + 1% (7.50%)
Plan's Net OPEB Liability	$ 7,608	5,259	3,191

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the Net OPEB Liability of LAFCO if it were calculated using a healthcare trend rate that is one percentage point lower or one percentage point higher than the current rate, for measurement period ended June 30, 2024:

(7) Other Post-Employment Benefits (Continued)

	Healthcare Rate – 1%	Current Healthcare Rate	Healthcare Rate + 1%
Plan's Net OPEB Liability	$ 4,479	5,259	6,068

(8) Related Party Transactions

The San Diego LAFCO reimburses the County for annual cost of participating in County administered workers' compensation and liability insurance plans, employee benefit programs, and payroll and information technology support services. Total payments made to San Diego County during fiscal year ended June 30, 2025 were $161,756.

(9) Restatement

During the year ended June 30, 2025, the LAFCO adopted new accounting guidance by implementing the provisions of GASB 101. As a result of this implementation, additional compensated absences resulted from the addition of payroll-related taxes and benefits associated with the accrued leave. The following summarizes the net effects on the beginning net position:

Net position, beginning of year, as previously reported	$ (94)
Implementation of accounting principle - GASB 101	(40,959)
Net position, beginning of year, restated	$ (41,053)

REQUIRED SUPPLEMENTARY INFORMATION

SAN DIEGO LOCAL AGENCY FORMATION COMMISSION

Schedule of the Proportionate Share of the Net Pension Liability

Last Ten Fiscal Years

	Measurement Date				
	06/30/24	06/30/23	06/30/22	06/30/21	06/30/20
Plan's Proportion of the Net Pension Liability (Asset)	0.035%	0.037%	0.047%	0.048%	0.042%
Plan's Proportionate Share of the Net Pension Liability (Asset)	$ 1,695,504	2,057,200	2,106,969	1,135,902	2,305,366
Plan's Covered Payroll	703,574	675,005	589,480	708,838	672,154
Plan's Proportionate Share of the Net Pension Liability (Asset) as a percentage of its Covered Payroll	241%	305%	357%	160%	343%

	Measurement Date				
	06/30/19	06/30/18	06/30/17	06/30/16	06/30/15
Plan's Proportion of the Net Pension Liability (Asset)	0.032%	0.041%	0.039%	0.036%	0.042%
Plan's Proportionate Share of the Net Pension Liability (Asset)	1,686,072	1,091,200	1,501,659	1,661,381	1,023,368
Plan's Covered Payroll	615,474	444,760	507,984	462,897	411,232
Plan's Proportionate Share of the Net Pension Liability (Asset) as a percentage of its Covered Payroll	274%	245%	296%	359%	249%

Notes to Schedule

Benefit Changes: None

Changes of Assumptions: For the measurement date ending June 30, 2022, the discount rate was changed from 7.00 percent (net of administrative expense) to 6.50 percent, payroll growth changed from 4.15-10.50 percent to 3.90-10.50 percent.

For the measurement date ending June 30, 2019, the discount rate was changed from 7.25 percent (net of administrative expense) to 7.00 percent, payroll growth changed from 4.5-9.75 percent to 4.15-10.50 percent.

For the measurement date ending June 30, 2016, the discount rate was changed from 7.50 percent (net of administrative expense) to 7.25 percent, payroll growth changed from 4.5-9.75 percent to 4.25-10.25 percent.

For the measurement date ending June 30, 2015, the discount rate was changed from 7.75 percent (net of administrative expense) to 7.50 percent, the inflation rate was changed from 3.25 percent to 3.00 percent, payroll growth changed from 4.75-10.00 percent to 4.50-9.75 percent.

SAN DIEGO LOCAL AGENCY FORMATION COMMISSION

Schedule of Pension Contributions

Last Ten Fiscal Years

Fiscal year ending June 30:	2025	2024	2023	2022	2021
Actuarially Determined Contribution	$ 352,251	260,965	238,695	293,766	293,416
Contributions in Relation to the Actuarially Determined Contribution	(352,251)	(260,965)	(238,695)	(293,766)	(293,416)
Contribution Deficiency (Excess)	$ -	-	-	-	-
Covered Payroll	$ 703,574	637,375	675,005	589,480	708,838
Contributions as a Percentage of Covered Payroll	50.07%	40.94%	35.36%	49.83%	41.39%

Fiscal year ending June 30:	2020	2019	2018	2017	2016
Actuarially Determined Contribution	209,786	172,020	166,680	180,945	135,423
Contributions in Relation to the Actuarially Determined Contribution	(209,786)	(172,020)	(166,680)	(180,945)	(135,423)
Contribution Deficiency (Excess)	-	-	-	-	-
Covered Payroll	672,154	615,474	444,760	507,984	462,897
Contributions as a Percentage of Covered Payroll	31.21%	27.95%	37.48%	35.62%	29.26%

Notes to Schedule:

Fiscal Year End:	6/30/2025
Valuation Date:	6/30/2023

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry Age
Amortization Method	Level Percent of Payroll
Asset Valuation Method	5-year smooth market
Discount Rate	6.50%
Projected Salary Increase	2.50% to 7.50%, vary by years of service
Inflation	2.50%
Payroll Growth	2.50%

SAN DIEGO LOCAL AGENCY FORMATION COMMISSION

Schedule of the Plan's Proportionate Share of the Changes
in Net OPEB Liability and Related Ratios

Last Ten Fiscal Years*

	Measurement Period			
	06/30/25	06/30/24	06/30/23	06/30/22
Plan's Proportion of the Net OPEB Liability (Asset)	0.046%	0.045%	0.042%	0.053%
Plan's Proportionate Share of the Net OPEB Liability (Asset)	$ 5,259	22,551	31,518	40,240
Plan's Covered Payroll	$ 703,574	675,005	589,480	708,838
Plan's Proportionate Share of the Net OPEB Liability (Asset) as a percentage of its Covered Payroll	0.75%	3.34%	5.35%	5.68%
Plan's Proportion of the Fiduciary Net Position as a percentage of the Plan's Total OPEB Liability	84.04%	49.35%	32.73%	31.57%

	Measurement Period			
	06/30/21	06/30/20	06/30/19	06/30/18
Plan's Proportion of the Net OPEB Liability (Asset)	0.050%	0.050%	0.037%	0.044%
Plan's Proportionate Share of the Net OPEB Liability (Asset)	50,032	56,490	47,526	63,154
Plan's Covered Payroll	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	7.44%	9.18%	10.69%	12.43%
Plan's Proportion of the Fiduciary Net Position as a percentage of the Plan's Total OPEB Liability	19.70%	14.73%	10.12%	6.92%

Notes to Schedule:

Changes in assumptions. None.

*Historical information is required only for measurement periods for which GASB 75 is applicable.
Future years' information will be displayed up to 10 years as information becomes available.

SAN DIEGO LOCAL AGENCY FORMATION COMMISSION

Schedule of OPEB Contributions

Last Ten Fiscal Years *

Fiscal year ending June 30:	2025	2024	2023	2022
Actuarially Determined Contribution	$ 9,648	8,777	7,754	7,743
Contributions in Relation to the Actuarially Determined Contribution	(9,648)	(8,777)	(7,754)	(7,743)
Contribution Deficiency (Excess)	$ -	-	-	-
Covered Payroll	$ 703,574	675,005	589,480	708,838
Contributions as a Percentage of Covered Payroll	1.37%	1.30%	1.32%	1.09%

Fiscal year ending June 30:	2021	2020	2019	2018
Actuarially Determined Contribution	9,946	10,106	7,282	7,256
Contributions in Relation to the Actuarially Determined Contribution	(9,946)	(10,106)	(7,282)	(7,256)
Contribution Deficiency (Excess)	-	-	-	-
Covered Payroll	672,154	615,474	444,760	507,984
Contributions as a Percentage of Covered Payroll	1.48%	1.64%	1.64%	1.43%

*Historical information is required only for measurement periods for which GASB 75 is applicable.
Future years' information will be displayed up to 10 years as information becomes available.

SAN DIEGO LOCAL AGENCY FORMATION COMMISSION
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund
June 30, 2025

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Assessments	$ 2,184,098	2,184,098	2,294,887	110,789
Intergovernmental	450,000	450,000	161,222	(288,778)
Proposal fees	200,000	200,000	212,386	12,386
Investment income	15,000	15,000	40,687	25,687
Total revenues	2,849,098	2,849,098	2,709,182	(139,916)
Expenditures:				
General government:				
Salaries and benefits	1,468,773	1,468,773	1,487,954	(19,181)
Service and supplies	1,409,364	1,409,364	1,153,729	255,635
Debt service:				
Principal	34,092	34,092	150,770	(116,678)
Interest	-	-	46,700	(46,700)
Total expenditures	2,912,229	2,912,229	2,839,153	73,076
Excess (deficiency) of revenues over (under) expenditures	(63,131)	(63,131)	(129,971)	(66,840)
Fund balances at beginning of year	1,707,948	1,707,948	1,707,948	-
Fund balances at end of year	$ 1,644,817	1,644,817	1,577,977	(66,840)

See accompanying notes to required supplementary information.

SAN DIEGO LOCAL AGENCY FORMATION COMMISSION

Notes to the Required Supplementary Information

Year ended June 30, 2025

(1) Budgetary Reporting

The 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.

Blank for Photocopying

DavisFarr
CERTIFIED PUBLIC ACCOUNTANTS

Davis Farr LLP
18201 Von Karman Avenue | Suite 1100 | Irvine, CA 92612
Main: 949.474.2020 | Fax: 949.263.5520

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

Independent Auditor's Report

Board of Commissioners
San Diego Local Agency Formation Commission
San Diego, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of San Diego Local Agency Formation Commission ("LAFCO") as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise LAFCO's basic financial statements, and have issued our report thereon dated July 23, 2026.

Report on Internal Control over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

DavisFarr LLP

Irvine, California
July 23, 2026

DavisFarr
CERTIFIED PUBLIC ACCOUNTANTS

Davis Farr LLP
18201 Von Karman Avenue | Suite 1100 | Irvine, CA 92612
Main: 949.474.2020 | Fax: 949.263.5520

Board of Commissioners
San Diego Local Agency Formation Commission
San Diego, California

We have audited the financial statements of the San Diego Local Agency Formation Commission ("LAFCO") as of and for the year ended June 30, 2025, and have issued our report thereon dated July 23, 2026. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated July 24, 2025, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of LAFCO solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

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

Planned Scope and Timing of the Audit

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

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, and our firm have complied with all relevant ethical requirements regarding independence under the American Institute of Certified Public Accountants ("AICPA") independence standards, contained in the Code of Professional Conduct.

We identified self-review threats to independence as a result of non-attest services provided. Those non-attest services included the preparation of the financial statements. To mitigate the risk, management has compared the draft financial statements and footnotes to the underlying accounting records to verify accuracy and has reviewed a disclosure checklist to ensure footnotes are complete and accurate.

Additionally, we utilize a quality control reviewer to perform a second review of the financial statements. We believe these safeguards are sufficient to reduce the independence threats to an acceptable level.

Significant Risks Identified

Significant risks include the following:

- Auditing standards highlight that management has the unique ability to override controls by recording inappropriate journal entries, structuring or approving unusual or non-routine transactions, manipulating accounting estimates, or by circumventing processes or pressuring staff. As a result, auditors perform journal entry testing, review significant accounting estimates, and evaluate unusual transactions.

- Revenue recognition is presumed to be a significant risk because of its susceptibility to manipulation. As a result, auditors are required to test revenue recognition as part of the audit.

- Implementation of a new accounting standard, Governmental Accounting Standards Board (GASB) Statement No. 101. As a result, we received LAFCO's records of compensated absences, tested the calculations of the records, and ensured LAFCO's footnote disclosures are accurate and complete in accordance with the new standard.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by LAFCO is included in Note 1 to the financial statements. During the fiscal year, LAFCO adopted new accounting standard GASB 101: Compensated Absences. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are:

Management's estimate of net pension liability, net OPEB liability, and related amounts are based on an actuarial valuation. We evaluated the key factors and assumptions used to develop the net pension liability, net OPEB liability, and related amounts and determined that it is reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting LAFCO's financial statements relate to:

The disclosure of the Pension Liability in Note 6 to the financial statements describes LAFCO's pension obligations, and the disclosure of the net OPEB Liability in Note 7 to the financial statements describes LAFCO's OPEB obligations.

Significant Difficulties Encountered during the Audit

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

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards also require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. The uncorrected financial statement misstatement is noted below, whose effects in the current and prior periods, as determined by management, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. Uncorrected misstatements or matters underlying those uncorrected misstatements could potentially cause future-period financial statements to be materially misstated, even though the uncorrected misstatements are immaterial to the financial statements currently under audit. There were two uncorrected misstatements:

- Entry to reduce accounts payable and related expense.
- Entry to increase compensated absences payable and payroll tax expense for the current year and prior year.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. None of the misstatements identified by us as a result of our audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole or applicable opinion units.

Disagreements with Management

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

Representations Requested from Management

We have requested certain written representations from management, which are included in the attached letter dated July 23, 2026.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us they consult with Tri-Star Advisors regarding accounting and auditing matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with LAFCO, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, significant events or transactions that occurred during the year, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as LAFCO's auditors.

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

DavisFarr LLP

Irvine, California
July 23, 2026