Local Agency Formation Commission
of San Luis Obispo County

Annual Financial Report

For the Fiscal Year Ended June 30, 2023

The Commission

Name	Area Represented	Title	Term Expiration
Marshall Ochylski	Los Osos CSD	Chair	12/2026
Steve Gregory	City of Paso Robles	Vice Chair	12/2025
Debbie Arnold	District 5	Member	12/2025
Jimmy Paulding	District 4	Member	12/2027
Ed Waage	City of Pismo Beach	Member	12/2027
Robert Enns	Cayucos Sanitary District	Member	12/2024
Heather Jensen	Public	Member	12/2024
David Watson	Public	Member	12/2024
Carla Wixom	City of Morro Bay	Alternate	12/2026
Dawn Ortiz-Legg	District 3	Alternate	12/2027
Ed Eby	Nipomo CSD	Alternate	12/2025

Local Agency Formation Commission of San Luis Obispo County
Rob Fitzroy, Executive Officer
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San Luis Obispo, CA 93401 • (805) 781-5795
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Local Agency Formation Commission of San Luis Obispo County

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For the Fiscal Year Ended June 30, 2023

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For the Fiscal Year Ended June 30, 2023

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Financial Section

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Independent Auditor's Report

Commissioners
Local Agency Formation Commission of San Luis Obispo County
San Luis Obispo, California

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the governmental activities and each major fund of the Local Agency Formation Commission of San Luis Obispo County (Commission), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Commission'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 each major fund of the Commission, as of June 30, 2023, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

The Commission'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 Commission's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Independent Auditor's Report, continued

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with 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 the 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 Commission's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Commission's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 8 and the required supplementary information on pages 31 through 33 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 summarized comparative information presented herein as of and for the year ended June 30, 2022, derived from those prior auditor's financial statements, has not been audited, reviewed, or compiled, and, accordingly, we express no opinion on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 16, 2024, on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Commission's internal control over financial reporting and compliance. That report can be found on pages 34 and 35.

C.J. Brown & Company, CPAs

C.J. Brown & Company, CPAs
Cypress, California
May 16, 2024

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Local Agency Formation Commission of San Luis Obispo County (Commission), provides an introduction to the financial statements of the Commission for the fiscal year ended June 30, 2023 (with summarized comparative information for the year ended June 30, 2022). We encourage readers to consider the information presented here with additional information that we have furnished in the accompanying basic financial statements and related notes, which follow this section.

Financial Highlights

- In 2023, the Commission's net position increased 4.87 or $37,529 to $(732,613).
- In 2023, total revenues from all sources increased 6.34% or $36,877 to $618,399.
- In 2023, total expenses increased 1.25% or $7,144 to $580,870.

Using This Financial Report

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities and performance of the Commission using accounting methods similar to those used by private sector companies.

The Statement of Net Position includes all of the Commission's investments in resources (assets), deferred outflows of resources, the obligations to creditors (liabilities), and deferred inflows of resources. They also provide the basis for computing a rate of return, evaluating the capital structure of the Commission, and assessing the liquidity and financial flexibility of the Commission. All of the year's revenues and expenses are accounted for in the Statement of Activities. This statement measures the success of the Commission's operations over the past year and can be used to determine the Commission's net operating reserves and credit worthiness.

Commission Activities

The Local Agency Formation Commission of San Luis Obispo County (Commission) administers a section of California Government Code now known as the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000. The Commission is delegated regulatory and planning responsibilities to coordinate the logical formation and development of local agencies in a manner preserving agricultural and open-space resources, promoting the orderly extension of municipal services, and discouraging urban sprawl. Key duties include regulating boundary changes through annexations or detachments; approving city incorporations or disincorporations; and forming, consolidating, or dissolving special districts. The Commission is also responsible for preparing studies to inform its regulatory activities, including establishing and updating spheres of influence for all cities and special districts within its jurisdiction. Spheres are planning tools used by the Commission to designate the territory it believes represents the appropriate and probable future service area of the affected agency. All jurisdictional changes, such as annexations, must be consistent with the spheres of the affected agencies with limited exceptions.

The Commission was first established in 1963 as an office within the County of San Luis Obispo (County). From 1963 to 2000, 100% of the Commission's annual budget was funded by the County. On July 1, 2001, in conjunction with the enactment of the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000, the Commission became autonomous of the County in terms of fulfilling its statutory duties and responsibilities. This transition was highlighted by the Commission appointing its own executive officer and counsel as well as altering its funding to include contributions from the cities and special districts in San Luis Obispo County. The budget is funded by the County, Cities, and Special Districts with each governmental category paying 1/3 of the budget. The Cities and Special Districts shares are prorated based on revenues reported to the State Auditor-Controller.

Government-wide Financial Statements

Statement of Net Position and Statement of Activities

One of the most important questions asked about the Commission's finances is, "Is the Commission better off or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Activities report information about the Commission in a way that helps answer this question. These statements include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the Commission's *net position* and changes in it. Think of the Commission's net position – assets and deferred outflows of resources, less liabilities and deferred inflows of resources – as one way to measure the Commission's financial health, or *financial position*. Over time, *increases or decreases* in the Commission's net position are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, such as changes in the Commission's property tax and assessment base to assess the *overall health* of the Commission.

Governmental Fund Financial Statements

Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources,* as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 15 through 30.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Commission, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by as of June 30, 2023.

At the end of fiscal year 2023, the Commission reflected a deficit balance in its unrestricted net position of $(731,243). (See note 8 for further information). The deficit does not mean that the Commission does not have resources available to pay its bills next year. Rather, it is the result of having long-term commitments, mostly pension liabilities of $1,052,739 that are greater than currently available resources. Specifically, the Commission did not include in past annual budgets the full amounts needed to finance future liabilities related to pensions. The Commission will include these amounts in future years' budgets as they come due.

Government-wide Financial Analysis, continued

Statement of Net Position

Condensed Statements of Net Position

		2023	2022	Change
Assets:				
Current assets	$	322,389	315,825	6,564
Non-current assets		166,403	-	166,403
Total assets		488,792	315,825	172,967
Deferred outflows of resources		467,066	137,011	330,055
Liabilities:				
Current liabilities		94,398	45,071	49,327
Non-current liabilities		1,181,511	494,046	687,465
Total liabilities		1,275,909	539,117	736,792
Deferred inflows of resources		412,562	683,861	(271,299)
Net position:				
Net investment in capital assets		(1,370)	-	(1,370)
Unrestricted		(731,243)	(770,142)	38,899
Total net position	$	(732,613)	(770,142)	37,529

Statement of Activities

Condensed Statements of Activities

		2023	2022	Change
Expenses	$	580,870	573,726	7,144
Total expenses		580,870	573,726	7,144
Program revenues		609,816	578,700	31,116
General revenues		8,583	2,822	5,761
Total revenues		618,399	581,522	36,877
Changes in net position		37,529	7,796	29,733
Net position, beginning of year, as restated (Note 9)		(770,142)	(777,938)	7,796
Net position, end of year	$	(732,613)	(770,142)	37,529

The statement of activities shows how the Commission's net position changed during the fiscal year. In the case of the Commission, net position increased 4.87 or $37,529 to $(732,613), as a result of ongoing operations.

The Commission's total revenues from all sources increased 6.34% or $36,877 to $618,399. Program revenues increased $31,116 primarily due to an increase in charges for services. General revenues increased $5,761 primarily due to an increase in interest income.

Government-wide Financial Analysis, continued

The Commission's total expenses increased 1.25% or $7,144 to $580,870, primarily due to increases of $33,280 and $3,089 in lease amortization expense and interest expense; which were offset by a decrease of $28,920 in materials and supplies.

Governmental Funds Financial Analysis

The focus of the Commission's *governmental funds* is to provide information on near-term inflows, outflows, and balance of *spendable* resources. Such information is useful in assessing the Commission's financing requirements. In particular, the *unreserved fund balance* may serve as a useful measure of the government's net resource for spending at the end of the fiscal year.

As of June 30, 2023, the Commission's General Fund reported a fund balance of $266,992. An amount of has been assigned for Commission operations. The amount of $236,957 constitutes unassigned fund balance which is available for future Commission operations. The remaining fund balance of $3,500 is not available for future spending because it has already been spent for prepaid expenses.

General Fund Budgetary Highlights

The final actual expenditures for the General Fund at year-end were $110,036 less than budgeted. The variance is due primarily to salaries and benefits, and materials and supplies being less than the anticipated budget by $94,942, and $52,833, respectively; and capital outlay being more than anticipated budget by $34,650. Actual revenues were lower than the anticipated budget by $31,216. The variance is primarily due to charges for services being less than anticipated budget by $35,799, and interest income being more than anticipated budget by $4,583. (See Budgetary Comparison Schedule – General Fund under Required Supplementary Information section on page 31)

Capital Asset Administration

		Balance 2022	Additions	Deletions/ Transfers	Balance 2023
Depreciable assets	$	-	199,683	-	199,683
Accumulated depreciation		-	(33,280)	-	(33,280)
Total capital assets, net	$	-	166,403	-	166,403

At the end of fiscal year 2023, the Commission's investment in capital assets (net of accumulated depreciation) amounted to $166,403. This investment in capital assets includes right-to-use asset, which is the capital asset addition of the Commission during the year. See note 3 to the basic financial statements for further information.

Lease Obligation

		2022	Additions	Principal Payment	2023
Lease obligation	$	-	199,684	(31,911)	167,773

At the end of fiscal year 2023, the Commission's lease obligation amounted to $167,773. This lease obligation includes the Commission's lease to use and occupy property from the City of San Luis Obispo. See note 6 to the basic financial statements for more information. See note 5 to the basic financial statements for further information.

Conditions Affecting Current Financial Position

Management is unaware of any other conditions, which could have a significant impact on the Commission's current financial position, net position, or operating results in terms of past, present, and future.

Requests for Information

The financial report is designed to provide the Commission's present users with a general overview of the Commission's basic finances and to demonstrate the Commission's accountability with an overview of the Commission's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional information, please contact the Executive Officer, Rob Fitzroy, at the Local Agency Formation Commission of San Luis Obispo County, 1042 Pacific Street, Suite A, San Luis Obispo, CA 93401 or (805) 781-5795.

Basic Financial Statements

Local Agency Formation Commission of San Luis Obispo County
Statement of Net Position
June 30, 2023

		2023
Current assets:		
Cash and cash equivalents (note 2)	$	318,889
Prepaid expenses		3,500
Total current assets		322,389
Non-current assets:		
Capital assets, being depreciated (note 3)		166,403
Total non-current assets		166,403
Total assets		488,792
Deferred outflows of resources:		
Deferred pension outflows (note 6)		467,066
Total deferred outflows of resources		467,066
Current liabilities:		
Accounts payable		12,230
Accrued payroll		6,068
Deposits from Trust		10,564
Long-term liabilities – due within one year:		
Compensated absences (note 4)		26,535
Lease obligation (note 5)		39,001
Total current liabilities		94,398
Non-current liabilities:		
Long-term liabilities – due in more than one year:		
Lease obligation (note 5)		128,772
Net pension liability (note 6)		1,052,739
Total non-current liabilities		1,181,511
Total liabilities		1,275,909
Deferred inflows of resources:		
Deferred pension inflows (note 6)		412,562
Total deferred inflows of resources		412,562
Net position: (note 8)		
Net investment in capital assets		(1,370)
Unrestricted		(731,243)
Total net position	$	(732,613)

See accompanying notes to the basic financial statements

Local Agency Formation Commission of San Luis Obispo County
Statement of Activities
For the Fiscal Year Ended June 30, 2023

		2023
Expenses:		
Salaries and benefits	$	448,573
Materials and supplies		95,928
Interest expense		3,089
Amortization		33,280
Total expenses		580,870
Program revenues:		
Charges for services		609,816
Total program revenues		609,816
Net program expense		28,946
General revenues:		
Interest income		8,583
Total general revenues		8,583
Changes in net position		37,529
Net position, beginning of year		(770,142)
Net position, end of year	$	(732,613)

See accompanying notes to the basic financial statements

Local Agency Formation Commission of San Luis Obispo County
Balance Sheet
June 30, 2023

		General Fund	Reclassifications & Eliminations	Statements of Net Position
Current assets:				
Cash and cash equivalents (note 2)	$	318,889	-	318,889
Prepaid expenses		3,500	-	3,500
Total current assets		322,389	-	322,389
Non-current assets:				
Capital assets, being depreciated (note 3)		-	166,403	166,403
Total non-current assets		-	166,403	166,403
Total assets		322,389	166,403	488,792
Deferred outflows of resources:				
Deferred pension outflows (note 6)		-	467,066	467,066
Total deferred outflows of resources		-	467,066	467,066
Current liabilities:				
Accounts payable and accrued expenses		12,230	-	12,230
Accrued payroll		6,068	-	6,068
Deposits from Trust		10,564	-	10,564
Long-term liabilities – due within one year:				
Compensated absences (note 4)		26,535	-	26,535
Lease obligation (note 5)		-	39,001	39,001
Total current liabilities		55,397	39,001	94,398
Non-current liabilities:				
Long-term liabilities – due in more than one year:				
Lease obligation (note 5)		-	128,772	128,772
Net pension liability (note 6)		-	1,052,739	1,052,739
Total non-current liabilities		-	1,181,511	1,181,511
Total liabilities		55,397	1,220,512	1,275,909
Deferred inflows of resources:				
Deferred pension inflows (note 6)		-	412,562	412,562
Total deferred inflows of resources		-	412,562	412,562
Fund balance: (note 7)				
Non-spendable		3,500	(3,500)	-
Assigned		26,535	(26,535)	-
Unassigned		236,957	(236,957)	-
Total fund balance		266,992	(266,992)	-
Total liabilities and fund balance	$	322,389		
Net position: (note 8)				
Net investment in capital assets			(1,370)	(1,370)
Unrestricted			(731,243)	(731,243)
Total net position			(732,613)	(732,613)

Continued on next page

See accompanying notes to the basic financial statements

Local Agency Formation Commission of San Luis Obispo County
Reconciliation of the Balance Sheet of Governmental Type Funds to the Statement of Net Position
June 30, 2023

Reconciliation:

Fund balance of governmental funds	$	266,992
Amounts reported for governmental activities in the statements of net position are different because:		
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental fund balance sheet.		
Capital assets, net		166,403
Deferred outflows of resources		467,066
Long-term liabilities applicable to the District 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 statements of net position as follows:		
Lease obligation		(167,773)
Net pension liability		(1,052,739)
Deferred inflows of resources		(412,562)
Net position of governmental activities	$	(732,613)

See accompanying notes to the basic financial statements

Local Agency Formation Commission of San Luis Obispo County
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Fiscal Year Ended June 30, 2023

	General Fund	Reclassifications & Eliminations	Statements of Activities
Expenditures/Expenses:			
Salaries and benefits	$ 405,912	42,661	448,573
Materials and supplies	95,928	-	95,928
Capital outlay	34,650	(34,650)	-
Amortization expense	-	33,280	33,280
Interest expense	3,089	-	3,089
Total expenditures/expenses	539,579	41,291	580,870
Program revenues:			
Charge for services	609,816	-	609,816
Total program revenues	609,816	-	609,816
Net program expense			(28,946)
General revenues:			
Interest income	8,583	-	8,583
Total general revenues	8,583	-	8,583
Total revenues	618,399	-	618,399
Excess of revenues over expenditures	78,820	(41,291)	-
Changes in net position	(78,820)	41,291	37,529
Fund balance/Net position, beginning of period	188,172	-	(770,142)
Fund balance/Net position, end of period	$ 266,992	41,291	(732,613)

Continued on next page

See accompanying notes to the basic financial statements

Local Agency Formation Commission of San Luis Obispo County
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Type Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2023

Reconciliation:

Net change in fund balance of governmental fund	$	78,820
Amounts reported for governmental activities in the statements of activities is different because:		
Governmental funds report capital outlay as expenditures. However, in the statements of activities, the cost of those assets are included as capital assets and allocated over their estimated useful lives as depreciation expense; and gain and losses resulting from the disposal of the capital assets are recognized. The effects of capital assets to the governmental funds are as follows:		
Capital outlay		34,650
Depreciation expense		(33,280)
Some expenses reported in the statements of activities do not require the use of current financial resources and, therefore, are not reported as expenses in the governmental funds as follows:		
Change is net pension liability		(42,661)
Changes in net position of governmental activities	$	37,529

See accompanying notes to the basic financial statements

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

The Local Agency Formation Commission of San Luis Obispo County (Commission) was created in 1963 by the California Legislature to encourage the orderly formation and development of local agencies, promote the efficient extension of municipal services, and protect against the premature conversion of agricultural and open-space lands. In 2001, following the enactment of the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000, the Commission became an independent agency separate from San Luis Obispo County (County). As of June 30, 2023, there are currently seven cities, 35 independent special districts, and 10 dependent special districts subject to Commission jurisdiction in San Luis Obispo County.

The Commission is comprised of seven regular and four alternate members. Each member is appointed pursuant to California Government Code Section 56000 et. Seq. and represents one of the following four interests:

- County Members: Two regular and one alternate member represent the County. These members are also members of the Board of Supervisors. Appointments are made by the Board of Supervisors.
- City Members: Two regular and one alternate member represent seven cities in the County. The members are mayors or council members. Appointments are made by the City Mayors.
- Special District Members: Two regular and one alternate member represent the 34 special districts in the Country. Appointments are made by the Independent Special District Selection Committee.
- Public Members: One regular and one alternate member represent the general public. Appointments are made by the members of the Commission.

The Commission includes all activities (operations of its administrative staff and commission officers) considered to be a part of the Commission. The Commission has determined that no other outside entity meets the above criteria and, therefore, no agency has been included as a component unit in the financial statements. In addition, the Commission is not aware of any entity that would be considered financially accountable for the Commission that would result in the Commission being considered a component unit of that entity.

B. Basis of Accounting and Measurement Focus

The *basic financial statements* of the Commission are comprised of the following:

- Government-wide financial statements
- Governmental Fund financial statements
- Notes to the basic financial statements

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

B. Basis of Accounting and Measurement Focus, continued

Government-wide Financial Statements

These statements are presented on an *economic resources* measurement focus and the accrual basis of accounting. Accordingly, all of the Commission's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, including capital assets, are included in the accompanying Statements of Net Position. The Statements of Activities present changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which the liability is incurred. The Statements of Activities demonstrate the degree to which direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. The types of transactions reported as program revenues for the Commission are to be reported in three categories, if applicable: 1) charge for services, 2) operating grants and contributions, and 3) capital grants and contributions. Charge for services include revenues from customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function. Grants and contributions include revenues restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues, if any.

Governmental Fund Financial Statements

These statements include the Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balance for all major governmental funds. Incorporated into these statements is a schedule to reconcile and explain the difference in fund balance as presented in these statements to the net position presented in the Government-wide Financial Statements. The Commission has presented its General Fund as its major fund in these statements to meet the qualifications of GASB Statement No. 34.

Governmental funds are accounted for on a spending or *current financial resources* measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balance presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) of net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except those revenues subject to accrual (generally 60-days after year-end) are recognized when due. The primary sources susceptible to accrual for the Commission are property taxes and assessments, interest earnings, investment revenue, and operating and capital grant revenues. Under the modified accrual basis of accounting, expenditures are generally recognized when the related fund liability is incurred. However, exceptions to this rule include principal and interest on debt, which are recognized when due.

The Commission reports the following major governmental fund:

> **General Fund** – is a government's primary operating fund. It accounts for all financial resources of the Commission, except those required to be accounted for in another fund when necessary.

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

C. Financial Reporting

The Commission's basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The Commission has adopted the following GASB pronouncements in the current year:

In May 2019, the GASB issued Statement No. 91 – *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period. This Statement did not have a material impact to the financial statements.

In March 2020, the GASB issued Statement No. 94 – *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. This Statement did not have a material impact to the financial statements.

In May 2020, the GASB issued Statement No. 96 – *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended. This Statement did not have a material impact to the financial statements.

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

C. Financial Reporting, continued

In June 2020, the GASB issued Statement No. 97 – *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 41 and No. 84, and a supersession of GASB Statement No. 32.* The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. This Statement did not have a material impact to the financial statements.

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position/Fund Balance

1. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources, and disclosures of contingent assets, deferred outflows of resources, liabilities, and deferred inflows of resources at the date of the financial statements and the reported changes in Commission net position during the reporting period. Actual results could differ from those estimates.

2. Cash and Cash Equivalents

The Commission maintains all of its cash and cash equivalents with the San Luis Obispo County Treasurer.

3. Investments and Investment Policy

The Commission has not adopted a formal investment policy as required by Section 53600, et al. seq., of the California Government Code.

The Commission considers all highly liquid investments, with initial maturities of three months or less, to be cash equivalents. Changes in fair value, if any, that occur during a fiscal year are recognized as unrealized gains or losses and reported for that fiscal year.

4. Prepaid Expenses

Certain payments to vendors reflect costs or deposits applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

5. Capital Assets

Capital assets are recorded in the government-wide financial statements. Included in capital assets are the right-to-use asset of an office building.

Right-to-use asset is amortized on a straight-line basis over the life of the lease term.

6. Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of resources that is applicable to future periods.

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position/Fund Balance, continued

7. Compensated Absences

The Commission's compensated leave policy permit employees to accumulate earned but unused vacation and sick time pay benefits. Upon termination, employees are paid full value for any accrued compensated absences. Vested or accumulated compensated absences that are expected to be liquidated with expendable available financial resources is reported as an expenditure and a general fund liability. Vested or accumulated compensated absences that are not expected to be liquidated with expendable available resources are maintained separately and represents a reconciling item between the fund and government-wide statements. The outstanding liability for compensated absences is reported as a current liability in the statements of net position.

8. Lease Obligations

The Commission's lease obligation is measured at the present value of payments expected to be paid during the lease term.

9. Deferred Inflows of Resources

Deferred inflows of resources represent the acquisition of resources that is applicable to future periods.

10. Pension

For the purpose of measuring net pension liability and deferred outflows/inflows of resources related to pension and pension expense, information about the fiduciary net position of the San Luis Obispo County Pension Trust (Plan) and addition to/deduction from the Plans' fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

GASB 68 requires that the reported results must pertain to the liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

- Valuation date: January 1, 2022
- Measurement date: December 31, 2022
- Measurement period: January 1, 2022 to December 31, 2022

11. Net Position

The government-wide financial statements utilize a net position presentation. Net position is categorized as follows:

- **Net investment in capital assets** – consists of capital assets, net of accumulated amortization and reduced by any debt outstanding against the acquisition, construction, or improvement of those assets.

- **Unrestricted** – consists of the net amount of assets and deferred outflows of resources, less liabilities and deferred inflows of resources that are not included in the determination of the *net investment in capital assets* or *restricted* components of net position.

When both restricted and unrestricted resources are available for use, it is the Commission's policy to use restricted resources first, and then unrestricted resources as they are needed.

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position/Fund Balance, continued

12. Fund Balance

The governmental fund financial statements report fund balance as non-spendable, restricted, committed, assigned, or unassigned, based primarily on the extent to which the Commission is bound to honor constraints on how specific amounts can be spent. In the fund financial statements, the Commission has implemented the requirements of *GASB No. 54 – Fund Balance Reporting and Governmental Fund Type Definitions*. The Commission formally adopted the following fund balance classifications:

- **Non-spendable –** amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.
- **Restricted** – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
- **Committed** – amounts that can only be used for specific purposes determined by formal action of the Commission's highest level of decision-making authority (the Commissioners) and that remain binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.
- **Assigned** – amounts that are constrained by the Commission's intent to be used for specific purposes. The intent can be established at either the highest level of decision-making, or by a body or an official designated for that purpose. This is also the classification for residual funds in the Commission's special revenue funds.
- **Unassigned** – the residual classification for the Commission's general fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

Fund Balance Policy

The Commission establishes, modifies, or rescinds fund balance commitments and assignments by passage of an ordinance or resolution. This is done through adoption of the budget and subsequent budget amendments that occur throughout the year. When both restricted and unrestricted resources are available for use, it is the Commission's policy to use restricted resources first, followed by the unrestricted, committed, assigned, and unassigned resources as they are needed.

The Commission believes that sound financial management principles require sufficient funds to be retained by the Commission, to provide a stable financial base at all time. To retain this stable financial base, the Commission needs to maintain an unrestricted fund balance sufficient to fund cash flows of the Commission and to provide financial reserves for unanticipated expenditures and/or revenue shortfalls of an emergency nature. Committed, assigned, and unassigned fund balance classifications are considered unrestricted.

The purpose of the Commission's fund balance policy is to maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unpredicted one-time expenditures.

(2) Cash and cash equivalents

Cash and cash equivalents as of June 30, are classified in the accompanying financial statements as follows:

		2023
Cash and cash equivalents	$	318,889

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

		2023
Statements of Net Position:		
Cash in County Treasury	$	308,389
Imprest Cash		10,500
Total cash and cash equivalents	$	318,889

On a quarterly basis, the County Treasurer allocates interest to participants based upon their average daily balances. Required disclosure information regarding categorization of investments and other deposit and investment risk disclosures can be found in the County's financial statements. The County's financial statements may be obtained by contacting the County's Auditor-Controller's Office at 1055 Monterey Street, Room D290, San Luis Obispo, California 93408. The County Treasurer Oversight Committee oversees the Treasurer's investments and policies.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This risk is measured by an assignment of a rating by a nationally recognized statistical rating organization. The investments of the Commission do not have a rating provided by a nationally recognized statistical rating organization.

(3) Capital Assets

		Balance 2022	Additions	Deletions/ Transfers	Balance 2023
Depreciable assets:					
Right-to-use asset	$	-	199,683	-	199,683
Total depreciable assets		-	199,683	-	199,683
Less accumulated amortization:					
Right-to-use asset		-	(33,280)	-	(33,280)
Total accumulated amortization		-	(33,280)	-	(33,280)
Total capital assets, net	$	-	166,403	-	166,403

Major capital asset additions during the year include right-to-use asset of the Commission's office building.

(4) Compensated Absences

The change to compensated absence balances at June 30 was as follows:

	Balance 2022	Additions	Deletions	Balance 2023
$	29,303	43,834	(46,602)	26,535

(5) Lease obligation

The change in operating lease obligation at June 30 was as follows:

		2022	Additions	Principal Payment	2023
Lease obligation	$	-	199,684	(31,911)	167,773

The Commission's main headquarters and facilities are located on real property leased from 1042 Pacific Street, A Partnership (Landlord). The term of the lease shall be for a period of five (5) years, commencing September 1, 2022, and ending August 31, 2027.

The Commission shall pay $3,500 per month rent to the Landlord.

During the fiscal year ended June 30, 2023, the Commission paid the Landlord rent totaling $41,113.

Principal and interest requirements to maturity are as follows:

Year		Principal	Interest	Total
2024	$	39,001	2,999	42,000
2025		39,788	2,212	42,000
2026		40,591	1,409	42,000
2027		41,410	590	42,000
2028		6,983	17	7,000
Total		167,773	7,227	175,000
Current		(39,001)		
Non-current	$	128,772		

(6) Defined Benefit Pension Plan

Plan Description

The Commission provides pension benefits to eligible employees through cost sharing multiple-employer defined benefit pension plans (Plans) administered by the Pension Trust. Members of the pension plans include all permanent employees for the Commission and certain independent Special Districts. The Pension Trust issues a separate Annual Comprehensive Financial Report (ACFR). This may be obtained online at www.sbcounty.ca.gov or by writing to the San Luis Obispo County Pension Trust at 1000 Mill Street, San Luis Obispo, CA 93408.

The Pension Trust was established on November 1, 1958, and is administered by the Board of Retirement to provide service retirement, disability, death, and survivor benefits for employees of the Commission and participating districts. The Commission are the governing board of the participating districts adopt resolutions, as permitted by the County Employees' Retirement Law of 1937 (CERL), which affect the benefits of the Pension Trust members. The Pension Trust is governed by the California Constitution; California State Government Code Section 31450 (CERL); and the bylaws, policies and procedures adopted by the Pension Trust's Board of Retirement.

Refer to the Pension Trust's ACFR for a summary of the Pension Trust's pension plans and eligible participants.

(6) Defined Benefit Pension Plan, continued

Benefits Provided

All pension plans provide benefits, in accordance with CERL regulations, upon retirement, disability, or death of members. Retirement benefits are based on years of service, final average compensation, and retirement age. Employees terminating before accruing 5 years (or 10 years for Plan 2) of retirement service credit (5 or 10-year vesting) forfeit the right to receive retirement benefits unless they establish reciprocity with another public agency within the prescribed time period. Non-vested employees who terminate service are entitled to withdraw their accumulated contributions plus accrued interest. Employees who terminated service after earning 5 or 10 years of retirement service credit may leave their contributions on deposit and elect to take a deferred retirement. Differences between expected or actual experience for vested and non-vested benefits may result in an increase or decrease to pension expense and net pension liability.

Service related disability benefits are based upon final average compensation or retirement benefits (if eligible). Nonservice related disability benefits are based on:

1. Years of service and final average compensation; or
2. Retirement benefits (if eligible).

General Plan 2 participants receive disability benefits through a long-term insurance policy. Death benefits are based upon a variety of factors including whether the participant was retired or not.

Annual cost-of-living adjustments (COLA) after retirement are provided in all plans except General Plan 2. COLAs are granted to eligible retired members each April based upon the Bureau of Labor Statistics. Average Consumer Price Index (CPI) for all Urban Consumers for the Los Angeles-Riverside-Orange County area as of the preceding January 1 and is subject to an annual maximum dependent upon the provisions of the pension plans.

Specific details for the retirement, disability, or death benefit calculations and COLA maximums for each of the pension plans are available in the Pension Trust's publicly available ACFR.

Contributions

Per Article 16 of the Constitution of the State of California, contribution requirements of the active employees and the participating employers are established and may be amended by the Pension Trust Board of Retirement. Depending upon the applicable plan, employees are required to contribute a certain percent of their annual pay. For each of the plans, the Commission's contractually required contribution (formerly known as the actuarially required contribution) rate for the fiscal year ended June 30, 2018, was a specified percent of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Additional amounts required to finance any unfunded accrued liability are the responsibility of the plan sponsors.

For the year ended June 30, 2023, contributions to the Plan were as follows:

	2023
Contributions – employer	$ 54,710

(6) Defined Benefit Pension Plan, continued

Net Pension Liability

As of the fiscal year ended June 30, 2023, the Commission reported net pension liabilities for its proportionate share of the Pension Trust's net pension liability of the Plan as follows:

	2023
Proportionate share of net pension liability	$ 1,052,739

The Commission's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The Pension Trust's net pension liability was measured as of December 31, 2022 (the measurement date), and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Pension Trust's proportion of the pension plans' net pension liability was based on a projection of the Pension Trust's long-term share of contributions to the pension plans relative to projected contributions of all pension plan participants actuarially determined. The Commission's proportion of the Pension Trust's proportion of the net pension liability was on the Commission's contributions to the pension plans during the year ended June 30, 2023, relative to the Pension Trust's contributions.

The Commission's proportionate share of the net pension liability for the Plan as of the measurement date December 31, 2022, was as follows:

	Miscellaneous
Proportion – December 31, 2021	0.07713%
Changes in proportion	0.02937%
Proportion – December 31, 2022	0.10649%

Deferred Pension Outflows(Inflows) of Resources

At June 30, 2023, the Commission reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

Description	2023 Deferred Outflows of Resources	2023 Deferred Inflows of Resources
Pension contributions subsequent to the measurement date	$ 54,710	-
Differences between actual and expected experience	43,448	-
Changes in assumptions	112,041	-
Net difference between projected and actual earnings on plan investments	99,814	-
Differences between actual contribution and proportionate share of contribution	157,053	-
Net adjustment due to differences in proportions of net pension liability	-	(412,562)
Total	$ 467,066	(412,562)

(6) Defined Benefit Pension Plan, continued

Deferred Pension Outflows(Inflows) of Resources

For the fiscal year ended June 30, 2023, the Commission recognized pension expense of $30,706. Pension expense represents the change in net pension liability during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss, actuarial gain/loss, actuarial assumptions or method, and plan benefits.

For the year ended June 30, 2023, the Commission's deferred outflows of resources related to contributions subsequent to the measurement date totaled $54,710 and other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized as pension expense as follows:

Fiscal Year Ending June 30,	Deferred Outflows/ (Inflows) of Resources
2024	$ 4,950
2025	4,950
2026	4,950
2027	4,950
2028	(20,006)
Thereafter	-

Actuarial Assumptions

The total pension liabilities in the January 1, 2022, actuarial valuations was determined using the following actuarial assumptions and methods:

Valuation date	January 1, 2022
Measurement date	December 31, 2022
Actuarial cost method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial assumptions:	
Discount rate	6.75%
Inflation	2.50%
Salary increases	3.00%
Mortality Rate Table*	Derived using Public General Mortality Table
Cost-of-Living Adjustments	Benefits are assumed to increase after retirement at a rate of 2.75% per year for Tier 1 and 2% for Tier 2 and Tier 3.

* The mortality table for miscellaneous active members are based on the Public General 2010 amount weighted above median income employee mortality table, with generational mortality improvements projected from 2010 using Projection Scale MP-2021, without adjustment.

(6) Defined Benefit Pension Plan, continued

Discount Rate

The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee contributions from plan members will be made at the current member contribution rates and that contributions from the Commission will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. In theory, the discount rate may differ from the long-term expected rate of return discussed previously. However, based on the projected availability of the plans' fiduciary net position, the discount rate is equal to the long-term expected rate of return on pension plans' fiduciary net position, the discount rate is equal to the long-term expected rate of return on pension plan investments and was applied to all periods of projected benefit payments to determine the total pension liability.

In determining the long-term expected rate of return, the Pension Trust took into account a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

The table below reflects the expected real rates of return by asset class.

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return
Cash Equivalents/Short Duration Govt	10.00%	1.10%
Equities - Public Market	30.00%	4.88%
Real Estate	15.00%	4.63%
Private Markets	30.00%	6.30%
US Treasury - Long Duration/TIPS	15.00%	1.44%

Sensitivity of the Proportionate Share of Net Pension Liability to Changes in the Discount Rate

The following table presents the Commission's proportionate share of the Pension Trust's net position liability calculated using the discount rate for the Plan, as well as what the Commission's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage point lower or one-percentage point higher than the current rate.

As of June 30, 2023, the Commission's net pension liability at the current discount rate, using a discount rate that is one-percentage point lower, and using a discount rate that is one-percentage point higher, are as follows:

	Discount Rate - 1% 5.75%	Current Discount Rate 6.75%	Discount Rate + 1% 7.75%
District's net pension liability	$ 1,429,720	1,052,739	743,912

Pension Plan Fiduciary Net Position

Detailed information about the Plan's fiduciary net position is available in separately issued San Luis Obispo County Pension Trust financial reports. See pages 32 and 33 for the Required Supplementary Information.

(7) Fund Balance

Fund balance is presented in the following categories: nonspendable, restricted, committed, assigned, and unassigned.

A detailed schedule of fund balance and their funding composition at June 30 is as follows:

		2023
Non-spendable:		
Prepaid expenses		3,500
Total non-spendable		3,500
Assigned:		
Compensated absences		26,535
Unassigned		236,957
Total fund balance	$	266,992

(8) Net Position

Calculation of net position as of June 30 was as follows:

		2023
Net investment in capital assets:		
Depreciable assets, net		166,403
Lease obligation		(167,773)
Total net investment in capital assets		(1,370)
Unrestricted net position		(731,243)
Net position	$	(732,613)

(9) Restatement

In fiscal year 2023, the Commission determined that net pension liability and related deferred outflows and inflows of resources should have been included as part of the Commission's records as of July 1, 2021. As a result, net pension liability, deferred pension outflows, and deferred pension inflows of $494,046, $137,011 and $683,861, respectively were not recorded by the Commission. Therefore, the Commission has recorded a prior period adjustment to net position in the amount of $1,040,896 at July 1, 2021.

The adjustment to net position is as follows:

Net position at July 1, 2021, as previously stated			$	262,958
Effect of adjustment to record:				
Deferred pension outflows	$	137,011		
Deferred pension inflows		(683,861)		
Net pension liability		(494,046)		
Total adjustments to net position				(1,040,896)
Net position at July 1, 2021, as restated			$	(777,938)

(10) Risk Management

The Commission is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission, as a member of the Special District Risk Management Authority (SDRMA), has purchased various insurance policies to manage the potential liabilities that may occur from the previously named sources.

At June 30, 2023, the limits and deductibles for liability, property and worker's compensation programs of the SDRMA in which the Commission participates are as follows:

General liability: The Commission has a $0 deductible for employee benefits/practices liability coverage per occurrence, Total risk financing self-insurance and reinsurance/excess limits or $2,500,000 for bodily injury, property damage, employment benefits, employee/public officials' errors and omissions, and employment practices liability single limit per occurrence. For public officials personal and employee/public officials dishonesty, the total amount per occurrence is $500,000 and $1,000,000, respectively.

Property and Auto Insurance: The Commission has a $500 deductible for property damage claims per occurrence, $1,000 deductible for property damages, $25,000 to $350,000 deductible for boiler and machinery coverage, a $10,000 deductible for all-risk property insurance coverage, and a $500 deductible for auto physical damage coverage. The following insurance limits apply: personal property - $1 billion for any one loss; boiler and machinery - $100 million per occurrence limit; catastrophic loss - $1 billion per occurrence; and auto physical damage (non-owned auto bodily injury and non-owned auto property damage - $2.5 million per accident.

Worker's Compensation Insurance: Up to State statutory limits for all work-related injuries/illnesses covered by State law, and Employer's liability coverage up to $5,000,000 limit.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the Commission's insurance coverage during the year ended June 30, 2023, 2022, 2021. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There was no IBNR claims payable as of June 30, 2023, 2022, 2021.

(11) Governmental Accounting Standards Board Statements Issued, Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to the issue date, that have effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 99

In April 2022, the GASB issued Statement No. 99 – *Omnibus 2022*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The requirements of this Statement will enhance comparability in the application of accounting and financial reporting requirements and will improve the consistency of authoritative literature. Consistent authoritative literature enables governments and other stakeholders to locate and apply the correct accounting and financial reporting provisions, which improves the consistency with which such provisions are applied. The comparability of financial statements also will improve as a result of this Statement. Better consistency and comparability improve the usefulness of information for users of state and local government financial statements.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

(11) Governmental Accounting Standards Board Statements Issued, Not Yet Effective, continued

Governmental Accounting Standards Board Statement No. 100

In June 2022, the GASB issued Statement No. 100 – *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

This Statement defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. As part of those descriptions, for (1) certain changes in accounting principles and (2) certain changes in accounting estimates that result from a change in measurement methodology, a new principle or methodology should be justified on the basis that it is preferable to the principle or methodology used before the change. That preferability should be based on the qualitative characteristics of financial reporting—understandability, reliability, relevance, timeliness, consistency, and comparability. This Statement also addresses corrections of errors in previously issued financial statements.

The requirements of this Statement will improve the clarity of the accounting and financial reporting requirements for accounting changes and error corrections, which will result in greater consistency in application in practice. In turn, more understandable, reliable, relevant, consistent, and comparable information will be provided to financial statement users for making decisions or assessing accountability. In addition, the display and note disclosure requirements will result in more consistent, decision useful, understandable, and comprehensive information for users about accounting changes and error corrections.

Governmental Accounting Standards Board Statement No. 100, continued

The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 101

In June 2022, the GASB issued Statement No. 101 – *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Leave is attributable to services already rendered when an employee has performed the services required to earn the leave. Leave that accumulates is carried forward from the reporting period in which it is earned to a future reporting period during which it may be used for time off or otherwise paid or settled. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. However, leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences.

The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

(11) Governmental Accounting Standards Board Statements Issued, Not Yet Effective, continued

Governmental Accounting Standards Board Statement No. 102

In December 2023, the GASB issued Statement No. 102 – Certain Risk Disclosures. The primary objective of this Statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact to have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2024, and all reporting periods thereafter. Earlier application is encouraged.

(16) Contingencies

Litigation

The Commission accounts for material liability claims and judgments in accordance with GASB standards. When it is probable that a claim liability has been incurred at year end, and the amount of the loss can be reasonably estimated, the Commission records the estimated loss net of insurance coverage. The Commission had no material claims that would require loss provision in the financial statements during this reporting period.

In the ordinary course of operations, the Commission is subject to claims and litigation from outside parties. After consultation with legal counsel, the Commission believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.

(17) Subsequent Event

Events occurring after June 30, 2023, have been evaluated for possible adjustment to the financial statements or disclosure as of May 16, 2024, which is the date the financial statements were available to be issued. The Commission is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

Required Supplementary Information

Local Agency Formation Commission of San Luis Obispo County
Budgetary Comparison Schedule – General Fund
For the Year Ended June 30, 2023

		Adopted Original Budget	Board Approved Changes	Revised Budget	Actual Budgetary Basis	Variance Positive (Negative)
Expenditures/Expenses:						
Salaries and benefits	$	500,854	-	500,854	405,912	94,942
Materials and supplies		148,761	-	148,761	95,928	52,833
Capital outlay		-	-	-	34,650	(34,650)
Interest expense		-	-	-	3,089	(3,089)
Total expenditures		649,615	-	649,615	539,579	110,036
Program revenues:						
Charge for services		645,615	-	645,615	609,816	(35,799)
Total program revenues		645,615	-	645,615	609,816	(35,799)
General revenues:						
Interest income		4,000	-	4,000	8,583	4,583
Total general revenues		4,000	-	4,000	8,583	4,583
Total revenues		649,615	-	649,615	618,399	(31,216)
Excess of revenues over expenditures		-	-	-	78,820	78,820
Fund balance – beginning of year		188,172		188,172	188,172	
Fund balance – end of year	$	188,172		188,172	266,992	

Notes to Required Supplementary Information

(1) Budgets and Budgetary Data

The Commission follows specific procedures in establishing the budgetary data reflected in the financial statements. Each year, the Commission's Executive Officer prepares and submit a budget and work plan to the Commission no later than June of each year. The basis used to prepare the budget does not differ substantially from the modified accrual basis of accounting. The adopted budget becomes operative on July 1. The Commission must approve all supplemental appropriations to the budget and transfers between major accounts. The Commission's annual budget is presented as a balanced budget (inflows and reserves equal outflows and reserves) adopted for the General Fund at the detailed expenditure-type level.

The Commission presents a comparison of the annual budget to actual results for the General Fund at the functional expenditure-type major object level for financial reporting purposes. The budgeted expenditure amounts represent the adopted budget plus supplemental appropriations, if any.

Local Agency Formation Commission of San Luis Obispo County
Schedules of the Commission's Proportionate Share of the Net Pension Liability
As of June 30, 2023
Last Ten Years*

Description		Measurement Dates 12/31/2022	12/31/2021	12/31/2020	12/31/2019	12/31/2018	12/31/2017	12/31/2016	12/31/2015	12/31/2014
Commission's proportion of the net pension liability		0.10649%	0.07713%	0.13596%	0.19851%	0.20463%	0.19092%	0.19224%	0.18511%	0.23909%
Commission's proportionate share of the net pension liability	$	1,052,739	494,046	925,432	1,323,249	1,543,856	1,078,279	1,244,659	1,009,254	1,010,132
Commission's covered payroll	$	377,040	325,530	313,869	349,961	366,783	367,975	347,423	277,682	261,213
Commission's proportionate share of the net pension liability as a percentage of its covered payroll		279.21%	151.77%	294.85%	378.11%	420.92%	293.03%	358.25%	363.46%	386.71%
Plan's proportionate share of the fiduciary net position as a percentage of total pension liability		61.73%	73.20%	69.71%	68.34%	62.76%	70.36%	64.59%	67.57%	73.53%

Notes to the Schedules of the Commission's Proportionate Share of the Net Pension Liability

Changes in Benefit Terms

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

Change of Assumptions and Methods

In 2022, the project salary increases were increased from 2.25% to 3%, while inflation increased from 2.25% to 2.50%. Investment rate of return remains the same at 6.75%, net of pension plan investment expense, including inflation.

In 2021, the investment rate of return was reduced from 6.875% to 6.75%, net of pension plan investment expense, including inflation. Projected salary increases and inflation remained the same at 2.75% and 2.25%, respectively. There were no benefit changes during the year.

In 2020, there were no benefit changes during the year. The investment rate of return was reduced from 7% to 6.875%, net of pension plan investment expense, including inflation. Projected salary increases remained the same at 2.75%. Inflation decreased from 2.50% to 2.25%. Post-retirement mortality rates were based on the MP-2019.

In 2019, there were no changes in actuarial valuation assumptions, and there were no benefit changes during the year.

In 2018, all assumptions and methods have changed. The investment rate of return, projected salary increases, and inflation all went down to 7%, 2.75%, and 2.50%, respectively (2017: 1.125%, 3.125%, and 2.625%). Post-retirement mortality rates were based on the RP-2014 Mortality Tables with generational mortality improvements using scale MP-2017.

*The Commission has presented information for those years for which information is available until a full 10- year trend is compiled.

Local Agency Formation Commission of San Luis Obispo County
Schedules of Pension Plan Contributions
As of June 30, 2023
Last Ten Years*

Description		Fiscal Years Ended								
		6/30/23	6/30/22	6/30/21	6/30/20	6/30/19	6/30/18	6/30/17	6/30/16	6/30/15
Actuarially determined contribution	$	76,775	47,183	76,551	97,186	94,627	80,838	68,150	62,232	59,389
Contributions in relation to the actuarially determined contribution		(54,711)	(42,755)	(14,786)	(54,145)	(56,963)	(53,873)	(45,188)	(38,432)	(16,044)
Contribution deficiency (excess)	$	22,064	4,428	61,765	43,041	37,664	26,965	22,962	23,800	43,345
Covered payroll	$	377,040	325,530	313,869	349,961	366,783	367,975	347,423	277,682	261,213
Contribution's as a percentage of covered payroll		14.51%	13.13%	4.71%	15.47%	15.53%	14.64%	13.01%	13.84%	6.14%

Notes to the Schedules of Pension Plan Contributions

* The Commision has presented information for those years for which information is available until a full 10- year trend is compiled.

Report on Internal Controls and Compliance

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Commissioners
Local Agency Formation Commission of San Luis Obispo County
San Luis Obispo, California

We have audited, in accordance with the 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 the San Luis Obispo Local Agency Formation Commission (Commission) as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated May 16, 2024.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards,* continued

Purpose of this Report

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

C.J. Brown & Company, CPAs

C.J. Brown & Company, CPAs
Cypress, California
May 16, 2024