LOCAL AGENCY FORMATION COMMISSION OF MONTEREY COUNTY

FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

LOCAL AGENCY FORMATION COMMISSION OF MONTEREY COUNTY

TABLE OF CONTENTS

FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

BIANCHI, KASAVAN & POPE, LLP

SALINAS OFFICE
450 LINCOLN AVENUE
SUITE 200
SALINAS, CA 93901

PHONE 831-757-5311
FAX 831-757-9529

BKPCPA.COM

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Local Agency Formation Commission of Monterey County
Salinas, California

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the Local Agency Formation Commission of Monterey County (Agency), a state mandated regulatory agency, as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Agency, as of June 30, 2023 and 2022, and the respective changes in financial position and, its cash flows for the years 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 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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Agency 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 opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, 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 Agency'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.

Auditors' 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 auditors' report that includes our opinion. 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 generally accepted auditing standards and *Government Auditing Standards* 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 generally accepted auditing standards and *Government Auditing Standards*, 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 Agency'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 Agency'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 required supplementary information as listed on the table of contents 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.

Other Information

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. The Agency has elected not to present Management's Discussion and Analysis.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards,* we have also issued our report dated November 16, 2023, on our consideration of the Agency'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 provide an opinion on the effectiveness of the Agency's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the Agency's internal control over financial reporting and compliance.

Bianchi, Kasavan + Pope, LLP

Salinas, California
November 16, 2023

BASIC FINANCIAL STATEMENTS

LOCAL AGENCY FORMATION COMMISSION OF MONTEREY COUNTY

STATEMENTS OF NET POSITION

JUNE 30, 2023 AND 2022

ASSETS AND DEFERRED OUTFLOWS

	2023	2022
CURRENT ASSETS		
Cash and cash equivalents - Note 2	$ 1,330,020	$ 1,200,765
Prepaid expenses	25,593	22,522
TOTAL CURRENT ASSETS	1,355,613	1,223,287
NON-CURRENT ASSETS		
Net pension asset - Note 6	-	262,199
Capital assets - net - Note 3	4,451	8,468
Operating right-of-use assets - Note 5	153,939	-
TOTAL NON-CURRENT ASSETS	158,390	270,667
DEFERRED OUTFLOWS OF RESOURCES		
Deferred pension - Note 6	302,729	308,762
Deferred OPEB - Note 7	7,554	8,990
TOTAL DEFERRED OUTFLOWS OF RESOURCES	310,283	317,752
	$ 1,824,286	$ 1,811,706

LIABILITIES, DEFERRED INFLOWS AND NET POSITION

	2023	2022
CURRENT LIABILITIES		
Accounts payable	$ 54,442	$ 15,677
Accrued leave	80,419	68,104
Deferred revenue	121,282	-
Current portion of operating lease obligations - Note 5	26,358	-
TOTAL CURRENT LIABILITIES	282,501	83,781
NON-CURRENT LIABILITIES		
Net pension liability - Note 6	57,559	-
Net OPEB liability - Note 7	75,064	85,475
Operating lease obligations - net of current portion - Note 5	127,581	-
TOTAL NON-CURRENT LIABILITIES	260,204	85,475
DEFERRED INFLOWS OF RESOURCES		
Deferred pension - Note 6	40,785	9,278
Deferred OPEB - Note 7	56,930	52,790
Deferred fees revenue	54,348	56,023
TOTAL DEFERRED INFLOWS OF RESOURCES	152,063	118,091
NET POSITION		
Net investment in capital assets	4,451	8,468
Restricted for pension	-	262,199
Unrestricted - Note 4	1,125,067	1,253,692
TOTAL NET POSITION	1,129,518	1,524,359
	$ 1,824,286	$ 1,811,706

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

LOCAL AGENCY FORMATION COMMISSION OF MONTEREY COUNTY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

	2023	2022
OPERATING REVENUES		
County contributions	$ 354,931	$ 298,814
District contributions	354,931	298,814
City contributions	354,931	298,814
Project fees	36,121	179,153
TOTAL OPERATING REVENUES	1,100,914	1,075,595
OPERATING EXPENSES		
Employee benefits	578,078	(266,158)
Salaries	550,034	442,716
Litigation reserve	129,102	35,449
Accounting and financial services	59,800	60,400
Accrued leave	32,298	5,115
Rent - Note 5	28,772	28,772
Legal	21,803	94,043
Audit services	20,000	14,500
Travel	13,829	-
Computer equipment maintenance	13,613	10,727
Equipment rental and furnishings	11,366	11,069
LAFCO memberships	9,137	8,839
Outside professional services	8,825	75,180
Training and conferences	8,764	540
Property and general liability insurance	7,687	7,129
Postage and shipping	4,890	5,930
Human resource services	4,800	6,640
Telephone	4,534	4,046
Office supplies	4,523	3,411
Depreciation	4,017	4,543
Meeting broadcast services	3,999	-
Legal notices	1,664	4,029
Computer support services	1,565	4,555
Books and periodicals	1,151	1,323
Repairs and maintenance	169	328
Temporary services clerical	-	37,440
Professional services encumbered funds	-	3,438
Recruitment advertising	-	675
Outside printers	-	668
TOTAL OPERATING EXPENSES	1,524,420	605,347

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

LOCAL AGENCY FORMATION COMMISSION OF MONTEREY COUNTY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

	2023	2022
INCOME (LOSS) FROM OPERATIONS	$ (423,506)	$ 470,248
NON-OPERATING INCOME		
Fees revenue	1,674	5,363
Interest	26,991	5,448
TOTAL NON-OPERATING INCOME	28,665	10,811
CHANGE IN NET POSITION	(394,841)	481,059
NET POSITION, BEGINNING OF YEAR	1,524,359	1,043,300
NET POSITION, END OF YEAR	$ 1,129,518	$ 1,524,359

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

LOCAL AGENCY FORMATION COMMISSION OF MONTEREY COUNTY

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers, county, districts and cities	$ 1,222,195	$ 1,075,596
Payments to suppliers	28,164	(882,343)
Payments to employees	(1,148,095)	(197,038)
Net cash provided by (used in) operating activities	102,264	(3,785)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	26,991	5,448
Net cash provided by investing activities	26,991	5,448
NET INCREASE IN CASH AND CASH EQUIVALENTS	129,255	1,663
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,200,765	1,199,102
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 1,330,020	$ 1,200,765
Reconciliation of operating income to net cash provided by operating activities		
Income (loss) from operations	$ (423,506)	$ 470,248
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	4,017	4,543
Changes in assets, deferred inflows of resources, liabilities and deferred outflows of resources:		
(Increase) decrease in prepaid expenses	(3,071)	(10,409)
(Increase) decrease in net pension asset	262,199	(251,223)
(Increase) decrease in deferred outflows	7,469	(202,296)
Increase (decrease) in accounts payable	38,765	330
Increase (decrease) in accrued leave	12,314	(15,365)
Increase (decrease) in deferred revenue	121,282	-
Increase (decrease) in net pension liability	57,559	-
Increase (decrease) in net OPEB liability	(10,411)	(4,825)
Increase (decrease) in deferred inflows	35,647	5,212
Net cash provided by (used in) operating activities	$ 102,264	$ (3,785)

FIDUCIARY FUND FINANCIAL STATEMENTS

LOCAL AGENCY FORMATION COMMISSION OF MONTEREY COUNTY

STATEMENTS OF FIDUCIARY NET POSITION
PRIVATE-PURPOSE TRUST FUND

JUNE 30, 2023 AND 2022

	2023	2022
ASSETS		
Restricted cash - Note 1	$ 349,041	$ 345,244
TOTAL ASSETS	349,041	345,244
LIABILITIES		
Accounts payable	517	443
TOTAL LIABILITIES	517	443
FIDUCIARY NET POSITION		
Restricted for FORA litigation	$ 348,524	$ 344,801

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

LOCAL AGENCY FORMATION COMMISSION OF MONTEREY COUNTY

STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
PRIVATE-PURPOSE TRUST FUND

FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

	2023	2022
ADDITIONS		
Interest income	$ 6,613	$ 1,544
TOTAL ADDITIONS	6,613	1,544
DEDUCTIONS		
Legal fees and settlement costs	2,890	2,909
CHANGE IN FIDUCIARY NET POSITION	3,723	(1,365)
FIDUCIARY NET POSITION, BEGINNING OF YEAR	344,801	346,166
FIDUCIARY NET POSITION, END OF YEAR	$ 348,524	$ 344,801

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

1. ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES

Description of Reporting Entity

Local Agency Formation Commission (LAFCO) is a regulatory agency with countywide jurisdiction, established by state law (Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000) to discourage urban sprawl and to encourage orderly and efficient provision of services, such as water, sewer, fire protection, etc. LAFCO of Monterey County (Agency) is a state mandated agency.

The Agency is responsible for reviewing and approving proposed jurisdictional boundary changes, including annexations and detachments of territory to and/or from cities and special districts, incorporations of new cities, formations of new special districts, consolidations, mergers and dissolutions of existing districts. In addition, the Agency reviews and approves contractual service agreements, determines spheres of influence for each city and district, and initiates proposals involving district consolidation, dissolution, establishment of subsidiary districts, mergers and reorganizations.

The Agency is composed of seven Commissioners: two members from the Board of Supervisors; two representatives from the cities within Monterey County; one public member; and two Independent Special District Members. There are four alternate Commissioners, which reflect the same four membership categories.

Basis of Presentation

The Agency's primary operations are accounted for as an enterprise fund, which is a type of a proprietary fund. The accounting policies of the Agency conform to accounting principles generally accepted in the United States of America as applicable to governmental units. Such funds are used to account for operations (1) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or fees; or (2) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

1. ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES (Continued)

Fiduciary Fund

Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. The accounting used for fiduciary funds is much like that used for enterprise funds.

The Agency utilizes the Private-Purpose Trust Fund, a fiduciary fund, to account for resources held in trust for litigation costs arising as a result of the FORA dissolution.

In March 2020, the Agency received $500,000 from the Fort Ord Reuse Authority (FORA), pursuant to an indemnification agreement to be held in trust in a separate litigation reserve fund. The purpose of the agreement and funds is to provide the Agency with money in the event that the Agency needs to initiate or defend against litigation to ensure the FORA dissolution is properly implemented and to reimburse LAFCO for its reasonable expenses incurred as a result of any such legal action or proceeding. Upon resolution of all litigation, all unexpended legal contingency funds shall be equally returned to the County of Monterey and the Cities of Marina, Seaside, Del Rey Oaks and Monterey.

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the statement of net position. Net position is segregated into components. Proprietary fund-type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net position. Proprietary fund operating revenues, such as fees for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies, grants, and investment earnings, result from nonexchange transactions or ancillary activities.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. The accrual basis of accounting is utilized by proprietary fund types. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

1. ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

The Agency considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. 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.

Restricted cash held in the fiduciary fund consists of funds restricted for settlement of FORA litigation.

Fair Value Measurements

The Agency categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. All of the Agency’s investments are categorized as Level 1 in the hierarchy.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

1. ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES (Continued)

Capital Assets

The Agency records its capital assets at cost and depreciates these assets using the MACRS method. Depreciation is based on the following estimated useful lives:

	Years
Office equipment	3 - 5

It is the Agency's policy to capitalize assets with a useful life greater than one year and cost over $2,000.

Maintenance and minor repairs are charged against income; major renewals and betterments are capitalized and depreciated.

Net Position

Net position represents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources and is classified into three components:

- *Net Investment In Capital Assets* describes the portion of net position which is represented by the current net book value of the Agency's capital assets, less the outstanding balance of any debt issued to finance these assets (if any).
- *Restricted* describes the portion of net position which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws or other restrictions which the Agency cannot unilaterally alter.
- *Unrestricted* describes the portion of net position which is not restricted to use.

1. ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES (Continued)

Pension Plan

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 of the Agency's California Public Employees and Retirement System (CalPERS) Plans and additions to and deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by the CalPERS Financial Office. 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. CalPERS audited financial statements are publicly available reports that can be obtained at CalPERS' website under Forms and Publications.

Government accounting standards requires that the reported results must pertain to liability and asset information within certain defined timeframes.

For this report, the following timeframes are used:

For the year ended June 30, 2023:

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

For the year ended June 30, 2022:

Valuation Date (VD)	June 30, 2020
Measurement Date (MD)	June 30, 2021
Measurement Period (MP)	July 1, 2020 to June 30, 2021

1. ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES (Continued)

Other Postemployment Benefit (OPEB)

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

Generally accepted accounting principles require that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

For the year ended June 30, 2023:

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

For the year ended June 30, 2022:

Valuation Date (VD)	June 30, 2021
Measurement Date (MD)	June 30, 2021
Measurement Period (MP)	June 30, 2020 to June 30, 2021

Deferred Outflows and Inflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until then. The Agency has two items related to outflows from changes in the net pension liability (Note 6) and net OPEB liability (Note 7).

1. ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES (Continued)

Deferred Outflows and Inflows of Resources (Continued)

Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until then. The Agency has three items related to inflows from changes in the net pension liability (Note 6), net OPEB liability (Note 7), and deferred fees revenue.

In July 2020, the Agency recorded $100,000 of deferred fees revenue, for funding received from FORA, to implement its administrative oversight role in connection with post-dissolution tasks. The Agency recognized $1,674 and $5,363 of these deferred fees as fees revenue during the years ended June 30, 2023 and 2022, respectively.

Adoption of New Accounting Standards

On July 1, 2021, the Agency adopted Governmental Accounting Standards Board Statement No. 87 (“GASB 87”), Lease Accounting. Under the new standard, lessees are required to recognize a right-of-use (“ROU”) asset and a lease liability, initially measured at the present value of the lease payments, in the statement of financial position for operating leases. Leases are classified as either operating or finance leases (formerly referred to as capital leases). Recognition, measurement and presentation of expenses and cash flows arising from a lease are determined by a lease’s classification. For operating leases, a single lease cost is calculated and allocated over the lease term on a straight-line basis. The Agency used a modified retrospective approach to adopt the guidance and as such there was no restatement of prior financial statements. As permitted under the transition guidance, the Agency elected a package of practical expedients which, among other provisions, allowed the statement of financial position to carry forward historical lease classifications. Short-term leases, which are 12 months or less, are exempt under the guidance and are not capitalized on the Statement of Net Position. The Agency uses the risk-free discount rate when the rate implicit in the lease is not readily determinable at the commencement date in determining the present value of lease payments.

As a result of the adoption, there was no impact upon opening net position as of July 1, 2021. The adoption of GASB 87 did not have a material impact on the statements of revenues and expenses and changes in net position, or cash flows for the Agency.

1. ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES (Continued)

On July 1, 2022, the Agency adopted GASB Statement No. 96 (“GASB 96”), Subscription-Based Information Technology Arrangements. GASB 96 provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). GASB 96 (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 GASB 87.

There was no impact to the financial statements as a result of the adoption of GASB 96.

Subsequent Events

Subsequent events were evaluated through November 16, 2023, the date the financial statements were available to be issued.

2. CASH AND CASH EQUIVALENTS

Cash consisted of the following at June 30:

	2023	2022
Cash in bank	$ 155,270	$ 188,982
Cash held in Monterey County Treasury:		
Cash undesignated	613,567	334,959
Cash designated for:		
Litigation reserve	135,486	264,588
Contingency reserve	269,914	258,357
Accrued leave	80,419	68,104
Net OPEB obligation	75,064	85,475
Petty cash	300	300
	$ 1,330,020	$ 1,200,765

2. CASH AND CASH EQUIVALENTS

Agency's Investment Policy

The California Government Code authorizes investments in U.S. Treasury obligations, U.S. District securities, municipal securities, negotiable certificates of deposits, commercial paper, bankers' acceptances, medium-term corporate bonds ("A" or better), asset-backed securities, repurchase agreements, money market funds and local government investment pools. The Agency currently invests its funds in the local government investment pool administered by Monterey County. As of June 30, 2023 and 2022, the investment policy and the investments of the Monterey County pool are in compliance with the California Government Code.

Disclosure Relating to Interest Rate Risk

Interest rate risk is the risk of changes in market interest rates adversely affecting 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. As of June 30, 2023 and 2022, the weighted average maturity of the Monterey County investment portfolio is 337 and 482 days, respectively.

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 Monterey County investment pool does not have a rating provided by a nationally recognized statistical rating organization. Approximately 83.4% and 86.3%, as of June 30, 2023 and 2022, respectively, of the investment portfolio is comprised of U.S. Treasuries, Federal Agency securities, Negotiable CDs and other liquid funds.

All of those assets have better than investment grade rating. U.S. Treasuries are not specifically rated, but are considered the safest of all investments. Most corporate debt (15.3% and 11.7% as of June 30, 2023 and 2022, respectively) is rated in the higher levels of investment grade. All Federal Agency and Municipal holdings have AA ratings or are guaranteed by the U.S. Treasury.

2. CASH AND CASH EQUIVALENTS (Continued)

Concentration of Credit Risk

The Monterey County or the Agency investment policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. The Monterey County pool does not include any investments by any one issuer (other than the State of California Local District Investment Fund and the California Asset Management Program – external governmental investment pools) that represents 10% or more of total investments.

Custodial Credit Risk

Custodial Credit Risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits. The provisions require a financial institution to secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository. Regulated 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 districts' deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

The Agency periodically maintains cash deposits in one financial institution, which at times exceed federally insured limits. The Agency has not experienced any losses related to these accounts and believes it is not exposed to any significant credit risk. The Agency's uninsured cash balance was $0 at June 30, 2023 and 2022.

3. CAPITAL ASSETS

Capital asset activity consisted of the following:

	Balance June 30, 2022	Additions	Retirements	Balance June 30, 2023
Office equipment	$ 57,803	$ -	$ -	$ 57,803
Accumulated depreciation	(49,335)	(4,017)	-	(53,352)
TOTAL CAPITAL ASSETS – net	$ 8,468	$ (4,017)	$ -	$ 4,451

3. CAPITAL ASSETS (Continued)

	Balance June 30, 2021	Additions	Retirements	Balance June 30, 2022
Office equipment	$ 57,803	$ -	$ -	$ 57,803
Accumulated depreciation	(44,790)	(4,545)	-	(49,335)
TOTAL CAPITAL ASSETS – net	$ 13,013	$ (4,545)	$ -	$ 8,468

4. NET POSITION – UNRESTRICTED

Unrestricted assets consisted of the following at June 30:

	2023	2022
Designated for litigation	$ 135,486	$ 264,588
Designated for contingency	269,914	258,357
Designated for encumbered funds	70,749	70,749
Unrestricted and undesignated	648,918	659,998
	$ 1,125,067	$ 1,253,692

5. OPERATING LEASE

The Agency leases its administrative office under an operating lease agreement that expired on June 30, 2023. The lease was extended effective July 1, 2023, for a five (5) year period through June 2028. Under the terms of the lease extension, base rent will increase annually beginning in July 2023. Total office rent expense under this operating lease agreement was $28,772 and $28,772 for the years ended June 30, 2023 and 2022, respectively.

5. OPERATING LEASE (Continued)

Future minimum lease obligations as of June 30, 2023, are as follows:

Fiscal Year Ending June 30,	Amount
2024	$ 32,220
2025	33,187
2026	34,182
2027	35,208
2028	36,263
Total minimum lease payments	171,060
Less present value discount	17,121
Total operating lease liability	$ 153,939
Total operating right-of-use asset	$ 153,939

6. PENSION PLAN

General Information about the Pension Plan

Plan Description

The Agency participates in a Miscellaneous Pension Plan (Plan), which is a cost-sharing multiple-employer defined benefit pension plan, administered by CalPERS. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS' website at calpers.ca.gov.

In January 2013, the California Public Employees' Pension Reform Act (PEPRA) took effect which changes the way CalPERS retirement and health benefits are applied, and places compensation limits on members. Individuals hired on or after January 2013 are under PEPRA. All members who do not fall under this category are considered classic members. Classic members will retain existing benefit levels for future service with the same employer.

6. PENSION PLAN (Continued)

General Information about the Pension Plan (Continued)

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service; one year of credited service is equal to one year of full-time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is the Optional Settlement 2W Death Benefit. The cost-of-living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plan's provisions and benefits in effect at June 30, 2023 and 2022, are summarized as follows:

Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2.0% @ 55	2.0% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 55	52 - 67
Monthly benefits, as a % of eligible	2.0%	2.0%
Required employee contribution rates	7.000%	6.750%
Required employer contribution rates:		
as of June 30, 2023	10.870%	7.470%
as of June 30, 2022	10.880%	7.590%

6. PENSION PLAN (Continued)

General Information about the Pension Plan (Continued)

Contribution Description

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' 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. Employer contribution rates may change if plan contracts are amended. Payments made by the employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements are classified as plan member contributions.

The contribution recognized as part of the pension expense for the Plan were $46,560 and $69,875 for the years ended June 30, 2023 and 2022, respectively.

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pension

The Agency's proportionate share of net pension liability/ (asset) was $57,559 and ($262,199) for the years ended June 30, 2023 and 2022, respectively.

The Agency's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2022. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2021, which was rolled forward to June 30, 2023 and 2022, using standard update procedures. The Agency's proportion of the net pension liability was based on a projection of the Agency's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The Agency's proportionate share of the net pension liability for the Plan as of June 30, 2023 and 2022, was as follows:

6. PENSION PLAN (Continued)

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pension (Continued)

Proportion – Year ended June 30, 2023	0.00123%
Proportion – Year ended June 30, 2022	-0.01381%
Change - Increase	0.01504%

For the year ended June 30, 2023 and 2022, the Agency recognized pension expense (benefit) of $416,625 and ($405,551), respectively.

At June 30, 2023 and 2022, the Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2023	
	Deferred Outflows of Resources Related to Pension	Deferred Inflows of Resources Related to Pension
Pension contributions subsequent to measurement date	$ 59,328	$ -
Change in employer's proportion	222,528	424
Changes of assumptions	5,898	-
Difference in employer's contributions and the employer's proportionate share of contributions	3,276	39,586
Net differences between projected and actual earnings on plan investments	10,543	-
Difference between expected and actual experience	1,156	774
Total	$ 302,729	$ 40,785

6. PENSION PLAN (Continued)

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pension (Continued)

	2022	
	Deferred Outflows of Resources Related to Pension	Deferred Inflows of Resources Related to Pension
Pension contributions subsequent to measurement date	$ 46,560	$ -
Change in employer's proportion	55,348	954
Changes of assumptions	-	-
Difference in employer's contributions and the employer's proportionate share of contributions	7,371	8,324
Net differences between projected and actual earnings on plan investments	228,886	-
Difference between expected and actual experience	(29,403)	-
Total	$ 308,762	$ 9,278

As of June 30, 2023 and 2022, the deferred outflows of resources relate to contributions subsequent to the measurement date of $59,328 and $46,560, respectively, will be and was recognized as a reduction of the net pension liability in the years ending June 30, 2023 and 2022, respectively. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ended June 30,	Amount
2024	$ 81,090
2025	72,759
2026	42,318
2027	6,449
	$ 202,616

6. PENSION PLAN (Continued)

<u>Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pension</u> (Continued)

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

The collective total pension liability for the June 30, 2022, measurement period was determined by an actuarial valuation as of June 30, 2021, with update procedures used to roll forward the total pension liability to June 30, 2022. The collective total pension liability was based on the following assumptions:

Actuarial cost method	Entry Age Normal
Actuarial assumptions:	
Discount Rate	6.90%
Inflation	2.30%
Salary increases	Varies by entry age and service
Mortality rate table	Derived using CalPERS membership data for all funds (a)
Post-Retirement benefit increases	Lesser of contract COLA or 2.30% until Purchasing Power Protection Allowance floor on purchasing power applies, 2.30% thereafter

(a) The mortality table used was developed based on CalPERS-specific data. The probabilities of mortality are based on the 2021 CalPERS Experience Study for the period from 2001 to 2019. Pre-retirement and Post-retirement mortality rates include generational mortality improvement using 80% of Scale MP-2020 published by the Society of Actuaries. For more details on this table, please refer to the CalPERS Experience Study and Review of Actuarial Assumptions report from November 2021 that can be found on the CalPERS website.

6. PENSION PLAN (Continued)

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pension (Continued)

Actuarial Methods and Assumptions Used to Determine Total Pension Liability (Continued)

The collective total pension liability for the June 30, 2021, measurement period was determined by an actuarial valuation as of June 30, 2020, with update procedures used to roll forward the total pension liability to June 30, 2021. The collective total pension liability was based on the following assumptions:

Actuarial cost method	Entry Age Normal
Actuarial assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Salary increases	Varies by entry age and service
Mortality rate table	Derived using CalPERS membership data for all funds (a)
Post-Retirement benefit increases	Lesser of contract COLA or 2.50% until Purchasing Power Protection Allowance floor on purchasing power applies, 2.50% thereafter

(a) The mortality table used was developed based on CalPERS-specific data. The probabilities of mortality are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015. Pre-retirement and Post-retirement mortality rates include 15 years of projected mortality improvement using 90% of Scale MP-2016 published by the Society of Actuaries. For more details on this table, please refer to the CalPERS Experience Study and Review of Actuarial Assumptions report from December 2017 that can be found on the CalPERS website.

Change of Assumptions

In 2018, demographic assumptions and the inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017.

6. PENSION PLAN (Continued)

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pension (Continued)

Discount Rate

The discount rate used to measure the total pension liability/asset was 6.90%. The projection of cash flows used to determine the discount rate assumed that contributions from the plan members will be made at the current member contribution rates and that contributions from the employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Long-term Expected Rate of Return

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations. Using historical returns of all of the funds' asset classes, expected compound (geometric) returns were calculated over the next 20 years using a building-block approach. The expected rate of return was then adjusted to account for assumed administrative expenses of 10 Basis points.

6. PENSION PLAN (Continued)

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pension (Continued)

Long-term Expected Rate of Return (Continued)

The expected real rates of return by asset class for years ended June 30, 2023 and 2022, are as follows.

	2023	
Asset Class (a)	Assumed Asset Allocation	Real Return Years 1 – 10 (a), (b)
Global equity – cap-weighted	30.00%	4.45%
Global equity non– cap-weighted	12.00%	3.84%
Private Equity	13.00%	7.28%
Treasury	5.00%	0.27%
Mortgage-backed Securities	5.00%	0.50%
Investment Grade Corporates	10.00%	1.56%
High Yield	5.00%	2.27%
Emerging Market Debt	5.00%	2.48%
Private Debt	5.00%	3.57%
Real Assets	15.00%	3.21%
Leverage	(5.00%)	(0.59%)
Total	100.00%	

(a) An expected inflation of 2.30% used for this period, years 1-10

(b) Figures are based on the 2021-22 Asset Liability Management study

6. PENSION PLAN (Continued)

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pension (Continued)

Long-term Expected Rate of Return (Continued)

	2022		
Asset Class (a)	Assumed Asset Allocation	Real Return Years 1 - 10(b)	Real Return Years 11+(c)
Public Equity	50.00%	4.80%	5.98%
Fixed Income	28.00%	1.00%	2.62%
Inflation Assets	0.00%	0.77%	1.81%
Private Equity	8.00%	6.30%	7.23%
Real Estate	13.00%	3.75%	4.93%
Liquidity	1.00%	0.00%	(0.92%)
Total	100.00%		

(a) In the System's CAFR, Fixed Income is included in Global Debt Securities; Liquidity is included in Short-Term investments; Inflation Assets are included in both Global Equity Security and Global Debt Securities.

(b) An expected inflation of 2.00% used for this period

(c) An expected inflation of 2.92% used for this period

6. PENSION PLAN (Continued)

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pension (Continued)

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

The following presents the Agency's proportionate share of the net pension liability for each plan, calculated using the discount rate for each plan, as well as what the Agency's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate:

	2023	2022
Discount Rate 1% Decrease Net Pension Liability (Asset)	5.90% $317,796	6.15% ($36,825)
Current Discount Rate Net Pension Liability (Asset)	6.90% $57,559	7.15% ($262,199)
Discount Rate 1% Increase Net Pension Liability (Asset)	7.90% ($156,551)	8.15% ($448,511)

Pension Plan Fiduciary Net Position

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

Additional information

CalPERS' June 30, 2022, Annual Valuation Reports for the Miscellaneous Plan of the Local Agency Formation Commission of Monterey County and the PEPRA Miscellaneous Plan of the Local Agency Formation Commission of Monterey County include data regarding the Unfunded Termination Liability for informational purposes. "The accrued liability on a termination basis (termination liability) is calculated differently compared to the plan's ongoing funding liability…", according to CalPERS, and the termination liability for each of these plans is approximately $839,000 and $98,000, respectively, based on their respective June 30, 2022, Annual Valuation Reports. The Net Pension Liability as reported on page 5 of the accompanying financial statements has been recorded in accordance with GASB Statement No. 68, Accounting for Pensions.

7. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

General Information about the OPEB Plan

Plan Description and Benefits

The Agency administers a single-employer defined benefit postemployment healthcare plan. Medical coverage is currently provided through CalPERS as permitted under the Public Employees' Medical and Hospital Care Act (PEMHCA). This coverage requires the employee to satisfy the requirements for retirement under CalPERS: either (a) attainment of age 50 (age 52, if a miscellaneous employee new to PERS on or after January 1, 2013) with 5 years of State or public agency service or (b) an approved disability retirement.

Once eligible, coverage may be continued at the retiree's option for his or her lifetime. A surviving spouse and other eligible dependents may also continue coverage depending on the retirement plan election.

As a PEMHCA employer, the Agency is obligated to contribute toward the cost of retiree medical coverage for the retiree's lifetime or until coverage is discontinued. The Agency maintains a resolution with CalPERS defining the level of the Agency's contribution toward the cost of medical plan premiums for employees and retirees to be the PEMHCA minimum employer contribution (MEC). The MEC was $151 and $149 per month for the years ended June 30, 2023 and 2022, respectively.

CalPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to CalPERS at the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

No assets are accumulated in a trust.

Employees Covered By Benefit Terms

At the OPEB liability valuation date of June 30, 2021, the following employees were covered by the benefit terms:

Active employees	3
Inactive employees currently receiving benefit payments	1
Inactive employees entitled to but not receiving benefits	2
	6

7. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

General Information about the OPEB Plan (Continued)

Contributions

The Agency's Board of Commissioners is currently financing its OPEB liability on a pay-as-you-go basis. However, the Agency does set aside cash funds that are designated for the other postemployment benefit (OPEB) liability (See Note 2).

Net OPEB Liability

The Agency's net OPEB liability was measured as of June 30, 2022, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated June 30, 2021, that was rolled forward to determine the total OPEB liability, based on the following actuarial methods and assumptions.

Actuarial Assumptions

The total OPEB liability measured as of June 30, 2022, was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Funding Method	Entry Age Normal Cost, level percent of pay
Asset Valuation Method	Not applicable ($0, no OPEB trust has been established)
Municipal Bond Index	S & P General Obligation 20-Year High Grade Municipal Bond Index
Discount Rates	4.09% as of June 30, 2022 2.18% as of June 30, 2021
Participants Valued	Only current active employees and retired participants and covered dependents are valued. No future entrants are considered in this valuation
Salary Increase Rate	3.00% per year; since benefits do not depend on salary, this is used only to allocate the cost of benefits between service years

7. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

Net OPEB Liability (Continued)

Actuarial Assumptions (Continued)

General Inflation Rate	2.50% per year

The total OPEB liability measured as of June 30, 2021, was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Funding Method	Entry Age Normal Cost, level percent of pay
Asset Valuation Method	Market value of assets
Municipal Bond Index	S & P General Obligation 20 Year High Grade Municipal Bond Index
Discount Rates	2.18% as of June 30, 2021 2.66% as of June 30, 2020
Participants Valued	Only current active employees and retired participants and covered dependents are valued. No future entrants are considered in this valuation
Salary Increase Rate	3.00% per year; since benefits do not depend on salary, this is used only to allocate the cost of benefits between service years
General Inflation Rate	2.50% per year

7. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

Changes in the Net OPEB Liability

The table below shows the changes in the total OPEB liability, the Plan Fiduciary Net Position (i.e., Fair value of Plan assets), and the net OPEB liability during the measurement periods ending on June 30, 2022 and 2021, for the Agency's proportionate share.

	2023 Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) – (b)
Balance at 6/30/2022	$ 85,475	$ -	$ 85,475
Changes for the year:			
Service cost	11,219	-	11,219
Interest	2,089	-	2,089
Changes of assumptions	(21,967)	-	(21,967)
Contributions – Employer	-	1,752	(1,752)
Plan experience	-	-	-
Benefit payments	(1,752)	(1,752)	-
Net Changes	(10,411)	-	(10,411)
Balances at 6/30/2023	$ 75,064	$ -	$ 75,064

7. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

Changes in the Net OPEB Liability (Continued)

	2022 Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) – (b)
Balance at 6/30/2021	$ 90,300	$ -	$ 90,300
Changes for the year:			
Service cost	11,231	-	11,231
Interest	2,646	-	2,646
Changes of assumptions	6,113	-	6,113
Contributions – Employer	-	4,080	(4,080)
Plan experience	(20,735)	-	(20,735)
Benefit payments	(4,080)	(4,080)	-
Net Changes	(4,825)	-	(4,825)
Balances at 6/30/2022	$ 85,475	$ -	$ 85,475

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

The following presents the net OPEB liability of the Agency for the years ended June 30, 2023 and 2022, calculated using the discount rate of 4.09% and 2.18%, respectively. The table also shows what the Agency's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate:

7. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

<u>Changes in the Net OPEB Liability</u> (Continued)

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate (Continued)

	2023	2022
Discount Rate 1% Decrease Net OPEB Liability	3.09% $85,524	1.18% $98,588
Current Discount Rate Net OPEB Liability	4.09% $75,064	2.18% $85,475
Discount Rate 1% Increase Net OPEB Liability	5.09% $66,439	3.18% $74,687

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

The following presents the net OPEB liability of the Agency if it were calculated using a healthcare cost trend rate that is one percentage point lower or one percentage point higher than the current rate, for measurement period ended June 30, 2023 and 2022:

	2023	2022
Healthcare Trend Rate 1% Decrease Net OPEB Liability	4.60% $63,527	4.60% $72,338
Healthcare Cost Trend Rate Net OPEB Liability	5.60% $75,064	5.60% $85,475
Healthcare Trend Rate 1% Increase Net OPEB Liability	6.60% $89,543	6.60% $101,962

7. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

Recognition of Deferred Outflows and Deferred Inflows of Resources

Gains and losses related to changes in total OPEB liability and net position are recognized in OPEB expense systematically over time.

Amounts are first recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense.

The recognition period differs depending on the source of the gain or loss:

Difference between projected and actual trust earnings on OPEB plan investments	5-year straight-line recognition
All other amounts	Straight-line recognition over the expected average remaining service lifetime (EARSL) of all members that are provided with benefits, determined as of the beginning of the Measurement Period.

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

For the years ended June 30, 2023 and 2022, the Agency recognized OPEB expense of ($3,035) and $732, respectively. At June 30, 2023 and 2022, the Agency, reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

7. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

	2023			
	Deferred Outflows of Resources		Deferred Inflows of Resources	
Difference between expected and actual experience	$	-	$	25,324
Changes of assumptions		5,754		31,606
Deferred contributions		1,800		-
	$	7,554	$	56,930

	2022			
	Deferred Outflows of Resources		Deferred Inflows of Resources	
Difference between expected and actual experience	$	-	$	33,377
Changes of assumptions		7,238		19,413
Deferred contributions		1,752		-
	$	8,990	$	52,790

The Agency will recognize the deferred contributions in the next fiscal year. In addition, future recognition of these deferred resources is shown below:

Year Ending June 30,		Amount
2024	$	(16,266)
2025		(15,510)
2026		(6,267)
2027		(5,302)
2028		(5,052)
Thereafter		(2,779)
	$	(51,176)

As of June 30, 2023, the Agency reported net OPEB liability of $75,064.

As of June 30, 2022, the Agency reported net OPEB liability of $85,475.

8. COMPENSATED ABSENCES (ACCRUED VACATION, PAID-TIME-OFF, SICK LEAVE AND COMPENSATORY TIME)

Exempt Employees' Annual Leave

In lieu of vacation and sick leave benefits, exempt employees of the Agency are eligible for annual leave on a pro-rated basis based on years of completed service. Exempt employees may accrue a maximum of 250 or 850 hours, depending on employment classification. Exempt employees have an option to sell back up to 160 hours of annual leave each year. Annual leave is paid to the employee at the time of separation from Agency employment. Annual leave liability is calculated by using the employee's fiscal year leave balance multiplied by the employee's fiscal year end rate of pay. These benefits are a general description only. Actual benefits are defined in individual employment agreements.

Vacation and Paid-Time-Off

Overtime eligible employees of the Agency may accumulate up to 260 hours of unused vacation and paid-time-off (PTO). Vacation and PTO leaves are paid to the employee at the time of separation from Agency employment. Vacation and PTO liabilities are calculated using employee's fiscal year end vacation and PTO leave balances multiplied by the employee's fiscal year end rate of pay. These benefits are a general description only. Actual benefits are defined in individual employment agreements.

Sick Leave

Overtime eligible employees can accumulate sick leave indefinitely. Upon retirement or death, unused sick leave is paid up to 30 percent of the employee's base hourly rate of pay, up to a maximum of 1,500 hours. Unused sick leave over the 1,500 hour limit, or any unused sick leave for employees separated from the Agency for other reasons is forfeited. The sick leave liability is calculated using the employee's fiscal year end sick leave balance multiplied by the employee's fiscal year end rate of pay. These benefits are a general description only. Actual benefits are defined in individual employment agreements.

8. COMPENSATED ABSENCES (ACCRUED VACATION, PAID-TIME-OFF, SICK LEAVE AND COMPENSATORY TIME) (Continued)

Compensatory Time

Overtime eligible employees can accrue compensatory time-off in lieu of overtime payments. A maximum of 80 hours of compensatory time may be accrued. The compensatory time-off balances are considered current year liabilities. These benefits are a general description only. Actual benefits are defined in individual employment agreements.

9. PENDING LITIGATION AND CLAIMS

The Monterey Peninsula Water Management District (MPWMD) served the Agency with a Petition for Writ of Mandate and Complaint for Injunctive Relief, filed in April 2022, challenging the February 28, 2022, decision of the Agency to deny MPWMD's proposal to activate its "latent powers" to provide potable water to retail customers. The trial was held on September 21, 2023. On October 25, 2023, the Court issued a Statement of Intended Decision that is adverse to LAFCO, and ordered MPWMD to prepare and submit a proposed Writ of Mandate consistent with the ruling. The Statement of Intended Decision will serve as the Statement of Decision, subject to any objection of the parties. Management intends to diligently defend its position in this matter, and as currently pled, the only financial risk is for LAFCO to pay prevailing party court-ordered attorneys' fees. The ultimate outcome of this litigation cannot presently be determined. Accordingly, adjustments, if any, that might result from the resolution of this matter have not been recognized in the accompanying financial statements.

10. SUBSEQUENT EVENTS

On July 1, 2023, the Agency exercised the 7th Amendment of its lease agreement for offices located in Salinas, California. The lease term has been extended for five years and expires June 30, 2028.

INDEPENDENT AUDITORS' 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*

BIANCHI, KASAVAN & POPE, LLP

SALINAS OFFICE
450 LINCOLN AVENUE
SUITE 200
SALINAS, CA 93901

PHONE 831-757-5311
FAX 831-757-9529

BKPCPA.COM

INDEPENDENT AUDITORS' 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*

Board of Commissioners
Local Agency Formation Commission of Monterey County
Salinas, 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 Local Agency Formation Commission of Monterey County (Agency), as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated November 16, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Agency'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency'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 Agency'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 the 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.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency'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.*

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 Agency'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 Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bianchi, Kasavan & Pope, LLP

Salinas, California
November 16, 2023

REQUIRED SUPPLEMENTARY INFORMATION

LOCAL AGENCY FORMATION COMMISSION OF MONTEREY COUNTY

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY / (ASSET) Last 10 Years*

FOR THE YEAR ENDED JUNE 30, 2023

Measurement period	Proportion of the Net Pension Liability/ (Asset)	Proportionate Share of the Net Pension Liability/ (Asset)	Covered Employee Payroll	Proportionate Share of the Net Pension Liability / (Asset) as a Percentage of Covered Employee Payroll	Plan's Fiduciary Net Position	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability/ (Asset)
2014	0.00175%	$ 108,773	$313,265	34.72%	$10,639,461,174	81.15%
2015	0.00000%	$ (109)	$356,579	(0.03%)	$10,896,036,068	79.89%
2016	0.00151%	$ 52,478	$325,051	16.14%	$10,923,476,287	75.87%
2017	0.00152%	$ 59,912	$375,747	15.94%	$12,074,499,781	75.39%
2018	0.00097%	$ (36,372)	$471,257	(7.72%)	$13,122,440,092	77.69%
2019	0.00022%	$ (8,803)	$494,792	(1.78%)	$13,979,687,268	77.73%
2020	0.00026%	$ (10,976)	$552,897	(1.99%)	$14,702,361,183	77.71%
2021	0.01381%	$(262,199)	$531,830	(49.30%)	$18,065,791,524	90.49%
2022	0.00123%	$ 57,559	$433,108	13.29%	$16,770,671,339	78.19%

<u>Notes to Schedule:</u>

Benefit Changes:
The figures above do not include any liability impact that occurred after the June 30, 2021, valuation date, unless the liability impact is deemed to be material to the Public Agency Pool.

Changes of assumptions:
In 2015, amounts reported as changes of assumptions resulted primarily from adjustments to expected retirement ages of general employees.

In 2016, the discount rate was changed from 7.50 percent (net of administrative expense) to 7.65 percent to correct for an adjustment to exclude administrative expense.

In 2017, the discount rate was changed from 7.65 percent to 7.15 percent.

In 2018, demographic assumptions and the inflation rate were changed in accordance with the CalPERS Experience Study and review of Actuarial Assumptions December 2017.

In 2021, 2020 and 2019, there were no changes in assumption from 2018.

In 2022, the accounting discount rate was reduced from 7.15% to 6.90%. In addition, demographic assumptions and the inflation rate assumption were changed in accordance with the 2021 CalPERS Experience Study and review of Actuarial Assumptions.

*Fiscal year 2015 was the first year of implementation, therefore only nine years are presented.

LOCAL AGENCY FORMATION COMMISSION OF MONTEREY COUNTY

SCHEDULE OF PENSION PLAN CONTRIBUTIONS
Last 10 years*

FOR THE YEAR ENDED JUNE 30, 2023

Fiscal Year	Contractually Required Contribution (Actuarially Determined)	Contributions in Relation to the Actuarially Determined Contributions	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percentage of Covered Employee Payroll
2015	$31,577	$31,577	-	$313,265	10.08%
2016	$25,095	$25,095	-	$356,579	7.04%
2017	$29,410	$29,410	-	$325,051	9.05%
2018	$36,457	$36,457	-	$375,747	9.70%
2019	$44,686	$44,686	-	$471,257	9.48%
2020	$56,999	$56,999	-	$494,792	11.52%
2021	$69,303	$69,303	-	$552,897	12.54%
2022	$77,451	$77,451	-	$531,830	14.56%
2023	$96,038	$96,038	-	$433,108	22.17%

Notes to Schedule:

The actuarial methods and assumptions used to set the actuarially determined contributions for the fiscal year are as follows:

FYE 2014-2015 - June 30, 2013, actuarial valuation report
FYE 2015-2016 - June 30, 2014, actuarial valuation report
FYE 2016-2017 - June 30, 2015, actuarial valuation report
FYE 2017-2018 - June 30, 2016, actuarial valuation report
FYE 2018-2019 - June 30, 2017, actuarial valuation report
FYE 2019-2020 - June 30, 2018, actuarial valuation report
FYE 2020-2021 - June 30, 2019, actuarial valuation report
FYE 2021-2022 - June 30, 2020, actuarial valuation report
FYE 2022-2023 - June 30, 2021, actuarial valuation report

Valuation Date	June 30, 2021
Actuarial cost method	Entry age actuarial cost method
Amortization Method	Level percentage of pay, direct rate smoothing
Remaining Amortization Period	The period is set by the actuary at what is deemed appropriate; however, the period will not be greater than 20 years.
Asset Valuation Method	The Actuarial Value of Assets is set equal to the Market Value of Assets. Asset values include accounts receivable.
Inflation	2.30% compounded annually
Salary Growth	Annual increases vary by category, entry age, and duration of service
Discount Rate	6.80% compounded annually (net of investment and administrative expenses)
Mortality	Derived using CalPERS' Membership Data for all Funds. The post-retirement mortality rates for 2017 are projected for future years using 80 percent of Scale MP 20 published by the Society of Actuaries

*Fiscal year 2015 was the first year of implementation, therefore only nine years are presented.

LOCAL AGENCY FORMATION COMMISSION OF MONTEREY COUNTY

SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS
Last 10 years*

FOR THE YEAR ENDED JUNE 30, 2023

	Measurement Period					
	2023	2022	2021	2020	2019	2018
Total OPEB liability						
Service cost	$ 11,219	$ 11,231	$ 10,667	$ 21,510	$ 20,247	$ 21,380
Interest	2,089	2,646	2,450	4,198	3,598	2,668
Differences between expected and actual experience	-	(20,735)	-	(30,765)	-	-
Changes of assumptions	(21,967)	6,113	1,482	(34,883)	2,423	(5,992)
Benefit payments	(1,752)	(4,080)	(2,925)	(1,614)	(1,566)	(1,518)
Net change in total OPEB liability	(10,411)	(4,825)	11,674	(41,554)	24,702	16,538
Total OPEB liability - beginning	85,475	90,300	78,626	120,180	95,478	78,940
Total OPEB liability - ending	$ 75,064	$ 85,475	$ 90,300	$ 78,626	$ 120,180	$ 95,478
Net OPEB liability as a percentage of covered-employee payroll	16.02%	15.23%	15.44%	15.12%	23.98%	22.36%
Covered-employee payroll	$ 468,597	$ 561,179	$ 584,706	$ 520,014	$ 501,159	$ 426,985

Notes to Schedule:

No assets are accumulated in a trust.

Changes of assumptions. Changes of assumptions and other inputs reflect a change in the discount rate each period. The following are the discount rates used in each period:

2018	3.13%
2019	2.98%
2020	2.79%
2021	2.66%
2022	2.18%
2023	4.09%

*Fiscal year 2018 was the first of implementation, therefore only six years are presented.

LOCAL AGENCY FORMATION COMMISSION OF MONTEREY COUNTY

SCHEDULE OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION - BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2023

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget Favorable (Unfavorable)
REVENUES				
County contributions	$ 354,931	$ 354,931	$ 354,931	$ -
District contributions	354,931	354,931	354,931	-
City contributions	354,931	354,931	354,931	-
Project fees	10,000	10,000	36,121	26,121
Interest	4,862	4,862	26,991	22,129
Fees revenue	-	-	1,674	1,674
From unreserved funds*	-	-	-	-
TOTAL REVENUES	1,079,655	1,079,655	1,129,579	49,924
EXPENSES				
Employee benefits	218,928	218,928	578,078	(359,150)
Salaries	554,169	554,169	550,034	4,135
Litigation reserve	-	-	129,102	(129,102)
Accounting and financial services	60,000	60,000	59,800	200
Accrued leave	18,000	18,000	32,298	(14,298)
Rent	28,772	28,772	28,772	-
Other legal expenses	8,682	19,182	21,803	(2,621)
Audit services	20,000	20,000	20,000	-
Travel	6,025	15,025	13,829	1,196
Computer equipment maintenance	12,155	12,155	13,613	(1,458)
Equipment rental and furnishings	25,527	20,527	11,366	9,161
LAFCO memberships	9,300	9,300	9,137	163
Outside professional services	25,000	25,000	8,825	16,175
Training and conferences	5,238	8,238	8,764	(526)
Property and general liability insurance	8,700	8,700	7,687	1,013
Postage and shipping	3,804	3,804	4,890	(1,086)
Human resource services	20,589	20,589	4,800	15,789
Telephone	8,104	8,104	4,534	3,570
Office supplies	8,104	8,104	4,523	3,581
Depreciation	-	-	4,017	(4,017)
Meeting broadcast services	4,863	4,863	3,999	864
Legal notices	4,863	4,863	1,664	3,199
Computer support services	19,448	6,948	1,565	5,383
Books and periodicals	1,621	1,621	1,151	470
Repairs and maintenance	463	463	169	294
Recruitment advertisement	1,000	1,000	-	1,000
Outside printers	6,300	1,300	-	1,300
TOTAL EXPENSES	1,079,655	1,079,655	1,524,420	(444,765)
CHANGE IN BUDGETARY NET POSITION	$ -	$ -	(394,841)	$ (394,841)
BUDGETARY NET POSITION, BEGINNING OF YEAR			1,577,607	
BUDGETARY NET POSITION, END OF YEAR			$ 1,182,766	

* Authorized transfer from unreserved funds was not necessary.

Explanation of differences between budgetary and GAAP expenditures:

Total expenditures reported on the Schedule of Revenues, Expenses, and Change in Net Position - Budget and Actual	$ 1,524,420
Differences - budget to GAAP: encumbered funds	-
Total expenditures reported on the Statement of Revenues, Expenses, and Change in Net Position	$ 1,524,420

The accompanying note is an integral part of this required supplementary information.

LOCAL AGENCY FORMATION COMMISSION OF MONTEREY COUNTY

SCHEDULE OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION - BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2022

	Budgeted Amounts		Actual	Variance with Final Budget Favorable
	Original	Final	Amounts	(Unfavorable)
REVENUES				
County contributions	$ 298,814	$ 298,814	$ 298,814	$ -
District contributions	298,814	298,814	298,814	-
City contributions	298,814	298,814	298,814	-
Project fees	10,000	10,000	179,153	169,153
Interest	4,631	4,631	5,448	817
Fees revenue	-	-	5,363	5,363
From unreserved funds*	122,353	122,353	-	(122,353)
TOTAL REVENUES	1,033,426	1,033,426	1,086,406	52,980
EXPENSES				
Salaries	541,761	541,761	442,716	99,045
Other legal expenses	8,269	8,269	94,043	(85,774)
Outside professional services	-	-	75,180	(75,180)
Accounting and financial services	69,600	69,600	60,400	9,200
Temporary services clerical	-	-	37,440	(37,440)
Litigation reserve	-	-	35,449	(35,449)
Rent	28,772	28,772	28,772	-
Audit services	14,700	14,700	14,500	200
Equipment rental and furnishings	24,311	24,311	11,069	13,242
Computer equipment maintenance	11,576	11,576	10,727	849
LAFCO memberships	9,300	9,300	8,839	461
Property and general liability insurance	12,882	12,882	7,129	5,753
Human resource services	22,313	22,313	6,640	15,673
Postage and shipping	3,308	3,308	5,930	(2,622)
Accrued leave	18,000	18,000	5,115	12,885
Computer support services	18,522	18,522	4,555	13,967
Depreciation	-	-	4,543	(4,543)
Telephone	7,718	7,718	4,046	3,672
Legal notices	4,631	4,631	4,029	602
Office supplies	7,718	7,718	3,411	4,307
Books and periodicals	1,544	1,544	1,323	221
Recruitment advertisement	1,000	1,000	675	325
Outside printers	6,300	6,300	668	5,632
Training and conferences	5,238	5,238	540	4,698
Repairs and maintenance	441	441	328	113
Meeting broadcast services	4,631	4,631	-	4,631
Travel	6,025	6,025	-	6,025
Employee benefits	204,866	204,866	(266,158)	471,024
TOTAL EXPENSES	1,033,426	1,033,426	601,909	431,517
CHANGE IN BUDGETARY NET POSITION	$ -	$ -	484,497	$ 484,497
BUDGETARY NET POSITION, BEGINNING OF YEAR			1,093,110	
BUDGETARY NET POSITION, END OF YEAR			$ 1,577,607	

* Authorized transfer from unreserved funds was not necessary.

Explanation of differences between budgetary and GAAP expenditures:

Total expenditures reported on the Schedule of Revenues, Expenses, and Change in Net Position - Budget and Actual	$ 601,909
Differences - budget to GAAP: encumbered funds	3,438
Total expenditures reported on the Statement of Revenues, Expenses, and Change in Net Position	$ 605,347

The accompanying note is an integral part of this required supplementary information.

LOCAL AGENCY FORMATION COMMISSION OF MONTEREY COUNTY

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2023 AND JUNE 30, 2022

1. BUDGETARY REPORTING

The Agency adopts an annual budget. The budget includes expenditures and the means of financing them and is used for planning purposes. Budgeted amounts are as originally adopted or as amended by the Agency.