

**IMPERIAL COUNTY
LOCAL AGENCY FORMATION COMMISSION**

Basic Financial Statements

Year Ended June 30, 2023

(With Independent Auditor's Report Thereon)

IMPERIAL COUNTY
LOCAL AGENCY FORMATION COMMISSION

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Independent Auditor's Report

Board of Commissioners
Imperial County Local Agency Formation Commission
El Centro, 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 Imperial County Local Agency Formation Commission (the "LAFCO"), as of and for the year June 30, 2023, and the related notes to the financial statements, which collectively comprise the LAFCO's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the LAFCO 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 Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the LAFCO 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

The LAFCO's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the LAFCO's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis, Schedule of the Plan's Proportionate Share of the Net Pension Liability, Schedule of Plan Contributions, and Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual – General Fund* be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 2024 on our consideration of the LAFCO'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 LAFCO's internal control over financial reporting and compliance.

DavisFarrLLP

Irvine, California
April 29, 2024

IMPERIAL COUNTY
LOCAL AGENCY FORMATION COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2023

The following discussion and analysis of the financial performance of the Imperial County Local Agency Formation Commission (LAFCO) provides an overview of the LAFCO's financial activities for the fiscal year ended June 30, 2023. Please read it in conjunction with the financial statements identified in the accompanying table of contents.

Using the Accompanying Financial Statements

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 of the LAFCO as a whole and present a longer-term view of the LAFCO's finances. Also included in the accompanying report are fund financial statements. For governmental activities, the fund financial statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the LAFCO's operations in more detail than the government-wide statements by providing information about the LAFCO's most significant funds.

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual report consists of three parts - *management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the LAFCO.

The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the LAFCO's overall financial status. The remaining statements are *fund financial statements* that focus on *individual parts* of the LAFCO government, reporting the LAFCO's operations in *more detail* than the government-wide statements. The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data.

Following the statements is a section of *required supplementary information* that provides additional budgetary and financial information.

Reporting the LAFCO as a Whole

The accompanying **government-wide financial statements** include two statements that present financial data for the LAFCO as a whole. One of the most important questions asked about the LAFCO's finances is, "Is the LAFCO as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the LAFCO as a whole and about its activities in a way that helps answer this question.

IMPERIAL COUNTY
LOCAL AGENCY FORMATION COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

Year Ended June 30, 2023

These statements include *all* assets and liabilities 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 cash is received or paid.

These two statements report the LAFCO's net position and changes in net position. You can think of the LAFCO's net position - the difference between assets and liabilities - as one way to measure the LAFCO's financial health, or *financial position*. Over time, *increases and decreases* in the LAFCO's net position is one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other nonfinancial factors, such as changes in the LAFCO's revenues, to assess the *overall health* of the LAFCO.

Reporting the LAFCO Major Funds

The **fund financial statements** provide detailed information about the LAFCO's most significant funds - not the LAFCO as a whole. Some funds are required to be established by State law or by bond covenants.

Governmental funds - All of the LAFCO's basic services are reported in a governmental fund, which focus on how money flows into and out of those funds and the balances left at year end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *current financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the LAFCO's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the LAFCO's programs. We describe the relationship or differences between *governmental activities* (reported in the Statement of Net Position and the Statement of Activities) and *governmental funds* in a reconciliation following the fund financial statements.

IMPERIAL COUNTY
LOCAL AGENCY FORMATION COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

Year Ended June 30, 2023

GOVERNMENT-WIDE FINANCIAL STATEMENTS

A summary of the government-wide *statement of net position* follows:

Table 1
Net Position - Governmental Activities
June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>	<u>Change</u>
Assets:			
Current assets	\$ 951,874	\$ 1,039,787	\$ (87,913)
Capital assets, net	<u>858,103</u>	<u>828,327</u>	<u>29,776</u>
Total Assets	<u>1,809,977</u>	<u>1,868,114</u>	<u>(58,137)</u>
Deferred Outflows of Resources:			
Deferred amounts from pension	<u>161,810</u>	<u>109,177</u>	<u>52,633</u>
Liabilities:			
Current liabilities	70,327	97,619	(27,292)
Long-term liabilities	<u>211,354</u>	<u>41,264</u>	<u>170,090</u>
Total Liabilities	<u>281,681</u>	<u>138,883</u>	<u>142,798</u>
Deferred Inflows of Resources:			
Deferred amounts from pension	31,242	163,711	(132,469)
Deferred amounts from leases	<u>132,689</u>	<u>117,029</u>	<u>15,660</u>
Total Deferred Inflows of Resources	<u>163,931</u>	<u>280,740</u>	<u>(116,809)</u>
Net Position:			
Investment in capital assets	854,338	828,327	26,011
Unrestricted	<u>671,837</u>	<u>729,341</u>	<u>(57,504)</u>
Net Position	<u>\$ 1,526,175</u>	<u>\$ 1,557,668</u>	<u>\$ (31,493)</u>

IMPERIAL COUNTY
 LOCAL AGENCY FORMATION COMMISSION
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 (CONTINUED)

Year Ended June 30, 2023

GOVERNMENT-WIDE FINANCIAL STATEMENTS (CONTINUED)

A summary of the government-wide *statement of activities* follows:

Table 2
 Changes in Net Position - Governmental Activities
 Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>	<u>Change</u>
Revenues:			
Program revenues:			
Charges for services	\$ 549,843	\$ 549,081	\$ 762
General revenues:			
Interest	10,921	5,787	5,134
Other	<u>38,212</u>	<u>35,844</u>	<u>2,368</u>
Total Revenues	<u>598,976</u>	<u>590,712</u>	<u>8,264</u>
Expenses:			
Program expenses:			
Salaries and benefits	406,894	332,505	74,389
Services and supplies	223,038	196,811	26,227
Interest	<u>537</u>	<u>883</u>	<u>(346)</u>
Total Expenses	<u>630,469</u>	<u>530,199</u>	<u>100,270</u>
Change in net position	(31,493)	60,513	(92,006)
Net position, beginning of year	<u>1,557,668</u>	<u>1,497,155</u>	<u>60,513</u>
Net position, end of year	<u>\$ 1,526,175</u>	<u>\$ 1,557,668</u>	<u>\$ (31,493)</u>

The increase or decrease in net position can provide an indication as to whether the overall financial position of the LAFCO improved or deteriorated during the year. Net position of the LAFCO decreased by \$31,493.

IMPERIAL COUNTY
LOCAL AGENCY FORMATION COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

Year Ended June 30, 2023

GOVERNMENT-WIDE FINANCIAL STATEMENTS (CONTINUED)

The reasons for significant changes in the revenues and expenses of the LAFCO's governmental activities presented on the previous page are as follows:

- The LAFCO was able to keep expenses within the approved budget.
- The major expenses during the year were salaries and benefits totaling \$406,894. Salaries and benefits increased by \$74,389 (22.37%) due to the increases of salaries and pension premiums.

MAJOR FUNDS

Major Governmental Funds. The **General Fund** is the chief operating fund of the LAFCO. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$747,286 compared to \$823,760 in fiscal year ended June 30, 2022. Total fund balance in the General Fund at June 30, 2023 was \$748,858 which is a \$76,281 decrease from the prior year.

Decrease was primarily due to increase in expenses, while revenues remained consistent. Apportionment from member agency contributions remained the same as prior fiscal year.

GENERAL FUND BUDGET

Major deviations between the budget of the General Fund and its actual operating results were as follows:

- Services and supplies were less than the budget by \$8,762 due to prudent spending practices and non-filing of anticipated projects requiring professional services.

IMPERIAL COUNTY
 LOCAL AGENCY FORMATION COMMISSION
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 (CONTINUED)

Year Ended June 30, 2023

CAPITAL ASSETS

Capital Assets - Governmental Activities
 (net of depreciation)
 Years Ended June 30, 2023 and 2022

	2023	2022	Change
Land	\$ 248,771	\$ 248,771	\$ -
Building, net	520,096	456,878	63,218
Right to use assets-equipment	3,473	7,469	(3,996)
Improvements, net	41,434	79,877	(38,443)
Furniture & Fixtures, net	44,329	35,332	8,997
 Total	 \$ 858,103	 \$ 828,327	 \$ 29,776

The LAFCO had significant additions to fixed assets for the year ended June 30, 2023, including a remodel to Suite A and Lighting retro fit. Additional information on capital assets may be found in Note of the notes to financial statements.

LONG-TERM LIABILITIES

Long-term Liabilities
 Years Ended June 30, 2023 and 2022

	2023	2022	Change
Compensated Absences	\$ 24,055	\$ 21,118	\$ 2,937
Lease Liability	3,765	7,788	(4,023)
 Total	 \$ 27,820	 \$ 28,906	 \$ (1,086)

Additional information on long-term liabilities may be found in Note 5 of the notes to financial statements.

IMPERIAL COUNTY
LOCAL AGENCY FORMATION COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)

Year Ended June 30, 2023

CONTACTING THE LAFCO's FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the LAFCO's finances and to show the LAFCO's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Executive Officer at 1122 State Street, Suite D, El Centro, CA 92243.

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BASIC FINANCIAL STATEMENTS

IMPERIAL COUNTY
LOCAL AGENCY FORMATION COMMISSION

STATEMENT OF NET POSITION

June 30, 2023

	Governmental Activities
ASSETS:	
Cash and investments (Note 2)	\$ 774,096
Cash held in trust (Note 2)	38,889
Accounts receivable	2,435
Lease receivable (Note 3)	134,882
Prepaid expenses	1,572
Capital assets, not depreciated (Note 4)	248,771
Capital assets, net of depreciation (Note 4)	609,332
TOTAL ASSETS	1,809,977
DEFERRED OUTFLOWS OF RESOURCES:	
Deferred amounts from pension (Note 6)	161,810
TOTAL DEFERRED OUTFLOWS OF RESOURCES	161,810
LIABILITIES:	
Accounts payable	18,986
Accrued liabilities	15,597
Deposits	35,744
Noncurrent liabilities - due within one year:	
Compensated absences (Note 5)	16,037
Lease liability (note 5)	2,426
Noncurrent liabilities:	
Compensated absences (Note 5)	8,018
Lease liability (note 5)	1,339
Net pension liability (Note 6)	183,534
TOTAL LIABILITIES	281,681
DEFERRED INFLOWS OF RESOURCES:	
Deferred amounts from pension (Note 6)	31,242
Deferred amounts from leases (Note 3)	132,689
TOTAL DEFERRED INFLOWS OF RESOURCES	163,931
NET POSITION:	
Net investment in capital assets	854,338
Unrestricted	671,837
TOTAL NET POSITION	\$ 1,526,175

See accompanying notes to the basic financial statements

IMPERIAL COUNTY
LOCAL AGENCY FORMATION COMMISSION

STATEMENT OF ACTIVITIES

Year Ended June 30, 2023

Functions/programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:					
General government:					
Salaries and benefits	\$ 406,894	-	-	-	(406,894)
Services and supplies	223,038	-	-	-	(223,038)
Interest expense	<u>537</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(537)</u>
	<u>\$ 630,469</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(630,469)</u>
		General revenues:			
					549,843
					38,212
					<u>10,921</u>
		Total General revenues			<u>598,976</u>
		Change in Net Position			(31,493)
		Net Position at Beginning of Year			<u>1,557,668</u>
		Net Position at End of Year			<u>\$ 1,526,175</u>

See accompanying notes to the basic financial statements

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FUND FINANCIAL STATEMENTS

IMPERIAL COUNTY
LOCAL AGENCY FORMATION COMMISSION

BALANCE SHEET
GOVERNMENTAL FUND

June 30, 2023

	<u>General Fund</u>
ASSETS:	
Cash and investments	\$ 774,096
Cash held in trust	38,889
Accounts receivable	2,435
Prepaid expenses	1,572
Lease receivable	<u>134,882</u>
 TOTAL ASSETS	 <u>\$ 951,874</u>
 LIABILITIES:	
Accounts payable	\$ 18,986
Accrued liabilities	15,597
Deposits	<u>35,744</u>
 TOTAL LIABILITIES	 <u>70,327</u>
 DEFERRED INFLOWS OF RESOURCES:	
Deferred amounts from leases	<u>132,689</u>
TOTAL DEFERRED INFLOWS AND RESOURCES	<u>132,689</u>
 FUND BALANCE:	
Nonspendable	1,572
Unassigned	<u>747,286</u>
 TOTAL FUND BALANCE	 <u>748,858</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u>\$ 951,874</u>

See accompanying notes to the basic financial statements

IMPERIAL COUNTY
LOCAL AGENCY FORMATION COMMISSION

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION

June 30, 2023

Fund balance - total governmental fund	\$	748,858
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets have not been included as financial resources in governmental fund activity.

Capital assets	\$ 1,668,673	
Accumulated depreciation	<u>(810,570)</u>	858,103

Long-term liabilities are not due and payable in the current period and therefore are not reported in governmental funds.	(27,820)
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Pension related debt applicable to the LAFCO's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Deferred outflows of resources and deferred inflows of resources related to pensions are only reported in the Statement of Net Position as the changes in these amounts effect only the government-wide statements for governmental activities.

Deferred outflows of resources	\$ 161,810	
Deferred inflows of resources	(31,242)	
Net pension liability	<u>(183,534)</u>	<u>(52,966)</u>

Net position of governmental activities	\$	<u>1,526,175</u>
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IMPERIAL COUNTY
LOCAL AGENCY FORMATION COMMISSION

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

Year Ended June 30, 2023

	General Fund
REVENUES:	
Charges for services:	
Contributions from agencies	\$ 507,956
Project fees	41,887
Interest income	10,921
Rental income	38,212
TOTAL REVENUES	598,976
EXPENDITURES:	
Current:	
General government:	
Salaries and benefits	417,883
Services and supplies	252,814
Debt Service:	
Principal	4,023
Interest	537
TOTAL EXPENDITURES	675,257
NET CHANGE IN FUND BALANCE	(76,281)
FUND BALANCE - BEGINNING OF YEAR	825,139
FUND BALANCE - END OF YEAR	\$ 748,858

See accompanying notes to the basic financial statements

IMPERIAL COUNTY
LOCAL AGENCY FORMATION COMMISSION

RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2023

Net change in fund balance - total governmental funds	\$ (76,281)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	
Capital outlay	94,119
Depreciation expense	(63,272)
Disposal of assets	(1,071)
Pension expense reported in the governmental funds includes the annual required contributions. In the Statement of Activities, pension expense includes the change in the net pension liability, and related change in pension amounts for deferred outflows of resources and deferred inflows of resources.	
	13,926
Changes in compensated absences affect the current financial resources of governmental funds, but do not affect Net Position and are not reported in the Statement of Activities.	
	(2,937)
Changes in lease liability affect the current financial resources of governmental funds but do not affect Net Position and are not reported in the Statement of Activities.	
	<u>4,023</u>
Change in net position of governmental activities	<u>\$ (31,493)</u>

See accompanying notes to the basic financial statements

IMPERIAL COUNTY
LOCAL AGENCY FORMATION COMMISSION

NOTES TO THE BASIC FINANCIAL STATEMENTS

Year ended June 30, 2023

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Imperial County Local Agency Formation Commission (LAFCO) conform to generally accepted accounting principles as applicable to governments. The following is a summary of the significant policies.

A. Description of the Reporting Entity:

The Local Agency Formation Commission (LAFCO) is an independent agency responsible for the implementation of the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000. LAFCO'S membership includes two County Supervisors appointed by the County Board of Supervisors, two City Council members appointed by the City Selection Committee, and one public member appointed by LAFCO. LAFCO is empowered to review, approve, or deny boundary changes, city annexations, consolidations, special district formations and dissolutions, incorporations for cities and special districts, and to establish local "spheres of influence". The sphere of influence for each governmental agency is a plan for its future boundary and service area.

B. Government-wide and Fund Financial Statements:

The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all of the activities of the LAFCO. The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a function or segment. Program revenues include charges for services that are restricted to meeting the operational or capital requirements of a particular function or segment. Use of money and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. LAFCO reports the following major governmental fund:

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

IMPERIAL COUNTY
LOCAL AGENCY FORMATION COMMISSION

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED):

C. Measurement Focus, Basis of Accounting, and Financial Statements Presentation:

"Measurement focus" is a term used to describe *which* transactions are recorded within the various financial statements. "Basis of accounting" refers to *when* transactions are recorded regardless of the measurement focus applied.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the economic resources measurement focus all assets, deferred outflows of resources, liabilities, and deferred inflows of resources (whether current or noncurrent) associated with these activities are included on the Statement of Net Position. The Statement of Activities presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of the related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the current financial resources measurement focus, only current assets and current liabilities are generally 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) in net changes in fund balance. Under the modified accrual basis of accounting, revenues are recognized when measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, LAFCO considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences are not recognized until paid.

Charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Amounts reported as program revenues include charges to members. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include interest earnings and miscellaneous revenues.

IMPERIAL COUNTY
LOCAL AGENCY FORMATION COMMISSION

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED):

D. Deferred Outflows/Inflows of Resources:

In addition to assets, the statement of net position and the governmental fund balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net assets that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until that time. There are pension related items that meet this definition.

In addition to liabilities, the statement of net position and the governmental fund balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net assets that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. There are pension and lease related items that meet this definition.

E. Revenue Recognition:

Contributions from member agencies are based on a pro rata share formula. LAFCO's fiscal year budgeted expenses are allocated to the Cities and the County. The County share is 50% and the Cities 50% share is allocated to each of the Cities based on the city's total revenue reported to the State Controller in the prior year. The County of Imperial collects the member contributions for LAFCO and holds them in the County of Imperial's LAFCO custodial fund until requested. Revenue is recognized when collected by the County of Imperial on behalf of LAFCO.

LAFCO fees are recognized when time is incurred on a project. Revenue associated with security deposits on projects is deferred until notice of completion at which time the revenue is considered earned. Funds are held in trust until earned.

F. Cash and Investments:

LAFCO's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Investments are stated at fair value (the value at which a financial instrument could be exchanged, other than in a forced or liquidation sale).

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LOCAL AGENCY FORMATION COMMISSION

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED):

F. Cash and Investments (Continued):

Restricted cash consists of funds held in trust for ongoing projects. Some of LAFCO's cash is deposited into the Imperial County's Treasury.

The County Treasurer maintains a cash and investment pool that is available for use by all funds of the County, as well as the funds of other agencies for which the County Treasurer is the depository. Interest earned on the pooled funds is allocated based on the average daily cash balances of the participating funds. Further disclosures regarding the County's cash and investment pool are included in the notes to the Imperial County's fiscal year 2023 Annual Financial Report. The financial statements can be obtained at 940 Main Street, Suite 108, El Centro, California 92243.

G. Leases

LAFCO accounts for leases in accordance with GASB statement No. 87, leases, based on the principle that leases are financing of the right to use asset. The primary objective of this statement is to enhance the relevance and consistency of information about governments' leasing activities. This statement establishes a single model for lease accounting based on the principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. For additional information, refer to the disclosures in Note 3 Leases Receivable.

At the commencement of the lease, the LAFCO initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflows of resources are recognized as revenue over the life of the lease term.

Key estimates and judgments include how the LAFCO determines the discount rate it uses to discount the expected lease receipts to present value, lease term and lease receipts.

The LAFCO used the estimated incremental borrowing rate as the discount rate for leases. The lease term includes the noncancellable period of the lease.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED):

Lease receipts included in the measurement of the lease receivable is composed of fixed payments from the lessee.

The LAFCO monitors changes in circumstances that would require a remeasurement of its leases, and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

The Commission is a lessee for right to use assets as detailed in Footnote 5. The Commission recorded a lease payable in the financial statements.

At the commencement of the lease, the Commission initially measures the lease payable at the present value of payments expected to be paid during the lease term. Subsequently, the lease payable is reduced by the principal portion of lease payments made.

Key estimates and judgments include how the Commission determines the discount rate it uses to discount the expected lease receipts and payments to present value, lease term and lease receipts.

- The Commission used the estimated borrowing rate as the discount rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease.

H. Capital Assets:

Capital assets are reported in the governmental activities column of the government-wide financial statements. Capital assets are defined by LAFCO as assets with an initial cost of more than \$3,500 or a useful life of greater than one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED):

H. Capital Assets (Continued):

Capital assets of LAFCO are depreciated using the straight-line method over the following estimated useful lives:

Buildings	39 years
Improvements	7 to 15 years
Furniture and fixtures	5 to 7 years
Right to use assets	The estimated life of the lease asset or the contract term, whichever is shorter

Right to use capital assets are depreciated over the estimated useful life of the leased asset or the contract term, whichever is shorter.

I. Compensated Absences:

It is LAFCO's policy to permit employees to accumulate earned but unused vacation and sick time. The balance of unpaid vacation time at June 30, 2023 is recorded as a noncurrent liability.

J. Net Position and Fund Balances:

The net position reported on the Statement of Net Position in the government-wide financial statements consists of the following categories:

Net investment in Capital Assets - This component of net position is not available for spending as it represents net assets already invested in capital assets less the related debt and accumulated depreciation.

Restricted Net Position - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. There is no Restricted Net Position at June 30, 2023.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED):

J. Net Position and Fund Balances (Continued):

Unrestricted Net Position - This component of net position consists of net position that does not meet the definition of "*net investment in capital assets*" or "*restricted*".

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, LAFCO's policy is to apply restricted net position first.

The fund balances reported on the governmental fund statements consist of the following categories:

Non-spendable Fund Balance - This includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted Fund Balance - This includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

Committed Fund Balance - This includes amounts that can be used only for the specific purposes determined by a formal action of the commissioners.

Assigned Fund Balance - This includes amounts that are designated by the commissioners for specific purposes.

Unassigned Fund Balance - This is the residual classification that includes all spendable amounts not contained in the other classifications.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available, LAFCO's policy is to apply restricted fund balance first.

When an expenditure is incurred for purposes for which committed, assigned or unassigned fund balances are available, the LAFCO's policy is to apply committed fund balance first, then assigned fund balance, and finally unassigned fund balance.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED):

K. Budgets and Budgetary Accounting:

An operating budget is adopted each fiscal year on the modified accrual basis, except that encumbrances are treated as budgeted expenditures in the year of the commitment to purchase. There were no encumbrances outstanding at June 30, 2023. All amendments to the adopted budget require Commission approval and reported budgeted figures are subsequently amended by LAFCO. Unencumbered appropriations lapse at year-end.

L. Pensions:

Pensions - For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported by the Imperial County Employee Retirement System (ICERS) 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. ICERS audited financial statements are publicly available reports that can be obtained at ICERS' website.

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

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

IMPERIAL COUNTY
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NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

M. Fair Value Measurements:

Certain assets and liabilities are required to be reported at fair value. The fair value framework provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy are described as follows:

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

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

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

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

N. Use of Estimates:

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Management believes that the estimates are reasonable.

IMPERIAL COUNTY
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NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

2. CASH AND INVESTMENTS:

Cash and Investments

Cash and investments at June 30, 2023 are classified in the accompanying Statement of Net Position as follows:

Cash and investments	\$ 774,096
Cash held in trust	<u>38,889</u>
Total Cash and Investments	<u>\$ 812,985</u>

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

Cash deposits	\$ 807,169
Imperial County Investment Fund	<u>5,816</u>
Total Cash and Investments	<u>\$ 812,985</u>

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater sensitivity its fair value has to changes in market interest rates. One of the ways that LAFCO manages its exposure to interest rate risk is by investing in the portfolio of the Imperial County Investment Fund which purchases a combination of shorter term and longer-term investments.

As of June 30, 2023, LAFCO had investments in the form of deposit accounts with the Imperial County Investment Fund and one financial institution; as such it was not exposed to any interest rate risk as described above.

Disclosures 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 Imperial County Investment Fund is not subject to credit rating.

IMPERIAL COUNTY
LOCAL AGENCY FORMATION COMMISSION

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

2. CASH AND INVESTMENTS (CONTINUED):

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investments or collateral securities that are in the possession of another party. Deposits may be covered by federal deposit insurance. The California Government Code and the LAFCO's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the government unit).

The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure Commission deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

At June 30, 2023, LAFCO's deposits with financial institutions were within the federal depository insurance limits or were collateralized.

With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

Investment in County Investment Pool

LAFCO voluntarily invests in the Imperial County Investment Fund, which is maintained by the County Treasurer for the purpose of benefiting from economies of scale through pooled investment activities. The fair value of LAFCO's investment in this pool is reported in the accompanying financial statements at amounts based upon LAFCO's pro rata share of the fair value provided by the Imperial County Investment Fund for the entire County pooled portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County, which are recorded at amortized cost.

IMPERIAL COUNTY
LOCAL AGENCY FORMATION COMMISSION

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

3. LEASE RECEIVABLE:

LAFCO owns a building located in Imperial County and leases office spaces to other businesses. The interest rate for the lease is 2.5%. The initial lease agreement term is 5 years with the option to extend. The total amount of lease revenue recognized in the current reporting period from leases is \$23,400 and the total amount of interest received related to the lease was \$2,698. The balance of the lease receivable at June 30, 2023 is \$95,736. The LAFCO has a deferred inflow of resources associated with this lease that will be recognized as revenue over the lease term. The balance of the deferred inflow of resources at June 30, 2023 is \$93,629.

In March 2023, LAFCO entered into a new agreement for Suite E. The interest rate for the lease is 2.5%. The initial lease agreement term is 3 years with the option to extend. The total amount of lease revenue recognized in the current reporting period from leases is \$2,368 and the total amount of interest received related to the lease was \$170. The balance of the lease receivable at June 30, 2023 is \$39,146. LAFCO has a deferred inflow of resources associated with this lease that will be recognized as revenue over the lease term. The balance of the deferred inflow of resources at June 30, 2023 is \$39,060.

4. CAPITAL ASSETS:

A summary of changes in governmental capital assets for the year ended June 30, 2023 is as follows:

	Balance at June 30, 2022	Additions	Deletions	Balance at June 30, 2023
Capital assets, not being depreciated:				
Land	\$ 248,771	-	-	248,771
Capital assets, being depreciated:				
Building	746,312	65,748	-	812,060
Right to use assets-equipment	11,465	-	-	11,465
Improvements	400,275	-	-	400,275
Furniture and fixtures	178,081	28,371	(10,349)	196,103
Total capital assets, being depreciated	1,336,133	94,119	(10,349)	1,419,903
Less accumulated depreciation for:				
Building	(289,434)	(2,530)	-	(291,964)
Right to use assets-equipment	(3,996)	(3,996)	-	(7,992)
Improvements	(320,398)	(38,443)	-	(358,841)
Furniture and fixtures	(142,749)	(18,303)	9,278	(151,774)
Total accumulated depreciation	(756,577)	(63,272)	9,278	(810,571)
Total capital assets, being depreciated, net	579,556	30,847	(1,071)	609,332
Total capital assets, net	\$ 828,327	30,847	(1,071)	858,103

IMPERIAL COUNTY
LOCAL AGENCY FORMATION COMMISSION

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

4. CAPITAL ASSETS (CONTINUED):

Depreciation expense for capital assets for the year ended June 30, 2023 was \$63,272 and was charged to services and supplies.

5. LONG-TERM LIABILITIES:

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

	Balance July 1, 2022	Additions	Deletions	Balance June 30, 2023	Due within One Year
Compensated Absences	\$ 21,118	13,336	(10,399)	24,055	16,037
Lease Liability	7,788	-	(4,023)	3,765	2,426
Total	<u>\$ 28,906</u>	<u>13,336</u>	<u>(14,422)</u>	<u>27,820</u>	<u>18,463</u>

Compensated absences are expected to be liquidated by the General Fund.

The Commission entered into two lease agreements for office equipment through January 2027. The Commission is required to make monthly fixed payments ranging from \$57 to \$323, with a discount rate of 3%. As of June 30, 2023, the value of the lease payable is \$3,765.

Future lease payable requirements are as follows:

Year ended June 30	Principal	Interest	Total
2024	\$ 2,426	196	2,622
2025	587	97	684
2026	643	41	684
2027	109	1	110
	<u>\$ 3,765</u>	<u>335</u>	<u>4,100</u>

6. PENSION PLAN:

General Information about the Pension Plans:

Plan Description

The Imperial County Employees' Retirement System (ICERS) was established by the County of Imperial in 1951. ICERS is administered by the Board of Retirement and governed by the County Employees' Retirement Law of 1937 (California Code Section 31450 et. seq.)

IMPERIAL COUNTY
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NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

6. PENSION PLAN (CONTINUED):

ICERS is a cost-sharing multiple employer public employee retirement system whose main function is to provide service retirement, disability, death and survivor benefits to the employee members of LAFCO. ICERS also provides retirement benefits to employee members of Imperial County, Imperial County Courts, and ICTC. The Imperial County Retirement System (ICERS) issues an audited stand-alone financial report, which may be obtained by contacting the Board of Retirement at 1221 W. State Street, El Centro, CA 92243.

Benefits Provided

All regular full-time employees of the County of Imperial who work a minimum of 30 hours per week become members of ICERS effective on the first day of the first full pay period after employment. New members employed after January 1, 2013 are designated as PEPRAs subject to the provisions of California Government Code 7522 et seq. and AB 197. General members hired prior to January 1, 2013, are eligible to retire once they attain the age of 50 and have acquired 10 or more years of retirement service credit. A member with 30 years of Retirement Service Credit is eligible to retire regardless of age. General members who are first hired on or after January 1, 2013, are eligible to retire once they have attained the age of 52 and have acquired five years of retirement service credit. The retirement benefits the member will receive is based upon age at retirement, final average compensation, years of retirement service credit and retirement plan and tier.

The plans provisions and benefits in effect at June 30, 2023, are summarized as follows:

Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	1.48% at 50 x YoS* 1.95% at 55 x YoS 2.44% at 60 x YoS 2.61% at 65+ x YoS *YoS-Years of Service	1.00% at 52 x YoS 1.30% at 55 x YoS 1.80% at 60 x YoS 2.00% at 62 x YoS 2.30% at 65 x YoS 2.50% at 67+ x YoS
Benefit vesting schedule	10 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	50+	52+
Monthly benefits, as a % of eligible compensation	1.48% to 2.61%	1.00% to 2.50%
Required employee contribution rates	Avg. of 13.26%	Avg. of 12.40%
Required employer contribution rates	Avg. of 24.53%	Avg. of 19.07%

IMPERIAL COUNTY
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NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

6. PENSION PLAN (CONTINUED):

Contributions

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for all Plans are determined annually on an actuarial basis as of June 30 by ICERS. 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. LAFCO is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

Actuarial Methods and Assumptions used to determine Total Pension Liability

For the measurement period ending June 30, 2022 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2021 total pension liability determined in the June 30, 2021 actuarial valuation. The June 30, 2022 total pension liability was based on the following actuarial methods and assumptions:

Valuation Date	June 30, 2021
Measurement Date	June 30, 2022
Actuarial Assumptions:	
Cost of Living Adjustment	2.00%
Inflation	2.75%
Projected Salary Increase	4.50% to 9.25% ⁽¹⁾
Investment Rate of Return	7.00%

⁽¹⁾ For June 30, 2022 and June 30, 2021, includes inflation at 2.75% plus real across-the-board salary increases of 0.50% plus merit and promotional increases

Discount Rate

The discount rate used to measure the total pension liability was 7.00% as of June 30, 2022. For plan member contributions, the projection of cash flows used to determine the discount rate assumed that member contributions will be made at the current contribution rate for the regular and PEPRAs benefits and that the contributions will be made at rates equal to the difference between actuarially determined contribution rates for the Supplemental benefits. For employer

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NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

6. PENSION PLAN (CONTINUED):

contributions, the projection of cash flow used to determine the discount rate assumed employer contributions will be made at rates equal to the actuarially determined contribution rates.

For this purpose, only member and employer contributions that are intended to und benefits of current plan members and their beneficiaries are included. 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 pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term expected rate of return on pension plan investments was determined in 2020 using a building-block method in which expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage, adding expected inflation and subtracting expected investment expenses and a risk margin. The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before deducting investment expenses, used in the derivation of the long-term expected investment rate of return assumption as of June 30, 2022 are shown in the following table.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Large Cap U.S. Equity	23.00%	5.42%
Small Cap U.S. Equity	6.00%	6.21%
Developed International Equity	17.00%	6.50%
Emerging Markets Equity	7.00%	8.80%
U.S. Core Fixed Income	22.00%	1.13%
TIPS	5.00%	0.87%
Real Estate	5.00%	4.57%
Value Added Real Estate	5.00%	8.10%
Private Credit	5.00%	5.60%
Private Equity	5.00%	9.40%
Total	<u>100.00%</u>	

IMPERIAL COUNTY
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NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

6. PENSION PLAN (CONTINUED):

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

Miscellaneous	Increase (Decrease)		
	(a) Total Pension Liability	(b) Plan Fiduciary Net Position	(c) = (a) - (b) Net Pension Liability
Balance at: 6/30/2021	\$ 541,899	529,541	12,358
Balance at: 6/30/2022	1,314,111	1,130,577	183,534
Net Changes during 2021-22	<u>\$ 772,212</u>	<u>601,036</u>	<u>171,176</u>

The proportion of the net pension liability was based on a projection of LAFCO's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. LAFCO's proportionate share of the net pension liability for the plan as of June 30, 2021 and 2022 was as follows:

	<u>Miscellaneous</u>
Proportion - June 30, 2021	0.054%
Proportion - June 30, 2022	<u>0.111%</u>
Change - Increase (Decrease)	<u>0.057%</u>

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

The following presents LAFCO's proportionate share of the net pension liability using the current discount rate of 7.00%, as well as what LAFCO's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.00%) or 1-percentage-point higher (8.00%) than the current rate:

	Discount Rate - 1% 6.00%	Current Discount Rate 7.00%	Discount Rate + 1% 8.00%
Net Pension Liability	\$ <u>371,927</u>	<u>183,534</u>	<u>30,016</u>

Amortization of Deferred Outflows and Deferred Inflows of Resources

Under GASB 68, actuarial gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time.

IMPERIAL COUNTY
LOCAL AGENCY FORMATION COMMISSION

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

6. PENSION PLAN (CONTINUED):

The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred inflows and deferred outflows to be recognized in future pension expense.

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

Difference between projected and actual earnings	5-year straight-line amortization
All other amounts	Straight-line amortization over the average expected remaining service lives of all members that are provided with benefits (active, inactive, and retired as of the beginning of the measurement period).

For the measurement period ending June 30, 2022 (the measurement date), LAFCO recognized a pension expense of \$44,307 for the Plan.

As of June 30, 2023, LAFCO reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to the measurement date	\$ 37,715	-
Changes of assumptions	43,239	-
Difference between expected and actual experience	4,311	23,496
Net difference between projected and actual earnings on pension plan investments	44,824	-
Change in proportions	31,721	7,746
Total	\$ 161,810	31,242

\$37,715 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2024.

IMPERIAL COUNTY
 LOCAL AGENCY FORMATION COMMISSION
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 (CONTINUED)

6. PENSION PLAN (CONTINUED):

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:	Deferred Outflows/(Inflows) of Resources
2024	\$ 20,168
2025	11,666
2026	6,962
2027	50,116
2028	2,708
Thereafter	1,233

7. DEFINED CONTRIBUTION PLAN:

On January 1, 2018, pursuant to sections 401 (a) of the Internal Revenue Code, LAFCO adopted a single employer defined contribution retirement plan, the ICLAFCO 401(a) Plan (the Plan). The Plan is administered by Nationwide Life Insurance Company and covers all regular employees employed on or after January 1, 2018.

LAFCO is required to contribute 13.33% of each participant's compensation. There were two participants as of June 30, 2023. Employees are fully vested at the time LAFCO's contribution is made. LAFCO made contributions during the year of \$25,045.

8. CONTINGENCIES:

Security deposits paid by applicants are refundable if the project is not completed within the terms of the contract. Periodic reviews may be requested by applicants and certain costs may be disallowed as not being reimbursable expenditures based on terms of the contract. Such reviews could result in amounts billed under the contract not being paid or amounts already paid subject to reimbursement to the applicant. Management believes disallowances, if any, will be immaterial.

LAFCO is a defendant in one pending lawsuit during the audit period. LAFCO expects the lawsuit to be dismissed in its favor, with no financial exposure other than its own attorney fees.

IMPERIAL COUNTY
LOCAL AGENCY FORMATION COMMISSION

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

9. RELATED PARTY TRANSACTIONS:

LAFCO leases approximately 90 square feet of office space within their office to American Inspection Associates, LLC, a company owned by the Executive Officer of LAFCO. Total rent paid during the year was \$1,836.

10. RISK MANAGEMENT:

LAFCO 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. LAFCO is paying an annual premium to Great American Insurance Group for its general liability insurance and to the State Compensation Insurance Fund for workers compensation risk coverage.

Below is a summary of coverage as of June 30, 2023:

General Liability Insurance

- (1) Maximum \$1,000,000 limit per occurrence limit for all coverages combined
- (2) Maximum per occurrence limit for any one Coverage:
 - o Up to \$1,000,000 personal injury (including bodily injury) and property damage with a \$2,500 deductible
 - o Up to \$1,000,000 non-owned and hired automobile liability with a \$2,500 deductible
 - o Up to \$1,000,000 public officials' errors and omissions with a \$2,500 deductible
 - o Up to \$1,000,000 employment practices liability with a \$10,000 deductible

Workers' Compensation and Employers Liability - LAFCO is self-insured through the State Compensation Insurance Fund up to \$100,000,000 in a calendar year for Workers Compensation.

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REQUIRED SUPPLEMENTARY INFORMATION

**IMPERIAL COUNTY
LOCAL AGENCY FORMATION COMMISSION**

**SCHEDULE OF THE PLAN'S PROPORTIONATE SHARE OF NET PENSION LIABILITY
Last Ten Years***

Schedule of the Plan's Proportionate Share of Net Pension Liability
Last Ten Years*

Measurement Date	<u>6/30/2022</u>	<u>6/30/2021</u>	<u>6/30/2020</u>	<u>6/30/2019</u>	<u>6/30/2018</u>
Proportion of the Collective Net Pension Liability	0.109%	0.047%	0.102%	0.099%	0.107%
Proportionate Share of the Collective Net Pension Liability	\$ 183,534	12,358	201,399	121,129	141,981
Covered Payroll	\$ 170,600	156,608	145,698	139,501	145,745
Proportionate Share of the Collective Net Pension Liability as percentage of covered payroll	107.58%	7.89%	138.23%	86.83%	97.42%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	87.12%	99.02%	82.66%	88.38%	87.02%

Measurement Date	<u>6/30/2017</u>	<u>6/30/2016</u>	<u>6/30/2015</u>	<u>6/30/2014</u>
Proportion of the Collective Net Pension Liability	0.121%	0.085%	0.089%	0.092%
Proportionate Share of the Collective Net Pension Liability	\$ 162,539	114,181	78,756	54,119
Covered Payroll	\$ 167,587	107,022	112,243	115,249
Proportionate Share of the Collective Net Pension Liability as percentage of covered payroll	96.99%	106.69%	70.17%	46.96%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	86.08%	85.23%	89.83%	93.31%

Notes to Schedule:

Benefit Changes: There were no changes in benefits.

Changes in Assumptions: The discount rate was reduced from 7.25% to 7.00% as of June 30, 2020.

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

**IMPERIAL COUNTY
LOCAL AGENCY FORMATION COMMISSION**

**SCHEDULE OF PLAN CONTRIBUTIONS
Last Ten Years***

Schedule of Plan Contributions-Miscellaneous Plan
Last Ten Years*

Fiscal Year	2022-23	2021-22	2020-21	2019-20	2018-19
Actuarially Determined Contribution	\$ 37,715	34,271	30,604	28,454	27,919
Contributions in Relation to the Actuarially Determined Contribution	<u>37,715</u>	<u>34,271</u>	<u>30,604</u>	<u>28,454</u>	<u>27,919</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
 Covered Payroll	 \$ 200,514	 170,600	 156,608	 145,698	 139,501
 Contributions as a Percentage of Covered Payroll	 18.81%	 20.09%	 19.54%	 19.53%	 20.01%

Fiscal Year	2017-18	2016-17	2015-16	2014-15
Actuarially Determined Contribution	\$ 24,084	28,435	18,604	18,325
Contributions in Relation to the Actuarially Determined Contribution	<u>24,084</u>	<u>28,435</u>	<u>18,604</u>	<u>18,325</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
 Covered Payroll	 \$ 145,745	 167,587	 107,022	 112,243
 Contributions as a Percentage of Covered Payroll	 16.52%	 16.97%	 17.38%	 16.33%

Notes to Schedule:

Fiscal Year End:	06/30/23
Valuation Date:	06/30/20
Methods and assumptions used to determine contribution rates:	
Actuarial Cost Method	Entry age
Amortization Method	Level percent of payroll
Asset Valuation Method	Market Value
Investment Rate of Return	7.00%
Projected Salary Increase	4.50% to 9.25% depending on age, service and type of employment.
Inflation	2.75%

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

IMPERIAL COUNTY
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SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND

Year Ended June 30, 2023

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Fund balance, July 1, 2022	\$ 825,139	825,139	825,139	-
Resources (inflows):				
Charges for services:				
Contributions from agencies	507,956	507,956	507,956	-
Project fees	40,000	40,000	41,887	1,887
Interest	-	-	10,921	10,921
Rental income	<u>31,632</u>	<u>31,632</u>	<u>38,212</u>	<u>6,580</u>
Total resources (inflows)	<u>579,588</u>	<u>579,588</u>	<u>598,976</u>	<u>19,388</u>
Charges to appropriations (outflows):				
Current:				
General government:				
Salaries and benefits	421,673	421,673	417,883	3,790
Services and supplies	261,576	261,576	252,814	8,762
Debt Service:				
Principal	-	-	4,023	(4,023)
Interest	<u>-</u>	<u>-</u>	<u>537</u>	<u>(537)</u>
Total charges to appropriations (outflows)	<u>683,249</u>	<u>683,249</u>	<u>675,257</u>	<u>7,992</u>
Excess of resources over (under) charges to appropriations	<u>(103,661)</u>	<u>(103,661)</u>	<u>(76,281)</u>	<u>(27,380)</u>
Fund balance, June 30, 2023	\$ <u>721,478</u>	<u>721,478</u>	<u>748,858</u>	<u>27,380</u>

See accompanying notes to the required supplementary information

IMPERIAL COUNTY
LOCAL AGENCY FORMATION COMMISSION

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Year ended June 30, 2023

Budgetary Information

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