Local Agency Formation Commission
of
Santa Clara County

Annual Financial Audit Report

June 30, 2022

Chavan & Associates, LLP
Certified Public Accountants
15105 Concord Circle, Suite 130
Morgan Hill, CA 95037

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Local Agency Formation Commission of Santa Clara County

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the Commissioners
Local Agency Formation Commission of Santa Clara County
San Jose, California

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the Local Agency Formation Commission of Santa Clara County (LAFCO), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise 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-type activities of the Local Agency Formation Commission of Santa Clara County, as of June 30, 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* (GAGAS), issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of 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 opinions.

Emphasis of a Matter

During the year, LAFCO implemented GASB Statement No. 87, *Leases.* As a result, the District recorded a right to use asset and lease liability of $259,897 for its office space lease. See note 4 for additional information. Our opinion was not modified for this matter.

Responsibilities of Management for the Financial Statements

LAFCO 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 LAFCO'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.

15105 Concord Circle, Ste. 130, Morgan Hill, CA 95037
Tel: 408-217-8749 • E-Fax: 408-872-4159
info@cnallp.com • www.cnallp.com

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 and GAGAS 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 and GAGAS, 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 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 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, budgetary comparison information, schedule of pension contributions, schedule of changes in net pension liability, schedule of OPEB contributions, and schedule of changes in net OPEB liability as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express

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Tel: 408-217-8749 • E-Fax: 408-872-4159
info@cnallp.com • www.cnallp.com

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 October 15, 2022 on our consideration of 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 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 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 LAFCO's internal control over financial reporting and compliance.

C & A LLP

October 15, 2022
Morgan Hill, California

15105 Concord Circle, Ste. 130, Morgan Hill, CA 95037
Tel: 408-217-8749 • E-Fax: 408-872-4159
info@cnallp.com • www.cnallp.com

Management's Discussion and Analysis

INTRODUCTION

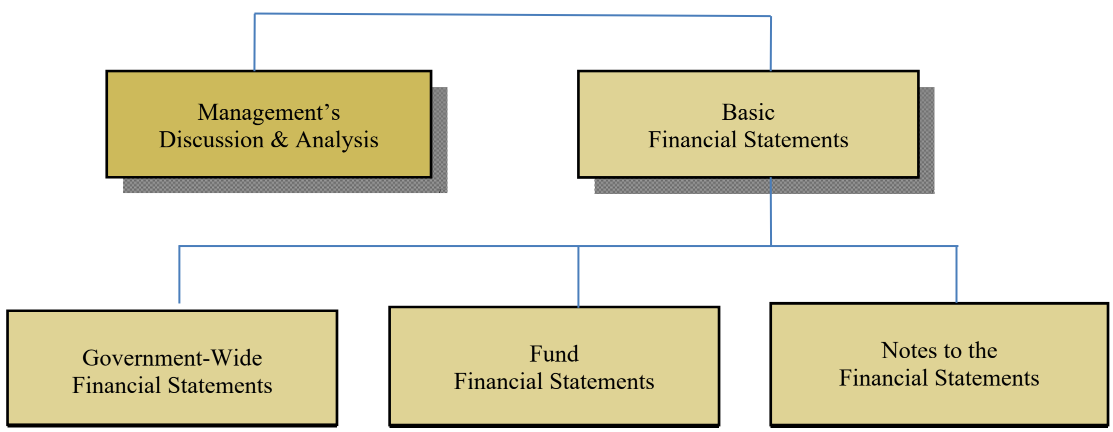
The Management's Discussion and Analysis (MD&A) is a required section of LAFCO's annual financial report, as shown in the overview below. The purpose of the MD&A is to present a discussion and analysis of LAFCO's financial performance during the fiscal year that ended on June 30, 2022. This report will (1) focus on significant financial issues, (2) provide an overview of LAFCO's financial activity, (3) identify changes in LAFCO's financial position, (4) identify any individual fund issues or concerns, and (5) provide descriptions of significant asset and debt activity.

This information, presented in conjunction with the annual Basic Financial Statements, is intended to provide a comprehensive understanding of LAFCO's operations and financial standing.

USING THE ANNUAL REPORT

The Statement of Net Position and Statement of Activities comprise the government-wide financial statements and provide information about the activities of the whole organization, presenting both an aggregate view of LAFCO's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The basic financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

Required Components of the Annual Financial Report



The view of LAFCO as a whole looks at all financial transactions and asks the question, "How did we do financially during the fiscal year 2021 - 2022?" The Statement of Net Position and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting practices used by most private-sector companies. This basis of accounting takes into account all of the current year revenues and expenses regardless of when cash is received or paid.

These two statements report LAFCO's net position and changes in net position. This change in net position is important because it tells the reader that, for LAFCO as a whole, the financial position of LAFCO has improved or diminished. The causes of this change may be the result of many factors, some financial, and some not. Non-financial factors include changing laws in California restricting revenue growth, facility conditions and other factors.

In the Statement of Net Position and the Statement of Activities, LAFCO reports governmental activities. Governmental activities are the activities where LAFCO's programs and services are reported. LAFCO does not have any business type activities.

FINANCIAL HIGHLIGHTS

Key financial highlights for the fiscal year ended June 30, 2022 were as follows:

- Total assets increased by $323,090, a 50% increase from the prior year that included an increase of $251,234 in right of use assets from office space lease. Right of use assets are new assets required by GASB 87 which redefined accounting for leases and was implemented during the year.

- The net OPEB liability decreased by $71,164, a 33% decrease from the prior year. This decrease was mostly from investment returns having been more than estimated in the actuarial studies.

- Total net pension liabilities decreased by $322,976, a 34% decrease from the prior year. This decrease was mostly from investment returns having been more than estimated in the actuarial studies.

- Current liabilities increased by $80,220, a 93% increase from the prior year. This increase was mostly due to the implementation of GASB 87, which required LAFCO to record a current portion lease payable of $56,040.

- Noncurrent liabilities decreased by $199,713, a 15% decrease from the prior year. This decrease was mostly due to the decreases in the net pension liability, $322,976, and the net OPEB liability, $71,164, offset by the increase in the office space lease liability as required by newly implemented GASB 87, $250,557.

- Deferred outflows of resources decreased by $59,194, a 33% decrease from the prior year.

REPORTING LAFCO'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The analysis of LAFCO's fund financial statements begins with the balance sheet. Fund financial reports provide detailed information about LAFCO's major funds. LAFCO uses one operating fund, the General Fund, to account for a multitude of financial transactions.

Governmental Funds

The General Fund is a governmental fund type and is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of LAFCO's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

LAFCO AS A WHOLE

Recall that the Statement of Net Position provides the perspective of LAFCO as a whole. Table 1 provides a summary of LAFCO's net position as of June 30, 2022 as compared to June 30, 2021:

Table 1 - Summary of Statement of Net Position

Description	2022	2021	Change	Percentage Change
Assets				
Current Assets	$ 720,192	$ 648,336	$ 71,856	11.08%
Right of Use Assets - Net	251,234	-	251,234	100.00%
Total Assets	$ 971,426	$ 648,336	$ 323,090	49.83%
Deferred Outflows	$ 122,465	$ 181,659	$ (59,194)	-32.59%
Liabilities				
Current Liabilities	$ 166,205	$ 85,985	$ 80,220	93.30%
Noncurrent Liabilities	1,144,385	1,344,098	(199,713)	-14.86%
Total Liabilities	$ 1,310,590	$ 1,430,083	$ (119,493)	-8.36%
Deferred Inflows	$ 324,158	$ 92,055	$ 232,103	252.14%
Net Position				
Unrestricted	$ (792,091)	$ (692,143)	$ (99,948)	-12.62%

The increase to current assets was an increase to cash resulting from an operating surplus in the funds of $47,676 for the year. Current liabilities increased by $80,220 mostly because of increases to the current portions of lease liabilities related to GASB 87. Noncurrent liabilities reflect a net decrease of $199,713 mostly because of decreases in LAFCO's net pension liability and net OPEB liability which was attributed actual investment income having been higher than estimated in the actuarial studies. The increases and decreases to deferred outflows and inflows can be directly attributed to changes in assumptions and benefit plan changes and higher than expected investment returns.

Table 2 shows the changes in net position for fiscal year 2022 as compared to 2021.

Table 2 - Summary of Changes in Net Position

Description	2022	2021	Change	Percentage Change
Revenues				
Program revenues:				
Operating grants and contributions	$ 901,364	$ 983,785	$ (82,421)	-8.38%
Charges for services	26,811	34,627	(7,816)	-22.57%
General revenues:				
Investment income	7,832	10,489	(2,657)	-25.33%
Total Revenues	936,007	1,028,901	(92,894)	-9.03%
Program Expenses				
General government	783,432	1,031,771	(248,339)	-24.07%
Interest expense	1,289	-	1,289	100.00%
Total Expenses	784,721	1,031,771	(247,050)	-23.94%
Change in Net Position	151,286	(2,870)	154,156	101.90%
Beginning Net Position	(692,143)	(689,273)	(2,870)	0.41%
Ending Net Position	$ (540,857)	$ (692,143)	$ 151,286	-27.97%

Program revenues decreased due a decreased share of operating costs charged back to member agencies during the year. Program expenses decreased due to a decrease to employee costs and professional services. See Note 4 and Note 5 for information related to LAFCO's benefit plans.

LAFCO'S FUND BALANCE

Table 3 provides an analysis of LAFCO's fund balances and the total change in fund balances from the prior year.

Table 3 - Summary of Fund Balance

Description	2022	2021	Change	Percentage Change
General Fund	$ 610,027	$ 562,351	$ 47,676	8.48%

LAFCO'S NONCURRENT LIABILITIES

Table 4 summarizes LAFCO's noncurrent liabilities as of June 30, 2022 as compared to the prior fiscal year.

Table 4 - Summary of Noncurrent Liabilities

Description	2022	2021	Change	Percentage Change
Net OPEB Liability	$ 142,989	$ 214,153	$ (71,164)	-33.23%
Net Pension Liability	635,863	958,839	(322,976)	-33.68%
Office Lease	250,557	-	250,557	100.00%
Compensated Absences	171,016	171,106	(90)	-0.05%
Total Noncurrent Liabilities	$ 1,200,425	$ 1,344,098	$ (143,673)	-10.69%

GENERAL FUND BUDGETING HIGHLIGHTS

LAFCO's budget is prepared according to California law and in the modified accrual basis of accounting.

Changes from LAFCO's General Fund 2021/2022 original budget to the final budget are detailed in the required supplementary information section along with a comparison to actual activity for the year ended. The original and final budgeted revenue was $922,329. The original and final budgeted expenditures and other uses of funds were $1,260,990.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Commission adopted its FY 2023 Budget at the June 1, 2022 LAFCO meeting. The budget includes appropriations totaling $1,222,980 which is similar to that of FY 2022. The budget assumes a roll-over of $201,006 in fund balance from the previous fiscal year and anticipates no change in application fees from the previous year.

CONTACTING LAFCO'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, investors and creditors with a general overview of LAFCO's finances and to show LAFCO's accountability for the money it receives. If you have any questions regarding this report or need additional financial information, contact the Executive Officer, LAFCO of Santa Clara County, 777 North First Street, Suite 410, San Jose, CA 95112.

Basic Financial Statements

Local Agency Formation Commission of Santa Clara County

Statement of Net Position

June 30, 2022

		Governmental Activities
Assets		
Current assets:		
Cash and investments	$	718,297
Interest receivable		1,895
Total current assets		720,192
Noncurrent assets:		
Right of use assets:		
Office space lease		259,897
Accumulated amortization		(8,663)
Total right of use assets, net		251,234
Total Assets	$	971,426
Deferred Outflows of Resources		
OPEB adjustments	$	19,206
Pension adjustments		103,259
Total Deferred Outflows of Resources	$	122,465
Liabilities		
Current liabilities:		
Accounts payable	$	12,288
Accrued liabilities		33,582
Unearned revenue		64,295
Current portion of lease payable, office space		56,040
Total current liabilities		166,205
Noncurrent liabilities:		
Net OPEB liability		142,989
Net pension liability		635,863
Lease payable, office space		194,517
Compensated absences		171,016
Total noncurrent liabilities		1,144,385
Total Liabilities	$	1,310,590
Deferred Inflows of Resources		
OPEB adjustments	$	130,306
Pension adjustments		193,852
Total Deferred Inflows of Resources	$	324,158
Net Position		
Unrestricted	$	(540,857)
Total Net Position	$	(540,857)

The notes to basic financial statements are an integral part of this statement

Local Agency Formation Commission of Santa Clara County

Statement of Activities

For the Fiscal Year Ended June 30, 2022

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Governmental activities:				
General government	$ 783,432	$ 26,811	$ 901,364	$ 144,743
Interest expense	1,289	-	-	(1,289)
Total governmental activities	$ 784,721	$ 26,811	$ 901,364	143,454
General revenues:				
Investment income				7,832
Change in net position				151,286
Net position July 1, 2021				(692,143)
Net position ending June 30, 2022				$ (540,857)

The notes to basic financial statements are an integral part of this statement

Local Agency Formation Commission of Santa Clara County

Balance Sheet
Governmental Funds
June 30, 2022

		General Fund
ASSETS		
Cash and investments	$	718,297
Interest receivable		1,895
Total Assets	$	720,192
LIABILITIES		
Accounts payable	$	12,288
Accrued liabilities		33,582
Unearned revenue		64,295
Total Liabilities		110,165
FUND BALANCE		
Unassigned		610,027
Total Fund Balance		610,027
Total Liabilities and Fund Balance	$	720,192

The notes to basic financial statements are an integral part of this statement

Local Agency Formation Commission of Santa Clara County

Reconciliation of the Governmental Funds
Balance Sheet to the Statement of Net Position
June 30, 2022

Total fund balance - governmental funds		$ 610,027
Amounts reported in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Right of use assets	$ 259,897	
Accumulated amortization	(8,663)	251,234
The differences between projected and actual amounts in pension and OPEB plans are not included in the plans actuarial study until the next fiscal year and are reported as deferred outflows or inflows of resources in the statement of net position as follows:		
OPEB adjustments:		
Difference between actual and expected experience		(86,253)
Difference between actual and expected earnings		(39,723)
Change in assumptions		(4,330)
Contribution subsequent to measurement date		19,206
Pension adjustments:		
Difference between actual and expected experience		20,102
Difference between actual and expected earnings		(191,214)
Change in assumptions		(1,407)
Contribution subsequent to measurement date		81,926
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term (noncurrent) liabilities at year-end consists of:		
Net OPEB liability	$ 142,989	
Net pension liability	635,863	
Leases payable	250,557	
Compensated absences	171,016	(1,200,425)
Total net position - governmental activities		$ (540,857)

The notes to basic financial statements are an integral part of this statement

Local Agency Formation Commission of Santa Clara County

Statement of Revenues, Expenditures and Changes in Fund Balance

Governmental Funds

For the Fiscal Year Ended June 30, 2022

	General Fund
Revenues:	
Intergovernmental	$ 901,364
Charges for services	26,811
Investment income	7,832
Total revenues	936,007
Expenditures:	
Current:	
Employee services	639,100
Professional services	169,669
Commission fees	4,200
Facilities	47,903
Insurance	8,590
Supplies	2,838
Memberships	12,316
Miscellaneous	3,715
Capital outlay, office space lease	259,897
Total expenditures	1,148,228
Excess (deficiency) of revenues over (under) expenditures	(212,221)
Other financing sources (uses):	
Office space lease	259,897
Total other financing sources (uses)	259,897
Net change in fund balance	47,676
Fund balance - July 01, 2021	562,351
Fund balance - June 30, 2022	$ 610,027

The notes to basic financial statements are an integral part of this statement

Local Agency Formation Commission of Santa Clara County

Reconciliation of the Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balance

to the Statement of Activities

For the Fiscal Year Ended June 30, 2022

Total net change in fund balance - governmental funds			$ 47,676
Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation or amortization expense.			
Additions to right of use assets	$ 259,897		
Amortization expense	(8,663)		251,234
In governmental funds, actual contributions to pension and OPEB plans are reported as expenditures in the year incurred. However, in the government-wide statement of activities, only the current year pension OPEB expense as noted in the plan's valuation reports is reported as an expense, as adjusted for deferred inflows and outflows of resources.			102,843
The governmental funds report leases issued as an other financing source, while repayment of the lease principal is reported as an expenditure. Interest is recognized as an expenditure in the governmental funds when it is due. The net effect of these differences in the treatment of leases and related items is as follows:			
Principal lease payments		$ 9,340	
Lease issuances		(259,897)	(250,557)
In the Statement of Activities, compensated absences are measured by the amount earned during the year. In governmental funds, however, expenditures for those items are measured by the amount of financial resources used (essentially the amounts paid). This year, vacation earned exceeded the amounts used.			90
Change in net position of governmental activities			$ 151,286

The notes to basic financial statements are an integral part of this statement

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. General

The Local Agency Formation Commission of Santa Clara County (the "Commission" or "LAFCO") was established in 1963 to administer a complex series of statutory laws and enabling acts that serve to encourage the orderly development and reorganization of Local Government Agencies, essential to the social, fiscal and economic wellbeing of the State. The Commission operates under the authority of Government Code Section 56000 and the Cortese-Knox Hertzberg Local Government Reorganization Act of 2000.

The Commission is composed of seven members who include two county supervisors, two city council representatives, two special district representatives and one member representing the public at large. Commission members serve a four-year term.

B. Reporting Entity

LAFCO's combined financial statements include the accounts of all its operations. LAFCO evaluated whether any other entity should be included in these financial statements. The basic, but not the only, criterion for including a governmental department, agency, institution, commission, public authority, or other governmental organization in a governmental unit's reporting entity for general purpose financial reports is the ability of the governmental unit's elected officials to exercise oversight responsibility over such agencies. Oversight responsibility implies that one governmental unit is dependent on another and that the dependent unit should be reported as part of the other. Oversight responsibility is derived from the governmental unit's power and includes, but is not limited to:

- Financial interdependency
- Selection of governing authority
- Designation of management
- Ability to significantly influence operations
- Accountability for fiscal matters

Accordingly, for the year ended June 30, 2022, LAFCO does not have any component units but is a blended component unit of the County of Santa Clara.

C. Accounting Principles

The accounting policies of LAFCO conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

D. Basis of Presentation

Government-wide Financial Statements:

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the activities of LAFCO. The Statement of Net Position reports all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.

The government-wide statements are prepared using the economic resources measurement focus. This approach differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government wide statements and the statements for the governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of LAFCO's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. LAFCO does not allocate indirect expenses to functions in the statement of activities. Program revenues include charges paid by the recipients of goods or services offered by a program, as well as grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of LAFCO, with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of LAFCO.

Fund Financial Statements:

Fund financial statements report detailed information about LAFCO. The accounting and financial treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets, deferred outflows, current liabilities and deferred inflows are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balance for these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets. LAFCO has only one operating fund.

E. Basis of Accounting

Government-Wide Financial Statements:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Assessments and service charges are recognized as revenues in the year for which they are levied. Expenses are recorded when liabilities are incurred.

Governmental Fund Financial Statement:

Governmental fund financial statements (i.e., balance sheet and statement of revenues, expenditures and changes in fund balances) are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Available" means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the LAFCO, "available" means collectible within the current period or within 60 days after year-end.

Non-exchange transactions, in which the LAFCO receives value without directly giving equal value in return, include assessments and interest income. Under the accrual basis, revenue from assessments is recognized in the fiscal year for which the assessments are levied. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Deferred Outflows/Deferred Inflows of Resources:

A deferred outflow of resources is defined as a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenses/expenditure) until then. A deferred inflow of resources is defined as an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenues) until that time.

When applicable, unamortized portions of the gain and loss on refunding debt are reported as deferred inflows and deferred outflows of resources, respectively. Deferred outflows and inflows of resources are reported for the changes related to benefit plans. In addition, when an asset is recorded in governmental fund financial statements but the revenue is not available, a deferred inflow of resources is reported until such time as the revenue becomes available.

Unearned Revenue:

Unearned revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred inflows from unearned revenue. In the governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have been recorded as deferred inflows from unavailable resources.

Expenses/Expenditures:

On the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

F. <u>Fund Accounting</u>

The accounts of LAFCO are organized into one operating fund, the General Fund which has separate set of self-balancing accounts that comprise of LAFCO’s assets, deferred outflows, liabilities, deferred inflows, fund balance, revenues, and expenditures.

G. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. By state law, the Commission must adopt a final budget no later than June 15th. A public hearing must be conducted to receive comments prior to adoption. The Commissioners' satisfied these requirements.

H. Cash and Equivalents

For purposes of the statement of net position, the Commission considers all short-term highly liquid investments, including restricted assets, amounts held with fiscal agent and amounts held in the County's investment pool, to be cash and cash equivalents. Amounts held in the County's investment pool are available on demand to the Commission.

I. Cash and Investments

As described in Note 2, LAFCO's cash and investments are held with the Santa Clara County Treasury, as part of the cash and investment pool with other County Funds. In accordance with GASB Statement No. 31, investments are stated at fair value. However, the value of the pool shares in the County Treasurer's investment pool that may be withdrawn is determined on an amortized cost basis, which is different from the fair value of LAFCO's position in the pool. The County Treasurer's investment pool is subject to regulatory oversight by the Treasury Oversight Committee, as required by Section 27134 of the California Government Code. Statutes authorize the County to invest in the following:

1. Obligations of the County or any local agency and instrumentality in or of the State of California;
2. Obligations of the U.S. Treasury, agencies and instrumentalities;
3. Bankers' acceptances eligible for purchase by Federal Reserve System;
4. Commercial paper;
5. Repurchase agreements or reverse repurchase agreements;
6. Medium-term notes with a five-year maximum maturity of corporations operating within the United States and rated in the top three rating categories;
7. Guaranteed investment contracts

Investments are recorded at fair value in accordance with GASB Statement No. 72, Fair Value Measurement and Application. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction. In determining this amount, three valuation techniques are available:

- Market approach - This approach uses prices generated for identical or similar assets or liabilities. The most common example is an investment in a public security traded in an active exchange such as the NYSE.

- Cost approach - This technique determines the amount required to replace the current asset. This approach may be ideal for valuing donations of capital assets or historical treasures.

- Income approach - This approach converts future amounts (such as cash flows) into a current discounted amount.

Each of these valuation techniques requires inputs to calculate a fair value. Observable inputs have been maximized in fair value measures, and unobservable inputs have been minimized.

J. Prepaid Expenditures

LAFCO has the option of reporting expenditures in governmental funds for prepaid items either when purchased or during the benefiting period. LAFCO has chosen to report the expenditure during the benefiting period.

K. Capital Assets

Capital assets, which may include land, buildings, improvements other than buildings, furnishings and equipment, construction/development in progress, infrastructure, intangible lease assets (right of use assets), and all other tangible or intangible assets, that are used in operations and that have initial useful lives extending beyond a single reporting period, are reported in the government-wide financial statements. Capital assets are defined as assets with an initial individual cost of more than $5,000. Capital assets are recorded at historical cost, or estimated cost, where actual cost could not be determined. Donated capital assets are valued at their estimated fair value on the date donated. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. Right of use assets are recorded at the present value payments expected to be made during the lease term. Subsequent to initial capitalization, improvements or betterments that are significant, and which extend the useful life of a capital asset are also capitalized.

Depreciation/Amortization of all exhaustible capital assets is recorded as an expense in the government-wide Statement of Activities with net capital assets reflected in the Statement of Net Position. Accumulated depreciation/amortization is reported on the Statement of Net Position

The purpose of depreciation and amortization is to spread the cost of capital assets equitably among all users over the life of these assets. The useful life of right of use assets is typically determined by the associated lease term of those assets. The amount charged to depreciation and amortization expense each year represents that year's pro rata share of the cost of capital assets. The LAFCO depreciates using the straight-line method which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated or amortized.

L. Compensated Absences

Accumulated unpaid vacation and sick leave are recorded as a liability when future payments for such compensated absences have been earned by employees based on pay and salary rates in effect at year end. This liability is recorded in the government-wide statement of net position to reflect LAFCO's obligation to fund such costs from future operations. LAFCO includes its share of Social Security and Medicare payments made on behalf of the employees in its accrual for compensated absences. Unused vacation and sick leave are paid out upon separation from LAFCO based on the terms stated in the Memorandum of Understanding between the employees' bargaining units and LAFCO. LAFCO does not accrue for compensated absences in its governmental fund statements and recognizes liabilities for compensated absences only if they are due and payable in an event such as termination.

M. Noncurrent Liabilities

In the government-wide financial statements, liabilities such as leases payable, net pension liabilities and net OPEB liabilities are reported as noncurrent liabilities in the Statement of Net Position, net of current portions.

N. Leases (Lessee)

LAFCO is a lessee for a noncancellable lease of $250,557. LAFCO recognizes a lease liability and an intangible right-to-use lease asset (lease asset) in the government-wide financial statements.

At the commencement of a lease, LAFCO initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

Key estimates and judgments related to leases include how LAFCO determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- LAFCO uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, LAFCO generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that LAFCO is reasonably certain to exercise.

LAFCO monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported separately as right of use assets and lease liabilities are reported with noncurrent liabilities in the statement of net position.

O. Accounting Estimates

The presentation 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 amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

P. Fund Balance Classifications

In accordance with Government Accounting Standards Board 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, LAFCO classifies governmental fund balances as follows:

Nonspendable fund balance includes amounts that cannot be spent either because they are not in spendable form or because of legal or contractual constraints.

Restricted fund balance includes amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

Committed fund balances includes amounts constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision-making authority and does not lapse at year-end. Committed fund balances are imposed by LAFCO's commission.

Assigned fund balance includes amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the General Manager.

Unassigned fund balance includes positive amounts within the general fund which have not been classified within the above-mentioned categories and negative fund balances in other governmental funds.

LAFCO uses restricted/committed amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, LAFCO would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

Q. Net Position

Net position represents the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. In addition, deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also are included in the net investment in capital assets component of net position. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by LAFCO or through external restrictions imposed by creditors, grantors, laws or regulations of other governments. LAFCO applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Unrestricted net position reflects amounts that are not subject to any donor-imposed restrictions. This class also includes restricted contributions whose donor-imposed restrictions were met during the fiscal year. A deficit unrestricted net position may result when significant cash balances restricted for capital projects exist. Once the projects are completed, the restriction on these assets are released and converted to capital assets.

R. Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Agency's California Public Employees' Retirement System (CalPERS) plan (the Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Plan member contributions are recognized in the period in which the contributions are due. Investments are reported at fair value.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* (GASB Statement No. 68) requires that the reported results pertain to liability and asset information within certain defined timeframes. Liabilities are based on the results of actuarial calculations performed as of June 30, 2018. For this report, the following timeframes are used for LAFCO's pension plans:

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

S. Other Postemployment Benefits Other Than Pensions (OPEB)

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

T. Implemented Accounting and Reporting Changes

GASB issued Statement No. 87, *Leases*

The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational 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, thereby enhancing the relevance and consistency of information about governments' leasing activities.

As of June 30, 2022, LAFCO recognized one contract as a lease and implemented the applicable accounting and reporting requirements of a lessee under GASB 87. As a result, LAFCO recorded a right to use asset of $259,897 for the lease of office space over five years. The calculated annual lease payment was $56,040. See Note 4 for additional information.

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*

The statement (1) requires that a Section 457 plan be classified as either a pension plan or another employee benefit plan depending on whether the plan meets the definition of a pension plan and (2) clarifies that Statement 84, as amended, should be applied to all arrangements organized under IRC Section 457 to determine whether those arrangements should be reported as fiduciary activities.

Management does not believe this statement will have a significant impact on LAFCO's financial statements.

The requirements of this Statement are effective as follows:

- The requirements in (1) paragraph 4 of this Statement as it applies to defined contribution pension plans, defined contribution OPEB plans and other employee benefit plans and (2) paragraph 5 of this Statement are effective immediately
- The requirements in paragraphs 6–9 of this Statement are effective for fiscal years beginning after June 15, 2021
- All other requirements of this Statement are effective for reporting periods beginning after June 15, 2021

LAFCO did not report any significant accounting changes from the implementation of this Statement during the year ended June 30, 2022.

U. Upcoming Accounting and Reporting Changes

GASB Statement No. 91, *Conduit Debt Obligations*

The objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement also clarifies the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitment and voluntary commitments extended by issuers and arrangements associated with the debt obligations; and improving required note disclosures. The requirements of this Statement were initially to be effective for financial statements for periods beginning after December 15, 2020 but have been delayed to periods beginning after December 15, 2021, pursuant to GASB Statement No. 95. Earlier application is encouraged. Management does not believe this statement will have a significant impact on LAFCO's financial statements.

GASB Statement No. 94, *Public-Private Partnerships and Public-Public Partnerships and Availability Payment Arrangements*

The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The requirements of this Statement are to be effective for financial statements for periods beginning after June 15, 2022. Earlier application is encouraged. Management does not believe this statement will have a significant impact on LAFCO's financial statements.

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*

GASB 96 provides guidance on accounting for Subscription-Based Information Technology Arrangements (SBITA) where the government contracts for the right to use another party's software. The standards for SBITAs are based on the standards established in GASB Statement No. 87, *Leases. GASB 96 is effective for fiscal years beginning after June 15, 2022.* Management does not believe this statement will have a significant impact on LAFCO's financial statements.

GASB Statement No. 99, *Omnibus 2022*

Omnibus statements are issued by GASB to address practice issues identified after other standards have been approved for implementation. Omnibus statements "clear up the loose ends" for recent prior statements GASB has issued. This Omnibus addresses recent pronouncements, including GASB 87 – Leases, GASB 94 – *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, and GASB 96 – *Subscription-Based Information Technology Arrangements*.

Effective Date: The requirements of this Statement are effective as follows:

- The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance
- The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.
- The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

Earlier application is encouraged and is permitted by topic. Management does not believe this statement will have a significant impact on LAFCO's financial statements.

GASB Statement No. 100, *Accounting Changes and Error Corrections—an amendment of GASB Statement No. 62*

This Statement defines *accounting changes* as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. This Statement also prescribes the accounting and financial reporting for (1) each type of accounting change and (2) error corrections in previously issued financial statements.

The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged. Management does not believe this statement will have a significant impact on LAFCO's financial statements.

GASB Statement No. 101, *Compensated Absences*

This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Leave is attributable to services already rendered when an employee has performed the services required to earn the leave. Leave that accumulates is carried forward from the reporting period in which it is earned to a future reporting period during which it may be used for time off or otherwise paid or settled. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. However, leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences.

This Statement requires that a liability for certain types of compensated absences—including parental leave, military leave, and jury duty leave—not be recognized until the leave commences. This Statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used. This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities. With respect to financial statements prepared using the current financial resources measurement focus, this Statement requires that expenditures be recognized for the amount that normally would be liquidated with expendable available financial resources. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Management is in the process of evaluating the impact this standard will have on LAFCO's financial statements.

NOTE 2 - CASH AND INVESTMENTS

Summary of Cash and Investments

LAFCO maintained cash with the Santa Clara County Treasurer's commingled pool totaling $718,297 as of June 30, 2022.

Fair Value Measurements

GASB 72 established a hierarchy of inputs to the valuation techniques above. This hierarchy has three levels:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities.
- Level 2 inputs are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable
- Level 3 inputs are unobservable inputs, such as a property valuation or an appraisal.

Investments in the County Treasury Investment Pool are not measured using the input levels above because LAFCO's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at $1.00 net asset value per share.

Cash in Santa Clara County Treasury

The fair value of LAFCO's investment in the county pool is reported at amounts based on LAFCO's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of the portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis. Santa Clara County investment pool funds were available for withdrawal on demand and had an average weighted maturity of 738 days. All cash and investments are stated at fair value. Pooled investment earnings are allocated monthly based on the average cash and investment balances of the various funds of the County.

Risk Disclosures

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are described below:

a) Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to the changes in market interest rates. LAFCO manages its exposure to interest rate risk by investing in the Santa Clara County investment pool, which had a fair value of approximately $8.6 billion as of June 30, 2022.

b) Credit Risk

Credit risk is the risk of loss due to the failure of the security issuer. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investment with the County's investment pool is governed by the County's general investment policy. The County's investments included U.S. government securities, medium-term corporate notes, commercial paper, certificates of deposit or obligations explicitly guaranteed by the U.S. government that are not considered to have credit risk exposure. The County's two other investment types, LAIF and money market mutual funds, are not rated. The money pooled with the County of Santa Clara Investment Pool is not subject to a credit rating.

c) Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, LAFCO's deposits may not be returned to it. LAFCO does not have a policy for custodial credit risk for deposits. However, the California Government code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as the money invested by LAFCO in the County of Santa Clara Investment Pool).

d) Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an investor's holdings in a single issuer. LAFCO's investment in the County's commingled pool is diversified by the County Treasurer by limiting the percentage of the portfolio that can be invested in any one issuer's name. Investments in U.S. Treasuries, U.S. Agency securities explicitly backed by the U.S., and mutual and pooled funds are not subject to this limitation. More than 5% of the County's commingled pooled investments are invested with the Federal National Mortgage Association, Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, and Federal Farm Credit Bank.

NOTE 3 - NONCURRENT LIABILITIES

The following summarized LAFCO's noncurrent liabilities as of June 30, 2022:

Description	Balance July 01, 2021	Additions	Adjustments & Deletions	Balance June 30, 2022	Due Within One Year
Net Pension Liability	$ 958,839	$ 137,341	$ 460,317	$ 635,863	-
Net OPEB Liability	214,153	114,063	185,227	142,989	-
Office Lease	-	259,897	9,340	250,557	56,040
Compensated Absences	171,106	71,878	71,968	171,016	-
Total Noncurrent Liabilities	$ 1,344,098	$ 583,179	$ 726,852	$ 1,200,425	$ 56,040

NOTE 4 - LEASES AND RIGHT OF USE ASSETS

LAFCO has a five-year lease agreement for building space at 777 North First Street, San Jose, California, that commenced on May 1, 2022. The base rent ranges from $3,674 to $4,963 which includes a 3% increase on the first of April every year. The net present value of the lease liability, at a rate of 3% over the five years, was $259,897 as of June 30, 2022. The calculated annual principal and interest payments totaled $56,040. The calculated principal and interest for the fiscal year was $8,051 and $1,289, respectively. The District recorded an associated right of use asset of $259,897. After netting the accumulated amortization of $8,663, the net book value of the office space lease right of use asset was $251,234. The following summarizes the principal and interest requirements to maturity:

Year Ending June 30	Principal Payments	Interest Payments	Total
2023	$ 49,157	$ 6,883	$ 56,040
2024	50,652	5,388	56,040
2025	52,193	3,847	56,040
2026	53,780	2,260	56,040
2027	46,064	636	46,700
	$ 251,846	$ 19,014	$ 270,860

Total rent expense for the year ended June 30, 2022 was $47,903.

NOTE 5 - DEFINED BENEFIT PENSION PLAN

Plan Description

All qualified permanent and probationary employees are eligible to participate in LAFCO's Miscellaneous Employee Pension Plan (the Plan), an agent multiple employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plan are established by State statute and Authority resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website at www.calpers.ca.gov.

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 equal to the product of a benefit multiplier, the employee's retirement age and final compensation. The cost of living adjustments for the CalPERS plans are applied as specified by the Public Employees' Retirement Law. The California Public Employees' Pension Reform Act (PEPRA), which took effect in January 2013, changes the way CalPERS retirement and health benefits are applied, and places compensation limits on members. As such members who established CalPERS membership on or after January 1, 2013 are known as "PEPRA" members.

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

	Miscellaneous	
	Classic	PEPRA
Benefit formula	2% @ 55 2.5% @ 55	2% @ 62
Benefit vesting schedule	5 Years	5 Years
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	55-60	62
Monthly benefits as a % of eligible compensation	2.0% to 2.5%	2%
Required employee contribution rates	7.44%	6.75%
Required employer contribution rates	9.74%	9.74%

Employees Covered

As of June 30, 2022, there were four active employees covered by the plan.

Contributions

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 the July 1 following notice of a change in the rate. Funding contributions for the Public Employees Retirement Fund (PERF) is determined annually on an actuarial basis as of June 30 by CalPERS. 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.

For the year ended June 30, 2022, the contributions were as follows:

Contributions - employer	$	81,926
Contributions - employee		19,206
Total	$	101,132

Pension Liabilities

As of June 30, 2022, LAFCO reported a net pension liability of $635,863. LAFCO's net pension liability for the Plan is measured at a .020% proportionate share of the County of Santa Clara's miscellaneous pension plan's net pension liability, based on contributions made during the fiscal year. The net pension liability of the Plan is measured as of June 30, 2021, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2020 rolled forward to June 30, 2021 using standard update procedures. LAFCO's proportion of the net pension liability was based on a projection of LAFCO's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. LAFCO's net pension liability for its agent multiple employer plan is measured as the total pension liability less the fiduciary net position for each plan. The change in the net pension liability for the plan is as follows:

	Total Pension Liability	Plan Fiduciary Net Position	Net pension liability
Balance at June 30, 2019	$ 3,293,649	$ 2,334,810	$ 958,839
Service cost	70,813	-	70,813
Interest	204,051	-	204,051
Differences between expected and actual experience	(1,869)	-	(1,869)
Benefit payments	(135,654)	-	(135,654)
Employer contributions	-	104,817	(104,817)
Employee contributions	-	33,537	(33,537)
Net investment income	-	459,658	(459,658)
Benefit payments	-	(135,654)	135,654
Administrative expense	-	(2,041)	2,041
Net change	137,341	460,317	(322,976)
Balance at June 30, 2020	$ 3,430,990	$ 2,795,127	$ 635,863

Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

For the year ended June 30, 2022, LAFCO recognized pension expense of $6,124. As of June 30, 2022, 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
Changes of Assumptions	$ -	$ 1,407
Differences between Expected and Actual Experience	21,333	1,231
Differences between Projected and Actual Investment Earnings	-	191,214
Pension Contributions Made Subsequent to Measurement Date	81,926	-
	$ 103,259	$ 193,852

LAFCO reported $81,926 as deferred outflows of resources related to contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ending June 30, 2023. 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 Ending June 30	Miscellaneous
2021	$ (38,005)
2022	(37,738)
2023	(43,755)
2024	(53,021)
	$ (172,519)

Actuarial Assumptions

The total pension liabilities in the June 30, 2020 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2020
Measurement Date	June 30, 2021
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.150%
Inflation	2.500%
Payroll Growth	2.750%
Projected Salary Increase	(1)
Investment Rate of Return	7.00% (2)
Mortality	(3)

(1) Varies by entry age and service
(2) Net of pension plan investment expenses, including inflation
(3) Derived using CalPERS' membership data for all funds

Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.15 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.15 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section.

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation.

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

(a) An expected inflation of 2% used for this period.
(b) An expected inflation of 2.92% used for this period.

Sensitivity of the Net Pension Liability to Changes in the Discount

The following presents LAFCO's net pension liability, calculated using the discount rate, 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 or 1-percentage point higher than the current rate:

	Miscellaneous
1% Decrease	6.15%
Net Pension Liability	$ 777,475
1% Decrease	7.15%
Net Pension Liability	$ 635,863
1% Increase	8.15%
Net Pension Liability	$ 159,890

Pension Plan Fiduciary Net Position

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

NOTE 6 - OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description

LAFCO participates in a Santa Clara County (the County) maintained cost-sharing multiple-employer defined benefit postemployment healthcare plan (the OPEB plan). The County's OPEB Plan provides healthcare benefits to eligible County, or LAFCO, employees and their dependents.

The County participates in the California Employers' Retiree Benefit Trust Fund Program (CERBT), an agent multiple-employer postemployment health plan, to fund other postemployment benefits through CalPERS. The CERBT plan's audited financial statements are available at https://www.calpers.ca.gov/docs/forms-publications/gasb-75-schedule-changes-fiduciary-net-position-2020.pdf.

Benefits Provided

All County Employees hired prior to August 12, 1996 are eligible for health benefits upon attaining age 50 with 5 years of service. Employees hired on or after August 12, 1996 and before June 19, 2006 are eligible for health benefits upon attaining age 50 with 8 years of service. Employees hired on or after June 19, 2006 are eligible for health benefits upon attaining age 50 with 10 years of service. All Miscellaneous and Safety employees and Judges have the opportunity, upon attaining plan eligibility, of participating in the plan in retirement.

The County has established a 15-year (up from 10-year) retiree health benefit service requirement that applies to most employees hired on or after September 30, 2013.

Retirees retired prior to December 5, 1983 have their full premium cost subsidized by the County. In addition, the County subsidizes the Part B premium cost for the retirees in Medicare status who are not receiving Health-in-Lieu benefits.

For most of the retirees retired after December 4, 1983, the County contribution is limited to the cost of Kaiser under age 65 retiree only rate (different for Medicare and non-Medicare) over the plan year in question. Retirees pay the difference between the County contribution and the premium rate required by their enrolled plan.

Post-1983 retirees do not receive full Medicare Part B premium reimbursement, but only up to maximum monthly subsidies when combined with the medical premium.. The County does not cover premium cost associated with dependents.

Employees Covered by Benefit Terms

As of June 30, 2022, the benefit terms covered 4 active employees:

Contributions

LAFCO makes contributions based on an actuarially determined rate and are approved by the authority of LAFCO's Commission through the annual budget adoption. Total contributions during the year were $19,206. Total contributions included in the measurement period were $22,766. The actuarially determined contribution was $23,723. LAFCO's contributions were 5.19% of covered employee payroll during the year.

Actuarial Assumptions

The following summarized the actuarial assumptions for the OPEB plan included in this fiscal year:

Valuation Date:	June 30, 2020
Measurement Date:	June 30, 2021
Actuarial Cost Method:	Entry-Age Actuarial Cost Method
Amortization Method:	30-Year Closed Amortization, Level Percent of Payroll
Amortization Period:	30 years
Asset Valuation Method:	Market Value
Actuarial Assumptions:	
Discount Rate	7.00%
Inflation	2.50%
Wage Inflation	2.75%
Salary Increases	Miscellaneous: 9.75% to 3.25%, vary by service, including wage inflation. Safety: 15.95% to 4.25%, vary by service, including wage inflation.
Investment Rate of Return	7%, Net of investment expenses
Medical Cost Trend Rates:	
Non-Medicare medical plan	6.75% graded down to an ultimate of 4.50% over 10 years
Medicare medical plan	6.25% graded down to an ultimate of 4.50% over 8 years
Medicare Part B	4.5%

Discount Rate

The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially determined contribution rates. For this purpose, only employee and employer contributions that are intended to fund benefits for current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the Plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the Total OPEB Liability (TOL) as of June 30, 2021, the measurement date, for the fiscal year ended June 30, 2022.

Long-Term Expected Rate of Return

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Percentage of Portfolio	Long-Term Expected Rate of Return
International Equity	59.00%	7.790%
Fixed Income	25.00%	0.890%
Real Estate	8.00%	4.140%
Treasury Inflation Protected Securities (TIPS)	5.00%	0.890%
All Commodities	3.00%	4.090%
Total	100.00%	

Net OPEB Liability

LAFCO's net OPEB liability was measured as of June 30, 2021 (measurement date), and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2020 (valuation date) for the fiscal year ended June 30, 2022. The following summarizes the changes in the net OPEB liability during the year ended June 30, 2022, for the measurement date of June 30, 2021:

Fiscal Year Ended June 30, 2022 (Measurement Date June 30, 2021)	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability (Asset)
Balance at June 30,2021	$ 456,527	$ 242,374	$ 214,153
Service cost	11,037	-	11,037
Interest in Total OPEB Liability	26,639	-	26,639
Employer contributions	-	18,824	(18,824)
Employee contributions	-	1,505	(1,505)
Difference between actual and exp experience	4,409	-	4,409
Proportionate share changes	(79,049)	(41,968)	(37,081)
Changes in assumptions	4,479	-	4,479
Difference between actual and exp earnings	-	56,099	(56,099)
Administrative expenses	-	(655)	655
Benefit payments	(15,912)	(15,912)	-
Implicit subsidy fullfilled	-	4,874	(4,874)
Net changes	(48,398)	22,766	(71,163)
Balance at June 30, 2022	$ 408,130	$ 265,140	$ 142,989

Covered Employee Payroll	$ 369,855
Total OPEB Liability as a % of Covered Employee Payroll	110.35%
Plan Fid. Net Position as a % of Total OPEB Liability	64.96%
Service Cost as a % of Covered Employee Payroll	2.98%
Net OPEB Liability as a % of Covered Employee Payroll	38.66%

Deferred Inflows and Outflows of Resources

At June 30, 2022, LAFCO reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between actual and expected experience	$ -	$ 86,253
Difference between actual and expected earnings	-	39,723
Change in assumptions	-	4,330
OPEB contribution subsequent to measurement date	19,206	-
Totals	$ 19,206	$ 130,306

Of the total amount reported as deferred outflows of resources related to OPEB, $19,206 resulting from LAFCO contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the net OPEB liability in the year ended June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30,	
2023	$ (31,929)
2024	(27,742)
2025	(24,381)
2026	(26,010)
2027	(11,982)
Thereafter	(8,262)
Total	$ (130,306)

OPEB Expense

The following summarizes the OPEB expense by source during the year ended June 30, 2022:

Service cost	$ 11,037
Interest in TOL	26,639
Other	(4,874)
Employee contributions	(1,505)
Difference between actual and expected experience	(20,867)
Difference between actual and expected earnings	(10,608)
Change in assumptions	(1,499)
Administrative expenses	655
OPEB Expense	**$ (1,022)**

The following summarizes changes in the net OPEB liability as reconciled to OPEB expense during the year ended June 30, 2022:

Net OPEB liability ending	$	142,989
Net OPEB liability begining		(214,153)
Change in net OPEB liability		(71,164)
Changes in deferred outflows		9,329
Changes in deferred inflows		45,549
Employer specific changes in proportionate share		(8,434)
Employer contributions and implict subsidy		23,698
OPEB Expense	**$**	**(1,022)**

Sensitivity to Changes in the Discount Rate

The net OPEB liability of LAFCO, as well as what LAFCO'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, is as follows:

	Discount Rate		
	(1% Decrease)	**7%**	**(1% Increase)**
Net OPEB Liability (Asset)	$ 201,009	$ 142,989	$ 95,374

Sensitivity to Changes in the Healthcare Cost Trend Rates

The net OPEB liability of LAFCO, as well as what LAFCO's net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than current healthcare cost trend rates, is as follows

	Trend Rate		
	(1% Decrease)	**(Current Rate)**	**(1% Increase)**
Net OPEB Liability (Asset)	$ 90,911	$ 142,989	$ 207,691

NOTE 7 - COMMITMENTS AND CONTINGENCIES

Litigation

LAFCO may be exposed to various claims and litigation during the normal course of business. However, management believes there were no matters that would have a material adverse effect on LAFCO's financial position or results of operations as of June 30, 2022.

NOTE 8 - 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 a member of the Special District Risk Management Authority (SDRMA). During the fiscal year ended June 30, 2022, LAFCO had the following coverages subject to the terms, conditions and exclusions as provided in the Memorandum of Coverage from SDRMA:

		Limits
Property		
Property	$	1,000,000,000
Boiler and Machinery	$	100,000,000
Pollution	$	2,000,000
Cyber		Limits on File
General Liability		
Bodily Injury	$	2,500,000
Property Damage	$	2,500,000
Public Officials Personal	$	500,000
Employment Benefits	$	2,500,000
Employee/Public Officials E&O	$	2,500,000
Employment Practices Liability	$	2,500,000
Employee/Public Officials Dishonesty	$	1,000,000
Auto Liability		
Auto Bodily Injury	$	2,500,000
Auto Property Damage	$	2,500,000
Uninsured Motorist		Limits on File
Workers' Compensation		
Employers Liability	$	5,000,000
Workers' Compensation		Statutory

Workers’ compensation coverage as noted above is for Commissioners while employees are covered by Santa Clara County. There have not been any claims in any of the last three fiscal years and there were no reductions in LAFCO's insurance coverage during the current year. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage.

NOTE 9 - SUBSEQUENT EVENTS

Management has evaluated all subsequent events from the statement of financial position date of June 30, 2022, through the date the financial statements were available to be issued, October 15, 2022. Beginning in March 2020, the United States economy began suffering adverse effects from the COVID 19 Virus Crisis ("CV19 Crisis"). As of the date of issuance of the financial statements, LAFCO had not suffered a material adverse impact from the CV19 Crisis. However, the future impact of the CV19 Crisis cannot be reasonably estimated.

REQUIRED SUPPLEMENTARY INFORMATION

Local Agency Formation Commission of Santa Clara County
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget to Actual (GAAP)
General Fund
For the Fiscal Year Ended June 30, 2022

	Budgeted Amounts			Variance with
	Original	Final	Actual (GAAP Basis)	Final Budget Positive - (Negative)
Revenues:				
Intergovernmental	$ 886,329	$ 886,329	$ 901,364	$ 15,035
Charges for services	30,000	30,000	26,811	(3,189)
Investment income	6,000	6,000	7,832	1,832
Total revenues	922,329	922,329	936,007	13,678
Expenditures:				
Current:				
Employee services	844,239	844,239	639,100	205,139
Professional services	307,117	307,117	169,669	137,448
Commission fees	10,000	10,000	4,200	5,800
Facilities	47,784	47,784	47,903	(119)
Insurance	8,500	8,500	8,590	(90)
Supplies	15,500	15,500	2,838	12,662
Memberships	12,500	12,500	12,316	184
Travel	12,350	12,350	-	12,350
Miscellaneous	3,000	3,000	3,715	(715)
Capital outlay, office space lease	-	-	259,897	(259,897)
Total expenditures	1,260,990	1,260,990	1,148,228	112,762
Excess (deficiency) of revenues over (under) expenditures	(338,661)	(338,661)	(212,221)	126,440
Other financing sources (uses):				
Office space lease	-	-	259,897	259,897
Total other financing sources (uses)	-	-	259,897	259,897
Net change in fund balance	(338,661)	(338,661)	47,676	386,337
Fund balance beginning	562,351	562,351	562,351	-
Fund balance ending	$ 223,690	$ 223,690	$ 610,027	$ 386,337

LAFCO employs budget control by object codes and by individual appropriation accounts. Budgets are prepared on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. Expenditures cannot legally exceed appropriations by major object code. The originally adopted and final revised budgets for the General Fund are presented as Required Supplementary Information. The basis of budgeting is the same as GAAP.

Local Agency Formation Commission of Santa Clara County

Schedule of Contributions for Pension Plans
For the Fiscal Year Ended June 30, 2022

Fiscal Year Ended	2015	2016	2017	2018	2019	2020	2021	2022
Actuarially Determined Cont. (ADC)	$ 50,865	$ 56,192	$ 64,817	$ 72,514	$ 77,923	$ 84,621	$ 90,788	$ 88,226
Contributions in Relation to ADC	50,865	56,192	64,817	72,514	77,923	84,621	90,788	81,926
Contribution Deficiency (Excess)	-	-	-	-	-	-	-	6,300
Covered Payroll	**$ 322,075**	**$ 335,288**	**$ 356,470**	**$ 381,587**	**$ 421,278**	**$ 390,298**	**$ 414,272**	**$ 364,104**
Cont. as % of Covered Payroll	**15.79%**	**16.76%**	**18.18%**	**19.00%**	**18.50%**	**21.68%**	**21.92%**	**22.50%**

Notes to Schedule:

Valuation Date: June 30, 2021

Assumptions Used: Entry Age Normal

Inflation Assumed at 2.625%.

Investment Rate of Returns set at 7.25%.

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.

Asset valuation methis is Market Value of Assets.

Payroll growth 2.75%.

The probabilities of Retirement are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015.

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

The CalPERS discount rate was increased from 7.5% to 7.65% in fiscal year 2016 and then decreased from 7.65% to 7.15% in fiscal year 2018.

The CalPERS mortality assumptions were adjusted in fiscal year 2020.

Local Agency Formation Commission of Santa Clara County

Schedule of Changes in Net Pension Liability

For the Fiscal Year Ended June 30, 2022

Fiscal Year	2015	2016	2017	2018	2019	2020	2021	2022
Total pension liability								
Service cost	$ 54,769	$ 54,109	$ 56,283	$ 66,427	$ 72,114	$ 66,827	$ 68,852	$ 70,813
Interest	162,515	171,403	180,987	189,609	206,148	198,109	194,627	204,051
Changes of assumptions	-	(42,028)	-	158,690	(28,601)	-	-	-
Diff. expected and actual experience	-	(3,558)	3,559	(2,638)	19,945	39,404	22,186	(1,869)
Benefit payments	(94,224)	(101,138)	(108,619)	(116,090)	(130,376)	(126,340)	(125,902)	(135,654)
Net change in Total Pension Liability	123,060	78,787	132,210	295,998	139,230	178,000	159,763	137,341
Total pension liability - beginning	2,186,600	2,309,660	2,388,448	2,520,658	2,816,656	2,955,886	3,133,886	3,293,649
Total pension liability - ending	$ 2,309,660	$ 2,388,448	$ 2,520,658	$ 2,816,656	$ 2,955,886	$ 3,133,886	$ 3,293,649	$ 3,430,990
Plan fiduciary net position								
Employer contributions	$ 50,865	$ 56,192	$ 64,817	$ 72,514	$ 77,923	$ 84,621	$ 90,788	$ 104,817
Employee contributions	27,292	26,336	28,002	29,734	31,795	31,754	32,010	33,537
Net investment income	266,077	39,872	9,509	199,967	174,067	130,885	97,705	459,658
Benefit payments	(94,224)	(101,138)	(108,619)	(116,090)	(130,376)	(126,340)	(125,902)	(135,654)
Net plan to resource movement	-	(156)	47	(28)	3	(8)	33	-
Administrative expense	-	(2,032)	(1,099)	(2,651)	(3,199)	(1,414)	(2,750)	(2,041)
Other	-	-	-	-	(6,074)	5	-	-
Net change in plan fiduciary net position	250,011	19,074	(7,342)	183,446	144,139	119,503	91,884	460,317
Plan fiduciary net position - beginning	1,534,095	1,784,106	1,803,180	1,795,838	1,979,284	2,123,423	2,242,926	2,334,810
Plan fiduciary net position - ending	$ 1,784,106	$ 1,803,180	$ 1,795,838	$ 1,979,284	$ 2,123,423	$ 2,242,926	$ 2,334,810	$ 2,795,127
Net pension liability	$ 525,555	$ 585,268	$ 724,820	$ 837,372	$ 832,463	$ 890,960	$ 958,839	$ 635,863
Plan fiduciary net position as % of the total pension liability	77.25%	75.50%	71.24%	70.27%	71.84%	71.57%	70.89%	81.47%
Covered payroll	312,413	322,075	335,288	356,470	381,587	421,278	390,298	414,272
NPL as a % of covered payroll	168.22%	181.72%	216.18%	234.91%	218.16%	211.49%	245.67%	153.49%
TPL as a % of covered payroll	739.30%	741.58%	751.79%	790.15%	774.63%	743.90%	843.88%	828.20%

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

The CalPERS discount rate was increased from 7.5% to 7.65% in fiscal year 2016 and then decreased from 7.65% to 7.15% in fiscal year 2018.

The CalPERS mortality assumptions were adjusted in fiscal year 2020.

Local Agency Formation Commission of Santa Clara County

Schedule of Contributions for OPEB Plans
For the Fiscal Year Ended June 30, 2022

Fiscal Year Ended	**2018**	**2019**	**2020**	**2021**	**2022**
Actuarially determined contribution (ADC)	$ 29,697	$ 29,697	$ 30,704	$ 27,601	$ 23,723
Less: actual contribution in relation to ADC	(34,427)	(24,639)	(25,852)	(22,766)	(19,206)
Contribution deficiency (excess)	$ (4,730)	$ 5,058	$ 4,852	$ 4,835	$ 4,517
Covered employee payroll	$ 349,612	$ 397,559	$ 402,829	$ 399,011	$ 369,855
Contrib. as a % of covered employee payroll	9.85%	6.20%	6.42%	5.71%	5.19%

Notes to Schedule:

Assumptions and Methods

Valuation Date:	June 30, 2020
Measurement Date:	June 30, 2021
Actuarial Cost Method:	Entry-Age Actuarial Cost Method
Amortization Method:	30-Year Closed Amortization, Level Percent of
Amortization Period:	30 years
Asset Valuation Method:	Market Value
Actuarial Assumptions:	
Discount Rate	7.00%
Inflation	2.50%
Wage Inflation	2.75%
Salary Increases	Miscellaneous: 9.75% to 3.25%, vary by service, including wage inflation. Safety: 15.95% to 4.25%, vary by service, including wage inflation.
Investment Rate of Return	7%, Net of investment expenses
Medical Cost Trend Rates:	
Non-Medicare medical plan	6.75% graded down to an ultimate of 4.50% over
Medicare medical plan	6.25% graded down to an ultimate of 4.50% over 8
Medicare Part B	4.5%

Other Notes

GASB 75 requires a schedule of contributions for the last ten fiscal years, or for as many years as are available if less than ten years are available. GASB 75 was adopted as of June 30, 2018.

There were no changes in benefit terms.

There were no changes in discount rates, inflation, or wage inflation.

Local Agency Formation Commission of Santa Clara County

Schedule of Changes in Net OPEB Liability

For the Fiscal Year Ended June 30, 2022

Fiscal Year Ended	2018	2019	2020	2021	2022
Total OPEB liability					
Service cost	$ 14,472	$ 13,122	$ 14,930	$ 14,091	$ 11,037
Interest	34,597	20,649	35,501	32,617	26,639
Differences between expected and actual experience	(40,235)	(3,650)	(30,126)	(19,223)	4,409
Changes of assumptions	(9,061)	3,835	4,159	(13,776)	4,479
Benefit payments	(16,867)	(8,877)	(19,358)	(18,090)	(15,912)
Proportionate share changes	-	21,414	(2,209)	(46,108)	(79,049)
Other	-	(13,486)	-	-	-
Net change in Total OPEB Liability	(17,095)	33,007	2,897	(50,489)	(48,397)
Total OPEB Liability - beginning	488,207	471,112	504,119	507,016	456,527
Total OPEB Liability - ending	$ 471,112	$ 504,119	$ 507,016	$ 456,527	$ 408,130
Plan fiduciary net position					
Employer contributions	$ 28,891	$ 44,336	$ 23,466	$ 23,598	$ 18,824
Proportionate share changes	-	8,578	(9,847)	(22,638)	-
Employee contributions	1,325	-	1,453	1,520	1,505
Net investment income	16,679	1,156	14,662	8,058	56,099
Difference between estimated and actual earnings	-	-	-	-	(41,968)
Benefit payments	(16,867)	(8,877)	(19,358)	(18,090)	(15,912)
Implicit subsidy fullfilled	-	-	5,503	1,538	4,874
Other	-	(126)	(733)	-	-
Administrative expense	(563)	-	-	(546)	(655)
Adjustments	3,999	-	-	-	-
Net change in plan fiduciary net position	33,464	45,067	15,146	(6,559)	22,767
Plan fiduciary net position - beginning	155,257	188,721	233,788	248,934	242,374
Plan fiduciary net position - ending	$ 188,721	$ 233,788	$ 248,934	$ 242,374	$ 265,141
Net OPEB liability (asset)	$ 282,391	$ 270,331	258,082	214,153	142,989
Plan fiduciary net position as a percentage of the total OPEB liability	40.06%	46.38%	49.10%	53.09%	64.96%
Covered Employee Payroll	$ 339,998	$ 349,612	$ 397,559	$ 402,829	$ 399,011
Net OPEB liab. as a % of cov. Emp. payroll	83.06%	77.32%	64.92%	53.16%	35.84%
Total OPEB liab. as a % of cov. Emp. payroll	138.56%	144.19%	127.53%	113.33%	102.29%

Other Notes

GASB 75 requires a schedule of contributions for the last ten fiscal years, or for as many years as are available if less than ten years are available. GASB 75 was adopted as of June 30, 2018.

There were no changes in benefit terms.

There were no changes in discount rates, inflation, or wage inflation.

OTHER INDEPENDENT AUDITOR'S REPORTS

Chavan and Associates, llp
Certified Public Accountants

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

To the Commissioners
Local Agency Formation Commission of Santa Clara County
San Jose, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of LAFCO as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise LAFCO's basic financial statements, and have issued our report thereon dated October 15, 2022.

Report on Internal Control over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting 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 LAFCO's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant a20greements, 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

15105 Concord Circle, Ste. 130, Morgan Hill, CA 95037
Tel: 408-217-8749 • E-Fax: 408-872-4159
info@cnallp.com • www.cnallp.com

Chavan and Associates, llp
Certified Public Accountants

express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

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

C & A LLP

October 15, 2022
Morgan Hill, California

15105 Concord Circle, Ste. 130, Morgan Hill, CA 95037
Tel: 408-217-8749 • E-Fax: 408-872-4159
info@cnallp.com • www.cnallp.com