Solano Local Agency Formation Commission
675 Texas St. Ste. 6700 • Fairfield, California 94533
(707) 439-3897 • FAX: (707) 438-1788

Staff Report

DATE: June 12, 2023

TO: Local Agency Formation Commission

FROM: Christina Love, Deputy Executive Officer

SUBJECT: **LAFCO Project No. 2022-09 Independent Auditor's Final Report for Fiscal Years 2022 and 2021**

Recommendation:

RECEIVE, ADOPT, and DIRECT staff to file the FY 2022 and 2021 Independent Auditor's Final Report.

REVIEW and ADOPT attached LAFCO Resolution for new Lease Capitalization Policy in compliance with GASB 87, as part of the Audit's recommendations.

Executive Summary:

The Independent Auditor's report shows that Solano LAFCO's financial reporting is in compliance with State and Federal laws for independent agencies. However, one observation made was the Solano LAFCO did not have a Lease Capitalization Policy, as required by the Governmental Accounting Standards Board (GASB) statement number 87 – generally referred to as GASB 87. GASB 87 requires the recognition of all leases over 12 months to be recorded as liabilities and right-of-use assets. The proposed new Lease Capitalization Policy language is recommended by the Independent Auditor and meets GASB 87.

Discussion:

Audit Report

The Commission's outside audit firm, James Marta & Company, LLP (Auditor), has completed the LAFCO biennial audit for fiscal years FY 2022 and FY 2021. The purpose of the biennial audit is for an independent third-party to review and assess the Commission's financial records to determine their compliance with generally accepted governmental accounting standards and adopted state laws. The outside audit provides an opportunity for a third-party to identify reporting errors and omissions as well as to make suggestions for improvements.

The Auditor's *Final Financial Statements with Independent Auditor's Report* (Report) is Attachment A. On page 1 of the report is a clear statement that James, Marta & Company, LLP, found that the accompanying financial statements present fairly, in all material respects, the financial position of the governmental activities, the general fund and the aggregate remaining fund information of the Commission as of June 30, 2022 and 2021, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

On pages 7-13 of the Report is the Management Discussion and Analysis (MD&A), as written by Solano LAFCO staff and reviewed by the Auditor for its accuracy. Included in the MD&A are the following Financial Highlights:

- The Commission finished June 30, 2022, ended with a net position of $816,030; a change of $350,003 from the prior year. June 30, 2021, ended with a net position of $466,027; a change of $122,400 from the prior year. The net position[1] includes all pension and post-employment liabilities. (see Section IV of the MD&A)

- The Commission finished June 30, 2022, with a fund balance of $776,174; and June 30, 2021, with $545,110. The entire fund balance[2] is unassigned and includes the Commission's contingency designated reserve of 20% of annual budgeted expenditures in any given year. (see Section V of the MD&A)

Given the above discussion and that found in the MD&A in the Report, staff recommends that the Commission receive, adopt, and direct staff to file the FY 2022 and 2021 financial audit.

<u>New Policy</u>

The Governmental Account Standards Board is the independent, private-sector organization based in Norwalk, Connecticut, that establishes accounting and financial reporting standards for U.S. state and local governments that follow Generally Accepted Accounting Principles (GAAP).

The GASB standards are recognized as authoritative by state and local governments, state Boards of Accountancy, and the American Institute of CPAs (AICPA). The GASB develops and issues accounting standards through a transparent and inclusive process intended to promote financial reporting that provides useful information to taxpayers, public officials, investors, and others who use financial reports.

Their mission is to establish and improve financial accounting and reporting standards to provide useful information to investors and other users of financial reports and educate stakeholders on how to most effectively understand and implement those standards.

Statement Number 87 was initiated in May 2019 with an effective/implementation date of July 2021. However, during the COVID pandemic, enforcement was lenient. Therefore, staff and the independent auditor recommend adopting the policy now.

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1 Net position is the difference between all of the Commission's assets, deferred outflows, liabilities, and deferred inflows. The Commission has no capital assets and no restricted net position.
2 The Commission's fund balance includes unassigned fund balance (the residual classification for the general fund and includes the contingency reserve fund of not less than 20% of annual budgeted expenditures in any given year intended for extraordinary, unbudgeted, and high-priority expenditures).

Attachments:

Action Item – Resolution of the Solano Local Agency Formation Commission adopting the Solano LAFCO GASB 87 Lease Capitalization Policy
Exhibit A – Draft Policy

Attachment A – Financial Statements with Independent Auditor’s Report for the Fiscal Years ended June 30, 2022 and 2021

LAFCO RESOLUTION NO. 2023-

RESOLUTION OF THE SOLANO LOCAL AGENCY FORMATION COMMISSION ADOPTING THE SOLANO LAFCO GASB 87 LEASE CAPITALIZATION POLICY

WHEREAS, Solano LAFCO hired James Marta & Company to conduct an independent audit for Fiscal Years 2022 and 2021; and;

WHEREAS, James Marta & Company found that Solano LAFCO to be in compliance with governmental accounting and auditing standards, and;

WHEREAS, James Marta & Company recommended that Solano LAFCO adopt a new Lease Capitalization Policy for compliance with Governmental Accounting Standards Board statement number 87, and;

WHEREAS, James Marta & Company reviewed the attached Solano LAFCO GASB 87 Lease Capitalization Policy and found it to be consistent with GASB 87 and meets the statement's requirements, and;

WHEREAS, Solano LAFCO Commission reviewed, considered, and heard testimony on the attached GASB 87 Lease Capitalization Policy at the duly noticed June 12, 2023 meeting.

NOW, THEREFORE, BE IT HEREBY DETERMINED AND ORDERED as follows:

1. The Solano LAFCO Lease Capitalization Policy, as shown in Exhibit A, shall be adopted and effective retroactively to July 1, 2021.

PASSED AND ADOPTED by the Local Agency Formation Commission of Solano County at a regular meeting, held on the 12th day of June 2023, by the following vote:

AYES:
NOES:
ABSENT:
ABSTAIN:

____
Nancy Shopay, Chair
Presiding Officer Solano Local Agency
Formation Commission

ATTEST:

____
Christina Love, Deputy Executive Officer

Exhibit A – Solano LAFCO GASB 87 Lease Capitalization Policy

EXHIBIT A

Solano LAFCO
GASB 87 Lease Capitalization Policy
Effective Date: Retroactive to July 1, 2021

General Policy

The Commission shall not enter into a lease with a duration of more than one year (12 months), nor a lease with an option to extend beyond one year unless such a lease provides the Commission with preferred pricing or another significant business advantage.

Leases that are not classified as short-term and whose aggregate payments made or received exceed $35,000 will be capitalized ("Capitalization Threshold") in compliance with GASB 87, except as noted below:

- Leases that transfer ownership and do not contain termination options
- Short-term leases (12 months or less)
- Leases of assets that are investments
- Intangible assets (mineral rights, patents, software, copyrights)
- Biological assets (timber, living plants, living animals)
- Supply contracts
- $1 Leases or similar, not an exchange/exchange-like transaction

This policy shall be reviewed annually and adjusted as conditions warrant. This policy and future changes to it will be approved by the Executive Officer.

Definitions

Lease: A contract that conveys control of the right to use another entity's nonfinancial asset (underlying asset) as specified by the contract for a period of time in an exchange or exchange-like transaction.

Short-term lease: A lease that, at the beginning of its term, has a maximum possible term under the contract, including any option to extend, of 12 months or less.

Financed purchase: If a contract (1) transfers ownership of the underlying asset to the lessee by the end of the contract and (2) does not contain termination options other than fiscal funding or cancellation clauses, the contract is not a lease and should be reported as a financed purchase.

Finance Lease: A finance lease is a leasing arrangement in which the lessee obtains ownership of the leased asset by the end of the lease term. With the implementation of GASB 87 effective for fiscal years beginning after June 15, 2021, there is no longer an operating vs. capital classification. Instead, all leases will be referred to as financing leases.

Measurement of a Finance Lease

As of the commencement date of a lease, the lessee measures the liability and the right-of-use asset associated with the lease. These measurements are derived as follows:

Lease Liability: The present value of the lease payments, discounted at the discount rate for the lease. This rate is the rate implicit in the lease when that rate is readily determinable. If not, the lessee instead uses its incremental borrowing rate.

Right-of-Use Asset: The initial amount of the lease liability, plus any lease payments made to the lessor before the lease commencement date, plus any initial direct costs incurred, minus any lease incentives received.

Determining Lease Term

Noncancelable Period
+ Period covered by option to terminate when it is NOT certain to be exercised
+ Period covered by the option to extend when it is reasonably certain to be exercised
= Total Lease Term

The Commission will reassess the lease term if one or more of the following occurs:

- Lessee or lessor elects to exercise an option even though originally determined that the lessee or lessor would not exercise that option.
- Lessee or lessor elects to not exercise an option even though previously determined that the lessee or lessor would exercise that option.
- An event specified in the contract that requires an extension or termination of the lease takes place.

This Board policy will be reviewed annually and adjusted as conditions warrant, such as changes in net assets, or other required updates by the GASB.

JAMES MARTA & COMPANY LLP

LOCAL AGENCY FORMATION COMMISSION OF SOLANO COUNTY

FINANCIAL STATEMENTS WITH INDEPENDENT AUDITOR'S REPORT

FOR THE FISCAL YEARS ENDED

JUNE 30, 2022 AND 2021

WWW.JPMCPA.COM

701 HOWE AVENUE, E3
SACRAMENTO, CA 95825

(916) 993-9494
(916) 993-9489 FAX

LOCAL AGENCY FORMATION COMMISSION OF SOLANO COUNTY

JUNE 30, 2022 AND 2021

COMMISSION MEMBERS

John Vasquez
Solano County Supervisor

Nancy Shopay
Public Member

Harry Price
Mayor of Fairfield

Ron Rowlett
Mayor of Vacaville

Jim Spering
Solano County Supervisor

ALTERNATE COMMISSION MEMBERS

Ron Kott
Mayor of Rio Vista

Robert Guerrero
Public Member

Mitch Mashburn
Solano County Supervisor

LOCAL AGENCY FORMATION COMMISSION OF SOLANO COUNTY

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James Marta & Company LLP
Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

INDEPENDENT AUDITOR'S REPORT

To the Commissioners of
Local Agency Formation Commission of Solano County
Fairfield, California

Opinions

We have audited the financial position of the governmental activities, the general fund and the aggregate remaining fund information of the Local Agency Formation Commission of Solano County (the Commission), as of and for the years ended June 30, 2022 and 2021, and the related Statement of Governmental Fund Revenues, Expenses and Changes in Fund Balance and Statement of Activities and notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the governmental activities, the general fund and the aggregate remaining fund information of the Commission as of June 30, 2022 and 2021, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Commission and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Commission's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Commission's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Commission's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion, Analysis, Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget (Non-GAAP) and Actual - General Fund, Schedule of Proportionate Share of Net Pension Liability and Schedule of Contributions 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 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 May 18, 2023 on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control over financial reporting and compliance.

James Marta + Company LLP

James Marta & Company LLP
Certified Public Accountants
Sacramento, California
May 18, 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS

LOCAL AGENCY FORMATION COMMISSION OF SOLANO COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2022 AND 2021

The Management's Discussion and Analysis (MD&A) provides an overview of the financial activities of the Local Agency Formation Commission of Solano County, California (the Commission) for the fiscal years ending on June 20, 2022, and June 30, 2021. These statements are supported by notes to the basic financial statements. The required financial statements include the Statement of Net Position and Governmental Funds Balance; and the Statement of Activities and Governmental Funds Revenues, Expenditures, and Changes in Fund Balances. All statements must be considered together to obtain a complete understanding of the financial picture at the Commission.

I. Financial Highlights

While the MD&A provides a more detailed discussion and explanation of the Audit Report, the following are general highlights:

- The Commission finished June 30, 2022, ended with a net position of $816,030; a change of $350,003 from the prior year. June 30, 2021, ended with a net position of $466,027; a change of $122,400 from the prior year. The net position[1] includes all pension and post-employment liabilities. (see Section IV of the MD&A)
- The Commission finished June 30, 2022, with a fund balance of $776,174; and June 30, 2021, with $545,110. The entire fund balance[2] is unassigned and includes the Commission's contingency designated reserve of 20% of annual budgeted expenditures in any given year. (see Section V of the MD&A)

II. Office Activities for FY 2021 and FY 2022

Fiscal Years 2022 and 2021 continued to experience the effects of the COVID-19 Pandemic. However, both fiscal years also included unforeseen significant staffing changes and turnover that resulted in benefit payouts. Workload continued to increase, many projects were complicated, complex, and longer-term projects. A brief summary of each year's notable events is as follows:

FY 2022

- Staffing: The final budget accounted for salary and benefits of four full-time staff persons – an Executive Officer position, a Senior Analyst position, an Analyst II position, and a new Deputy Executive Officer position. The Sr. Analyst resigned in August 2021, and the Analyst II resigned in June 2022 resulting in significant payouts of benefits (categorized as Compensated Absences and Long-Term Liabilities reductions). Additionally, both departures resulted in periods of time where there were only two staff persons, as opposed to the budgeted four persons.
- Workplan: The RNVWD Municipal Service Review and Fire District Reorganization projects continued through FY 2022, and grew in scope and complexity. The Commission also entered into a contract to conduct a municipal service review for Solano Irrigation District. The Commission was also provided notice by the State Controller of inactive Reclamation Districts that required the

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1 Net position is the difference between all of the Commission's assets, deferred outflows, liabilities, and deferred inflows. The Commission has no capital assets and no restricted net position.
2 The Commission's fund balance includes unassigned fund balance (the residual classification for the general fund and includes the contingency reserve fund of not less than 20% of annual budgeted expenditures in any given year intended for extraordinary, unbudgeted, and high-priority expenditures).

Commission to consider dissolution. Additionally, several more annexations and detachments for RNVWD and SID were received but later completed.

FY 2021

- Staffing: The Final Budget accounted for the salary and benefits of three full-time staff persons – an Executive Officer position, a Senior Analyst position, and a new Analyst II position. However, the Senior Analyst staffer was on long-term medical leave for approximately 6 months resulting in a decrease in benefits and salary expenses (categorized as Employee Services) because they were paid by long-term disability. Additionally, an agency-wide wage adjustment was deferred, which resulted in lower expenses in the Actual Budget than was approved for the Final Budget. The vacated position took longer to fill than normal due to COVID and salary issues.

- Workplan: Staff began several projects and encumbered contract amounts related to the Rural North Vacaville Water District (RNVWD) Municipal Service Review, Fire District Reorganization analysis reports, an audit, and the countywide Levee and Reclamation District Municipal Service Review. Additionally, there were several applications for annexations or detachments from RNVWD and Solano Irrigation District that were received, but later completed.

III. Basic Financial Statements

The Commission's basic financial statements are comprised of government-wide financial statements and fund financial statements.

1. Government-wide financial statements (pages 10-11). The government-wide financial statements provide a longer-term view of the Commission's activities as a whole and comprise the statement of net position and statement of activities.

2. Fund financial statements (pages 12-14). The fund financial statements report the Commission's operations in more detail than the government-wide statements and focus primarily on short-term activities of the Commission's intergovernmental funds. The fund financial statements measure only current revenues and expenditures and fund balances; they exclude capital assets, long-term debt and other long-term amounts.

3. Governmental funds (page 12-14). Governmental Fund Financial Statements are prepared on a modified accrual basis, which means they measure only current financial resources and uses. Capital assets (of which the Commission has none) and other long-lived assets, along with long-term liabilities, are not presented in the Governmental Fund Financial Statements. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Commission's near-term financing requirements.

*Other information***.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Commission's budgetary comparison schedule for the General Fund and the schedule of funding progress for the retirement program. Required supplementary information can be found on pages 31-35 of this report.

IV. Government-wide Financial Analysis

Government-wide Financial Statements are prepared on an accrual basis, which means they measure the flow of all economic resources of the Commission as a whole. The statement of net position and the statement of activities present information about the following:

The statement of net position provides information about the financial position of the Commission as a whole, including any capital assets and long-term liabilities on a full accrual basis. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Commission is improving or deteriorating. (page 10)

The statement of activities provides information about all of the Commission's revenues and all of its expenses, also on a full accrual basis, with emphasis on measuring net revenues or expenses of the Commission's programs. The statement of activities explains in detail the change in Net Position for the year. Revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. (page 11)

In the case of the Commission, the net position was $816,030 at June 30, 2022 and $466,027 at June 30, 2021. The Commission's net position is entirely categorized as unrestricted net position which may be used to meet the Commission's ongoing obligations to citizens and creditors. Governmental activities increased the Commission's net position by $350,003 during FY 2022, and increased the Commission's net position by $122,400 during FY 2021. The reasons for the increases are explained in the following table and discussion.

SUMMARY OF NET POSITION

	As of June 30:		
	2022	2021	2020
Current Assets	$ 861,736	$ 672,861	$ 464,583
Total Assets	861,736	672,861	464,583
Deferred outflows of resources related to pensions	83,889	61,183	49,407
Current Liabilities	85,562	127,751	64,573
Long-Term Liabilities	43,698	139,184	103,243
Total Liabilities	129,260	266,935	167,816
Deferred intflows of resources related to pensions	335	1,082	2,547
Net Position	$ 816,030	$ 466,027	$ 343,627

Assets: Assets refer to cash and investments, prepaid expenses, and deposits with other agencies. The Commission's assets primarily consist of cash and investments, which is the accumulated fund balance at the end of each fiscal year. The Commission is required to participate in Solano County's external investment pool because Solano County holds the Commission's cash deposit and investments. (pages 21-22)

- Current assets increased by $188,875 from FY 2021 to 2022. This increase is reflective of market investments with positive returns, and because the fund balances increased because expenses, specifically salaries/benefits, were less than anticipated due to the aforementioned staff turnover. Fund balance increases are further discussed in Section V of the MD&A.

Liabilities: Current liabilities refer to any debt less than one year, such as accounts payable, outstanding warrants/checks, and unearned revenue. Whereas long-term liabilities refer to any debts over one year, such as pensions and compensated absences (vacation and sick leave). (pages 12, 13, and 22)

- Current liabilities decreased by $42,189 from FY 2021 to 2022. The primary reason for the decrease is that staffing was anticipated and budgeted for four employees, however with extensive turnover there were extended periods of time where there were only two staff members – reducing accounts payable actuals. Additionally, several project applications were submitted with fees held in unearned revenues, only to be completed beyond the fiscal year with the fees remaining in unearned revenues until completed.

- Long-term liabilities decreased by $95,486 primarily due to payouts in compensated absences and pension liability because of staffing turnover.

V. Financial Analysis of the Commission's Governmental Funds

The Commission uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The "General Fund" is a governmental fund type employed to account for general government functions of the Commission. The focus of the Commission's governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Commission's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. (pages 11 and 14)

SUMMARY CHANGES IN NET POSITION

	For the Year Ended June 30:		
	2022	2021	2020
Revenues	$ 789,536	$ 767,033	$ 700,176
Expenses	(558,872)	(621,933)	(639,598)
Excess (Deficiency)	$ 230,664	$ 145,100	$ 60,578

	As of June 30:		
	2022	2021	2020
Fund Balances	$ 776,174	$ 545,110	$ 400,010
Net Position	$ 816,030	$ 466,027	$ 343,627

Revenues: Revenues include intergovernmental contributions, program revenues/charges for services (application fees), and interest income. Governmental revenues totaled $711,404 in FY 2022 and $711,793 in FY 2021. The increases are due to the increase in operating costs billed to the County and cities.

- Intergovernmental contributions nominally increased by $389 from 2021 to 2022 because the adopted budgets and mandatory reserves were nearly the same.
- Program revenues increased from FY 2021 to 2022 by $26,000 because of staff's ability to complete and close projects, allowing fees to be transferred from unearned revenue to actual revenue.

Expenses: Expenses refer to employee services (payroll), professional and contract services, office supplies and equipment, office space and equipment rentals, memberships, and travel. Expenses totaled $558,872 in FY 2022 and $621,933 in FY 2021. The decrease in FY 2022 is primarily due to the unanticipated decrease in employee services and travel expenses related to COVID-19. (page 14)

- Professional and contract expenses decreased FY 2022 because many projects were encumbered in FY 2021 but not completed – such as two consultant contracts for Sphere of Influence Updates and related Municipal Service Review. Additionally, Employee Services decreased because one employee left and hiring the new Deputy EO was delayed, leaving an extended period of time with only two employees.
- In FY 2021, a part-time contract employee was hired due to a long-term disability absence. The part-time contract employee helped in processing projects and general workload, but was limited in scope and time. However, employee services and overall expenses decreased with fewer full-time employees and the third being compensated by disability insurance.

Fund Balance: The Commission's fund balance consists of unspent and unrestricted funds at the end of the year, which includes monies in the 20% designated reserve. Fund balance is also affected by the cost of covering liabilities – such as being able to payout pension liability and compensated absences should a staff person retire or leave.

- The fund balance increased by $145,100 in June 30, 2021; and $230,664 in June 30, 2022.
    - In the fiscal year 2021, one staff person was on extended medical leave and then left LAFCO after returning. During medical leave, salary is in part paid by short-term disability – therefore the Commission's salary and benefits expenses were lower than planned. Therefore, the fund balance at the end of the year increased.
    - In fiscal year 2022, the Commission anticipated four staff persons, with the fourth being a new hire for the newly created Deputy Executive Officer position. However, one staff person left at the beginning of the fiscal year, and another left at the end of the fiscal year. In between, filling the new position was delayed because of the staffing loss. As a result, both employees were paid-out on their balance of unused vacation and admin leave (compensated absences) and pension liabilities decreased. With just two out of four employees for an extended period of time, anticipated salaries and benefits were substantially lower and therefore fund balance at the end of the fiscal year increased.

VI. Debt Administration

Long-term obligations: Long-term obligations are the long-term liabilities for compensated absences (vacation, sick pay, and administrative leave) and net pension liabilities. This amount shown is entirely backed by the full faith and credit of the Commission. (page 22)

- June 30, 2022 reflected a balance of $43,698 which consisted of $66,788 of compensated absences and ($23,090) of pension liability. The pension liability reflects a negative because a long-time employee left the Commission about mid-year

- June 30, 2021 reflected a balance of $139,184 which consisted of $93,193 in compensated absences and $45,991 in pension liability.

VII. Economic Factors and Next Year's Operating Activities

The Commission's management acknowledges the continued Covid-19 pandemic economic impact and the effects of staff turnover. However, management anticipates operating activities to improve and increase in the coming year with a full and complete staff of four members.

VIII. Requests for Information

This financial report is designed to provide a general overview of the Commission's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Solano Local Agency Formation Commission, 675 Texas Street, Suite 6700, Fairfield, CA 94533.

BASIC FINANCIAL STATEMENTS

LOCAL AGENCY FORMATION COMMISSION OF SOLANO COUNTY

STATEMENT OF NET POSITION

JUNE 30, 2022 AND 2021

	2022	2021
ASSETS		
Cash and investments	$ 861,198	$ 671,117
Prepaid expenses	531	531
Deposits with others	(28)	285
Due from other agencies	35	928
Total Assets	861,736	672,861
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources related to pensions (note 5)	83,889	61,183
LIABILITIES		
Accounts payable and accrued expenses	40,139	35,911
Outstanding warrants	1,400	1,493
Due to other agencies	-	714
Unearned revenue	44,023	89,633
Compensated absences	66,788	93,193
Net pension liability	(23,090)	45,991
Total Liabilities	129,260	266,935
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources related to pensions (note 5)	335	1,082
NET POSITION		
Unrestricted	816,030	466,027
Total Net Position	$ 816,030	$ 466,027

See accompanying notes to the basic financial statements.

LOCAL AGENCY FORMATION COMMISSION OF SOLANO COUNTY

STATEMENT OF NET ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

	2022	2021
EXPENSES:		
Employee Services	$ 286,231	$ 472,295
Professional Services	93,233	111,280
Rent Expense	23,510	24,985
Non Capitalized expense	8,593	7,317
Supplies	619	1,772
Insurance	6,653	-
Memberships	8,694	8,745
Communication	6,709	6,323
Travel	1,830	8,347
Miscellaneous	3,461	3,569
Total expenditures/expenses	439,533	644,633
Program revenues:		
Charges for services	75,000	49,000
Net program expenses	364,533	595,633
General revenues		
Intergovernmental Revenue	711,404	711,793
Interest Income	3,132	6,240
Other income	-	-
Total general revenues	714,536	718,033
Change in net position	350,003	122,400
Net position beginning	466,027	343,627
Net position - ending	$ 816,030	$ 466,027

See accompanying notes to the basic financial statements.

LOCAL AGENCY FORMATION COMMISSION OF SOLANO COUNTY

GOVERNMENTAL FUND BALANCE SHEET

JUNE 30, 2022 AND 2021

	2022	2021
ASSETS		
Cash and investments	$ 861,198	$ 671,117
Prepaid expenses	531	531
Deposits with others	(28)	285
Due from other agencies	35	928
Total Assets	861,736	672,861
LIABILITIES		
Accounts payable and accrued expenses	40,139	35,911
Outstanding warrants	1,400	1,493
Due to other agencies	-	714
Unearned revenue	44,023	89,633
Total Liabilities	85,562	127,751
FUND BALANCE		
Unassigned	776,174	545,110
Total fund balance	776,174	545,110
Total Liabilities and Fund Balances	$ 861,736	$ 672,861

See accompanying notes to the basic financial statements.

LOCAL AGENCY FORMATION COMMISSION OF SOLANO COUNTY

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

FOR THE FISCAL YEARS ENDED JUNE 30, 2022 AND 2021

	2022	2021
Total fund balances - governmental funds	$ 776,174	$ 545,110
Amounts reported for assets and liabilities for governmental activities in the statement of net position are different from amounts reported in governmental funds because:		
Long-term liabilities: In governmental funds, only current liabilities are reported. In the statement of net position, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:		
Net pension liability	23,090	(45,991)
Compensated absences payable	(66,788)	(93,193)
Deferred outflows and inflows of resources relating to pensions: In governmental funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to pensions are:		
Deferred outflows of resources related to pensions	83,889	61,183
Deferred inflows of resources related to pensions	(335)	(1,082)
Total net position, governmental activities:	$ 816,030	$ 466,027

See accompanying notes to the basic financial statements.

LOCAL AGENCY FORMATION COMMISSION OF SOLANO COUNTY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

GOVERNMENTAL FUNDS

FOR THE FISCAL YEARS ENDED JUNE 30, 2022 AND 2021

	2022	2021
REVENUES:		
Intergovernmental Contributions	$ 711,404	$ 711,793
Charges for Services	75,000	49,000
Interest Income	3,132	6,240
Total revenues	789,536	767,033
EXPENSES:		
Employee Services	405,570	449,595
Professional Services	93,233	111,280
Rent Expense	23,510	24,985
Non Capitalized expense	8,593	7,317
Supplies	619	1,772
Insurance	6,653	-
Memberships	8,694	8,745
Communication	6,709	6,323
Travel	1,830	8,347
Miscellaneous	3,461	3,569
Total expenditures/expenses	558,872	621,933
Excess/ (deficiency) of revenues over/ (under) expenditures	230,664	145,100
FUND BALANCES:		
Beginning of the Year	545,510	400,010
Ending of the Year	$ 776,174	$ 545,110

See accompanying notes to the basic financial statements.

LOCAL AGENCY FORMATION COMMISSION OF SOLANO COUNTY

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

FOR THE FISCAL YEARS ENDED JUNE 30, 2022 AND 2021

	2022	2021
Total net change in fund balances - governmental funds	$ 230,664	$ 145,100
Amounts reported for governmental activities in the statement of activities are different from amounts reported in governmental funds because:		
Compensated absences in governmental funds are measured by the amounts paid during the period. In the statement of activities, compensated absences are measured by the amounts earned. The difference between compensated absences paid and compensated absences earned was:		
Compensated absences payable	26,405	(24,504)
Pensions: In government funds, pension costs are recognized when employer contributions are made in the statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual-basis pension costs and actual employer contributions was:	92,934	1,804
Total change in net position - governmental activities	$ 350,003	$ 122,400

See accompanying notes to the basic financial statements.

LOCAL AGENCY FORMATION COMMISSION OF SOLANO COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. ORGANIZATION

Local Agency Formation Commissions (LAFCOs or Commission) are independent regulatory commissions created by the California Legislature to determine the boundaries of cities and most special districts. LAFCOs are tasked by the Legislature to administer a section of State planning law known as the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000. LAFCOs have regulatory and planning powers. Regulatory duties include approving or disapproving proposals involving (a) city incorporations, disincorporations, or subsidiary districts (b) special district formations, consolidations, mergers, and dissolutions, (c) city and special district annexations and detachments, and (d) city and special district outside service extensions. LAFCOs planning activities include: establishing, updating, and amending spheres of influence for all local governmental agencies

Solano LAFCO is comprised of five members including: two county supervisors, two city mayors and one member representing the public at large. Commission members serve four-year terms.

B. BASIS OF PRESENTATION

Government-wide Financial Statements

The statement of net position and the statement of activities display information about the Commission. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities.

The government-wide statement of net position presents information on all of the Commission's assets, deferred outflows, liabilities and deferred inflows with the difference between the two presented as net position. Net position is reported as one of three categories: net investment in capital assets, restricted or unrestricted. Restricted net position is further classified as either net position restricted by enabling legislation or net position that are otherwise restricted. The Commission currently has no capital assets and no restricted net position.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the Commission'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. The Commission 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, which are not classified as program revenues, are presented as general revenues, 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 the Commission.

The Commission reports all direct expenses by function in the Statement of Activities. Direct expenses are those that are clearly identifiable with a function.

Fund Financial Statements

Fund financial statements report detailed information about the Commission. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. The Commission has only one operating fund.

C. MEASUREMENT FOCUS AND 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 Commission, "available" means collectible within the current period or within 60 days after year-end.

Non-exchange transactions, in which the Commission 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.

D. FUND ACCOUNTING

The accounts of the Commission are organized on the basis of funds or account groups, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. The Commission resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The Commission has one governmental fund.

Governmental Fund:

The General Fund is the general operating fund of the Commission. It is used to account for all transactions except those required or permitted by law to be accounted for in another fund.

E. BUDGETS

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.

F. CASH AND CASH 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 to the Commission.

G. CASH AND INVESTMENTS

As described in Note 2, the Commission's cash and investments are held with the Solano 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 the Commission'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

H. COMPENSATED ABSENCES

It is the Commission's policy to permit permanent employees to accumulate earned but unused vacation and sick leave benefits. Accrued vacation is paid at the time of the employee's separation based on established Commission limitations. When an employee terminates employment for reasons of regular or disability retirement or death, accrued sick leave is contributed to a Retirement Health Savings Account to assist in payment of retiree medical expenses in accordance with Commission policy Termination of an employee's continuous services, except by reason of temporary layoff for lack of work or funds, shall cancel all sick leave accrued to the time of such termination, regardless of whether or not such person subsequently re-enters employment. Compensated absences leave is accrued when incurred in the government-wide financial statements. A liability is reported in the governmental fund only if unused vacation and sick leave after limitations are expected to be liquidated (paid out due to an employee separating from service with the Commission) with expendable available financial resources.

I. REVENUES

Operating revenues, which include service charges, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Revenues classified as non-operating revenues, such as assessments and investment earnings, result from non-exchange transactions or ancillary activities.

J. INCOME TAXES

The Commission is not subject to income tax under Section 115(1) of the Internal Revenue Code and Section 23701d of the California and Taxation Code. Accordingly, no provision for federal or state income taxes has been made in the accompanying financial statements.

K. USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

L. FUND BALANCE

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 54, *"Fund Balance Reporting and Governmental Fund Type Definitions"*, the Commission is required to report fund balances in the following categories: Nonspendable, Restricted, Committed, Assigned and/or Unassigned.

Nonspendable Fund Balance reflects assets not in spendable form, either because they will never convert to cash (e.g. prepaid expense) or must remain intact pursuant to legal or contractual requirements.

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

Committed Fund Balance reflects amounts that can be used only for the *specific purposes* determined by a formal action of the government's highest level of decision-making authority: the Board of Commissioners. Commitments may be established, modified, or rescinded only through resolutions approved by the Board of Commissioners.

Assigned Fund Balance reflects amounts intended to be used by the government for *specific purposes* but do not meet the criteria to be classified as restricted or committed. In accordance with adopted policy, only the Board of Commissioners is authorized to assign amounts for specific purposes.

Unassigned Fund Balance represents the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications. The Commission maintains a contingency reserve fund of not less than 20 percent of annual budgeted expenditures in any given year intended for extraordinary, unbudgeted, and high priority expenditures.

When expenditures are incurred for purposes of which restricted, committed, assigned and unassigned fund balances are available, the Commission considers restricted funds to have been spent first, followed by committed, assigned and unassigned, respectively.

M. DEFERRED INFLOWS AND OUTFLOWS

In addition to assets, the statement of net position includes a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s), and as such will not be recognized as an outflow of resources (expense/expenditures) until then.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and as such, will not be recognized as an inflow of resources (revenue) until that time.

N. FINANCING LEASES

A lease is defined as a contract that coveys control of the right to use another entity's nonfinancial asset as specified in the contract for a period of time in an exchange or exchange-like transaction. The long-term liability and corresponding asset for financial leases are recorded in the financial statements to the extent that the Commission's lease capitalization threshold is met, $30,000. Amortization of related assets using the straight-line method over the life of the contract. As of June 30, 2022, the Commission did not have any financial leases that met the threshold.

2. CASH AND INVESTMENTS

Cash and investments as of June 30, 2022 and 2021 consisted of Cash in County Treasury of $861,198 and $671,117, respectively.

The Commission maintains specific cash deposits and investments with the County of Solano and involuntarily participates in the external investment pool of the County. Its share of the investment pool is separately accounted for and interest earned, net of related expenses, is apportioned quarterly and based upon the relationship of its daily cash balance to the total of the pooled account. The weighted average maturity of the pool as of June 30, 2022 is 365 days and was 301 days as of June 30, 2021. The pool does not have a credit rating.

Investments, including derivative instruments that are not hedging derivatives, are measured at fair value on a recurring basis. Recurring fair value measurements are those that Governmental Accounting Standards Board (GASB) Statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments' fair value measurements at June 30, 2022 are as follows:

Description	Level 1	Level 2	Level 3	Total
US Agency, Treasury & Municipal Notes (USATM):				
US Agency Notes:	$ 355,122	$ -	$ -	$ 355,122
US Treasury Notes:	277,492	-	-	277,492
Municipal Notes:	40,062	-	-	40,062
Supranationals	20,977	-	-	20,977
Corporate Stocks	39,551	-	-	39,551
Commercial Paper	-	20,869	-	20,869
Certificates of Deposit	-	13,047	-	13,047
LAIF	19,848	12,797	-	32,644
Money Market Accounts	-	57,635	-	57,635
Cash Held in Bank	3,799	-	-	3,799
Total	$ 756,851	$ 104,347	$ -	$ 861,198

LOCAL AGENCY FORMATION COMMISSION OF SOLANO COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

2. CASH AND INVESTMENTS (continued)

Investments' fair value measurements at June 30, 2021 are as follows:

Description	Level 1	Level 2	Level 3	Total
US Agency, Treasury & Municipal Notes (USATM):				
US Agency Notes:	$ 259,037	$ -	$ -	$ 259,037
US Treasury Notes:	232,526	-	-	232,526
Municipal Notes:	20,782	-	-	20,782
Supranationals	10,531	-	-	10,531
Corporate Stocks	47,936	-	-	47,936
Commercial Paper	-	18,006	-	18,006
Certificates of Deposit	-	17,956	-	17,956
LAIF	12,427	8,012	-	20,439
Money Market Accounts	-	42,256	-	42,256
Cash Held in Bank	1,649	-	-	1,649
Total	$ 584,887	$ 86,230	$ -	$ 671,117

3. LONG-TERM OBLIGATIONS

The commission has long-term liabilities for compensated absences and net pension liabilities. The summaries for June 30, 2022 and 2021 are as follows:

	Balance June 30, 2021	Additions	Deletions	Balance June 30, 2022	Balance Due In One Year
Net pension liability (asset)	$ 45,991	$ -	$ 69,081	$ (23,090)	$ -
Compensated Absences	93,193	-	26,405	66,788	-
Totals	$ 139,184	$ -	$ 95,486	$ 43,698	$ -

	Balance June 30, 2020	Additions	Deletions	Balance June 30, 2021	Balance Due In One Year
Net pension liability	$ 34,554	$ 11,437	$ -	$ 45,991	$ -
Compensated Absences	68,689	24,504	-	93,193	-
Totals	$ 103,243	$ 35,941	$ -	$ 139,184	$ -

4. OPERATING LEASES

The Commission is under a current lease for building space at 675 Texas St., Suite 6700, Solano, California. The lease was originally for a five year term, to expire on December 31, 2019. The County and Commission desired to extend the agreement for one year, with two (2) one-year options to extend. The rent began at $1,280 per month set to increase 2% on the first of January every year. As of June 30, 2022, future minimum lease payments are as follows:

Fiscal Year Ended June 30,	Minimum Payment
2022	8,479
Total	$ 8,479

Total rent expense for the years ended June 30, 2022 and 2021 was $17,128 and $17,128, respectively.

5. EMPLOYEE RETIREMENT PLAN

Plan Description

All qualified permanent and probationary employees are eligible to participate in Local Agency Formation Commission of Solano County's cost-sharing multiple employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plan is established by State statute and Local Agency Formation Commission of Solano County 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.

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for the plan are applied as specified by the Public Employees' Retirement Law.

5. EMPLOYEE RETIREMENT PLAN (continued)

The Plans' provisions and benefits in effect as of June 30, 2022 and 2021, respectively, are summarized as follows:

	June 30, 2022		June 30, 2021	
Hire date	Prior to January 1, 2013	On or after January 1, 2013	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2.7% @ 55	2% @ 62	2.7% @ 55	2% @ 62
Benefit vesting schedule	5 years of service	5 years of service	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life	Monthly for life	Monthly for life
Retirement age	50 - 55	52 - 67	50 - 55	52 - 67
Monthly benefits, as a % of eligible compensation	2.0% to 2.7%	1.0% to 2.5%	2.0% to 2.7%	1.0% to 2.5%
Required employee contribution rates	7.000%	6.250%	7.000%	6.250%
Required employer contribution rates	14.870%	7.730%	15.037%	7.874%

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 Plan are 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. The Commission is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the years ended June 30, 2022 and 2021, the contributions recognized as part of pension expense for the Plan were as follows:

	Miscellaneous	
	June 30, 2022	**June 30, 2021**
Contributions -employer	$ 34,071	$ 37,304

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

As of June 30, 2022 and 2021, the Local Agency Formation Commission of Solano County reported net pension liabilities for its proportionate share of the net pension liability of:

	Proportionate Share of Net Pension Liability (Asset)	
	June 30, 2022	**June 30, 2021**
Miscellaneous	$ (23,090)	$ 45,991

5. EMPLOYEE RETIREMENT PLAN (continued)

Local Agency Formation Commission of Solano County's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 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, 2021 rolled forward to June 30, 2020 using standard update procedures. Local Agency Formation Commission of Solano County's proportion of the net pension liability was based on a projection of the Commission's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The Commission's proportionate share of the net pension liability for the Plan as of June 30, 2021 and 2020 was as follows:

Proportion - June 30, 2020	0.001090%
Proportion - June 30, 2021	-0.001216%
Change - Increase/(Decrease)	-0.002306%

Local Agency Formation Commission of Solano County's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2020, 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, 2019 using standard update procedures. Local Agency Formation Commission of Solano County's proportion of the net pension liability was based on a projection of the Commission's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The Commission's proportionate share of the net pension liability for the Plan as of June 30, 2020 and 2019 was as follows:

Proportion - June 30, 2019	0.000863%
Proportion - June 30, 2020	0.001090%
Change - Increase/(Decrease)	0.000227%

For the years ended June 30, 2022 and 2021, the Commission recognized pension expense of $(1,804) and $(92,534), respectively. The Commission's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	June 30, 2022		June 30, 2021	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of Assumptions	$ -	$ -	$ -	$ 328
Differences between Expected and Actual Experience	(2,589)	-	2,370	-
Differences between Projected and Actual Investment Earnings	20,156	-	1,366	-
Differences between Employer's Contributions and Proportionate Share of Contributions	16,100	-	12,801	-
Change in Employer's Proportion	16,151	335	7,342	754
Pension Contributions Made Subsequent to Measurement Date	34,071	-	37,304	-
	$ 83,889	$ 335	$ 61,183	$ 1,082

5. EMPLOYEE RETIREMENT PLAN (continued)

The amounts reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2023. Other amounts reported as deferred inflows of resources related to pensions will be recognized as pension expense as follows:

	June 30, 2022		June 30, 2021
Year Ended June 30	Deferred Outflows/(Inflows) of Resources	Year Ended June 30	Deferred Outflows/(Inflows) of Resources
2023	$ 18,385	2022	$ 10,837
2024	15,156	2023	7,532
2025	10,371	2024	3,772
2026	5,570	2025	655
2027	-	2026	-
Thereafter	-	Thereafter	-
	$ 31,097		$ 22,796

Actuarial Assumptions – The total pension liabilities in the June 30, 2021 and 2020 actuarial valuations were determined using the following actuarial assumptions:

	June 30, 2021	June 30, 2020
Valuation Date	June 30, 2020	June 30, 2019
Measurement Date	June 30, 2021	June 30, 2020
Actuarial Cost Method	Entry Age Normal Cost Method	Entry Age Normal Cost Method
Actuarial Assumptions		
Discount Rate	7.15%	7.15%
Inflation	2.50%	2.50%
Payroll Growth	2.75%	2.75%
Projected Salary Increase	Varies by Entry Age and Service	Varies by Entry Age and Service
Investment Rate of Return (1)	7.15%	7.15%
Mortality	Derived using CalPERS' Membership Data for All Funds	

(1) Compounded annually, net of administrative and investment expenses

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2020 valuation were based on the CalPERS Experience Study for the period from 1997 to 2007. Further details of the Experience Study can be found on the CalPERS website.

5. EMPLOYEE RETIREMENT SYSTEMS (CONTINUED)

Discount Rate

The discount rate used to measure the total pension liability was 7.15% (7.15% for 2019) for the 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 (7.15% for 2019) percent discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long term expected discount rate of 7.15 (7.15% for 2019) percent is applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report called “GASB Crossover Testing Report” that can be obtained from the CalPERS website under the GASB 68 section.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.15 (715% for 2019) percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.15 (7.15% for 2019) percent. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

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.

5. EMPLOYEE RETIREMENT SYSTEMS (CONTINUED)

The tables below reflect the long-term expected real rate of return by asset class as of June 30, 2022 and 2021, respectively. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

	June 30, 2022		
Asset Class	Assumed Asset Allocation	Real Return Years 1-10 [1]	Real Return Years 11+ [2]
Global Equity	50.00%	4.80%	5.98%
Fixed Income	28.00%	1.00%	2.62%
Inflation Assets	0.00%	0.77%	1.81%
Private Equity	8.00%	6.30%	7.23%
Real Estate	13.00%	3.75%	4.93%
Liquidity	1.00%	0.00%	-0.92%
Total	100.00%		

[1] An expected inflation of 2.00% used for this period.
[2] An expected inflation of 2.92% used for this period.

	June 30, 2021		
Asset Class	Assumed Asset Allocation	Real Return Years 1-10 [1]	Real Return Years 11+ [2]
Global Equity	50.00%	4.80%	5.98%
Fixed Income	28.00%	1.00%	2.62%
Inflation Assets	0.00%	0.77%	1.81%
Private Equity	8.00%	6.30%	7.23%
Real Estate	13.00%	3.75%	4.93%
Liquidity	1.00%	0.00%	-0.92%
Total	100.00%		

[1] An expected inflation of 2.00% used for this period.
[2] An expected inflation of 2.92% used for this period.

5. EMPLOYEE RETIREMENT SYSTEMS (CONTINUED)

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

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

	June 30, 2022		
	Discount Rate - 1% 6.15%	Current Discount Rate 7.15%	Discount Rate +1% 8.15%
Plan's Net Pension Liability	$ 50,190	$ (23,090)	$ (83,669)

	June 30, 2021		
	Discount Rate - 1% 6.15%	Current Discount Rate 7.15%	Discount Rate +1% 8.15%
Plan's Net Pension Liability	$ 105,916	$ 45,991	$ (3,522)

Pension Plan Fiduciary Net Position

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

Payable to the Pension Plan

The Commission had no outstanding amount of contributions to the pension plan required for the year ended June 30, 2022.

6. SUBSEQUENT EVENTS

Management has reviewed its financial statements and evaluated subsequent events for the period of time from its year ended June 30, 2022, through May 18, 2023, the date the financial statements were issued. Management is not aware of any subsequent events, other than those described above, that would require recognition or disclosure in the accompanying financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

SOLANO LOCAL AGENCY FORMATION COMMISSION ORGANIZATION

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET (NON-GAAP) AND ACTUAL

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2022

	Original and Final Budget	Actual	Budget Variance Favorable (Unfavorable)
REVENUES:			
Intergovernmental contributions	$ 711,402	$ 711,404	$ 2
Charges for services	20,000	75,000	55,000
Interest income	3,000	3,132	132
Total Revenues	734,402	789,536	55,134
EXPENSES:			
Planning services	775,355	627,209	148,146
Excess/ (deficiency) of revenues over/ (under) expenditures	(40,953)	162,327	203,280
Beginning fund balance	327,043	327,043	-
Ending fund balance	$ 286,090	$ 489,370	$ 203,280

SOLANO LOCAL AGENCY FORMATION COMMISSION ORGANIZATION

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET (NON-GAAP) AND ACTUAL

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2021

	Original and Final Budget	Actual	Budget Variance Favorable (Unfavorable)
REVENUES:			
Intergovernmental contributions	$ 711,738	$ 711,793	$ 55
Charges for services	10,000	49,000	39,000
Interest income	3,000	6,240	3,240
Total Revenues	724,738	767,033	42,295
EXPENSES:			
Planning services	807,232	462,409	344,823
Excess/ (deficiency) of revenues over/ (under) expenditures	(82,494)	304,624	387,118
Beginning fund balance	254,819	254,819	-
Ending fund balance	$ 172,325	$ 559,443	$ 387,118

SOLANO LOCAL AGENCY FORMATION COMMISSION ORGANIZATION

SCHEDULE OF COMMISSIONS PROPORTIONATE SHARE OF NET PENSION LIABILITY

FOR THE YEAR ENDING JUNE 30, 2022 AND 2021

	June 30, 2014 (1)	June 30, 2015 (1)	June 30, 2016 (1)	June 30, 2017 (1)	June 30, 2018 (1)	June 30, 2019 (1)	June 30, 2020 (1)	June 30, 2021 (1)
Proportion of the net pension liability	0.00091%	0.00102%	0.00097%	0.00094%	0.00091%	0.00086%	0.00109%	0.00122%
Proportionate share of the net pension liability (asset)	$ 22,529	$ 27,991	$ 33,743	$ 37,102	$ 34,445	$ 34,554	$ 45,991	$ (69,081)
Covered-employee payroll (2)	$ 144,690	$ 82,358	$ 91,786	$ 219,919	$ 241,470	$ 243,645	$ 341,282	$ 304,271
Proportionate Share of the net pension liability as percentage of covered-employee payroll	15.57%	33.99%	36.76%	16.87%	14.26%	14.18%	13.48%	-22.70%
Plan's fiduciary net position as a percentage of the total pension liability	81.15%	79.89%	75.87%	75.39%	77.69%	77.73%	77.71%	90.49%
Proportionate share of aggregate employer contributions (3)	$ 16,554	$ 9,757	$ 16,483	$ 22,967	$ 28,278	$ 22,967	$ 37,304	$ 34,071

(1) Historical information is required only for measurement period for which GASB 68 is applicable.

(2) Covered employee payroll represented above is based on pensionable earning provided by the employer.

(3) The plans proportionate share of aggregate contributions may not match the actual contributions made by the employer during the measurement period. The plan's proportionate share of aggregate contributions is based on the plan's proportion of fiduciary net position shown on line 5 of the table above as well as any additional side fund (or unfunded liability) contributions made by the employer during the measurement period.

SOLANO LOCAL AGENCY FORMATION COMMISSION ORGANIZATION

SCHEDULE OF CONTRIBUTIONS

FOR THE YEAR ENDING JUNE 30, 2022 AND 2021

	Fiscal Year [1]							
	2014-15	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2021-22**
Actuarially Determined Contribution [2]	$ 16,554	$ 9,757	$ 16,483	$ 19,497	$ 28,278	$ 22,967	$ 37,304	$ 34,071
Contributions in relation to the actuarially determined contributions	(16,554)	(9,757)	(16,483)	(22,967)	(28,278)	(22,967)	(37,304)	(34,071)
Contribution deficiency (excess)	$ -	$ -	$ -	$ (3,470)	$ -	$ -	$ -	$ -
Covered-employee payroll [3]	$ 144,690	$ 82,358	$ 91,786	$ 219,919	$ 241,470	$ 243,645	$ 341,282	$ 304,271
Contributions as a percentage of covered-employee payroll [3]	11.441%	11.847%	17.958%	8.866%	11.711%	9.426%	10.931%	11.198%

(1) Historical information is required only for measurement periods for which GASB 68 is applicable.

(2) Employers are assumed to make contributions equal to the actuarially determined contributions (which is the actuarially determined contributions). However, some employers may choose to make additional contributions towards their site fund or their unfunded liability. Employer contributions for such plans exceed the actuarially determined contributions. CalPERS has determined that employer obligations referred to as "side funds" do not conform to the circumstances described in paragraph 120 of GASB, therefore are not considered separately financed specific liabilities.

(3) Covered-employee payroll represented above is based on pensionable earnings provided by the employer.

SOLANO LOCAL AGENCY FORMATION COMMISSION ORGANIZATION

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDING JUNE 30, 2022 AND 2021

PURPOSE OF SCHEDULES

A - Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget (Non-GAAP) and Actual - General Fund

The Commission 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. The budgets are revised during the year by the Board of Trustees to provide for revised priorities. 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.

B - Schedule of Proportionate Share of the Net Pension Liability

Changes in Assumptions
There were no changes in assumptions.

Changes in Benefit Terms
There were no changes to benefit terms that applied to all members of the Public Agency Pool.

C - Schedule of Pension Contributions

If an employer's contributions to the plan are actuarially determined or based on statutory or contractual requirements, the employer's actuarially determined contribution to the pension plan (or, if applicable, its statutorily or contractually required contribution), the employer's actual contributions, the difference between the actual and actuarially determined contributions (or statutorily or contractually required), and a ratio of the actual contributions divided by covered-employee payroll. In the future, as data becomes available, ten years of information will be presented.

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

	June 30, 2022	June 30, 2021
Valuation Date	June 30, 2020	June 30, 2019
Measurement Date	June 30, 2021	June 30, 2020
Actuarial Cost Method	Entry Age Normal Cost Method	Entry Age Normal Cost Method
Actuarial Assumptions		
Discount Rate	7.15%	7.15%
Inflation	2.50%	2.50%
Payroll Growth	2.75%	2.75%
Projected Salary Increase	Varies by Entry Age and Service	Varies by Entry Age and Service
Investment Rate of Return (1)	7.15%	7.15%
Mortality	Derived using CalPERS' Membership Data for All Funds	

(1) Compounded annually, net of administrative and investment expenses

OTHER REPORTS

James Marta & Company LLP
Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

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

INDEPENDENT AUDITOR'S REPORT

To the Commissioners of
Solano Local Agency Formation Commission Organization
675 Texas Street, Suite 6700
Fairfield, California 94533

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the governmental activities and major fund of Local Agency Formation Commission of Solano County, as of and for the years ended June 30, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Local Agency Formation Commission of Solano County's basic financial statements, and have issued our report thereon dated May 18, 2023.

Internal Control Over Financial Reporting

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

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

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

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Compliance and Other Matters

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

Purpose of this Report

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

James Marta & Company LLP

James Marta & Company LLP
Certified Public Accountants
Sacramento, California
May 18, 2023

James Marta & Company LLP
Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

May 18, 2023

Commissioners
Local Agency Formation Commission of Solano County
Fairfield, California

We have audited the financial statements of Local Agency Formation Commission of Solano County (the Commission) as of and for the years ended June 30, 2022 and 2021, and the related notes to the financial statements and have issued our report thereon dated May 18, 2023. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated July 15, 2022, our responsibility, as described by professional standards, is to form and express an opinion(s) about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

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

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

Planned Scope and Timing of the Audit

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

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, and our firm has complied with all relevant ethical requirements regarding independence.

We follow the AICPA Ethics Standard Rule 201C, in conjunction with this, we annually review with all engagement staff potential conflicts and obtain a conflict certification. In addition, we inquire on each engagement about potential conflicts with staff. We have not identified any relationships or other matters that in the auditor's judgment may be reasonably thought to bear on independence.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Commission is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during the year audited. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus. However, there are upcoming Governmental Accounting Standards that we have listed in Attachment I.

Significant Accounting Estimates

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

The most significant accounting estimates affecting the financial statements are the Commission's proportionate share of net pension liability. The estimate of the Commission's proportionate share of net pension liability is based on an actuarial study. We evaluated key factors and assumptions used to develop the estimates and determined that it is reasonable in relation to the basic financial statements taken as a whole.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. We did not identify any disclosures that involve significant sensitive discretion.

Significant Difficulties Encountered during the Audit

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

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. There were no uncorrected misstatements identified as a result of our audit procedures.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. In the current year, no uncorrected misstatements were identified as a result of our audit procedures. All adjustments were presented to us by management. These adjustments are summarized in Attachment II.

Disagreements with Management

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

Representations Requested from Management

We have requested certain written representations from management, which are included in the attached letter dated May 18, 2023.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

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

This report is intended solely for the information and use of the Commissioners and management of Local Agency Formation Commission of Solano County and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

James Marta & Company LLP

James Marta & Company LLP
Certified Public Accountants
Sacramento, California
May 18, 2023

The following pronouncements of the Governmental Accounting Standards Board (GASB) have been released recently and may be applicable to the Commission in the near future. We encourage management to review the following information and determine which standard(s) may be applicable to the Commission. For the complete text of these and other GASB standards, visit www.gasb.org and click on the "Standards & Guidance" tab. If you have questions regarding the applicability, timing, or implementation approach for any of these standards, please contact your audit team.

GASB Statement No. 91, Conduit Debt Obligations
Effective for the fiscal year ending June 30, 2023

The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

We do not expect this standard to have any significant impact on the Commission.

GASB Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements
Effective for the fiscal year ending June 30, 2023

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.

We do not expect this standard to have any significant impact on the Commission.

GASB Statement No. 96, Subscription-Based Information Technology Arrangements
Effective for the fiscal year ending June 30, 2023

This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended.

We do not expect this standard to have any significant impact on the Commission.

GASB Statement No. 99, Omnibus 2022
Effective dates vary

The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The practice issues addressed by this Statement are as follows:

- Classification and reporting of derivative instruments within the scope of Statement No. 53, Accounting and Financial Reporting for Derivative Instruments, that do not meet the definition of either an investment derivative instrument or a hedging derivative instrument – *Effective for the fiscal year ending June 30, 2024*
- Clarification of provisions in Statement No. 87, Leases, as amended, related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives – *Effective for the fiscal year ending June 30, 2023*
- Clarification of provisions in Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset – *Effective for the fiscal year ending June 30, 2023*
- Clarification of provisions in Statement No. 96, Subscription-Based Information Technology Arrangements, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability – *Effective for the fiscal year ending June 30, 2023*
- Extension of the period during which the London Interbank Offered Rate (LIBOR) is considered an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap that hedges the interest rate risk of taxable debt – *Effective immediately*
- Accounting for the distribution of benefits as part of the Supplemental Nutrition Assistance Program (SNAP) – *Effective immediately*
- Disclosures related to nonmonetary transactions – *Effective immediately*
- Pledges of future revenues when resources are not received by the pledging government – *Effective immediately*
- Clarification of provisions in Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, as amended, related to the focus of the government-wide financial statements – *Effective immediately*

- Terminology updates related to certain provisions of Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position – *Effective immediately*
- Terminology used in Statement 53 to refer to resource flows statements. – *Effective immediately*

We do not expect this standard to have any significant impact on the Commission.

GASB Statement No. 100, Accounting Changes and Error Corrections—an amendment of GASB Statement No. 62
Effective for the fiscal year ending June 30, 2024

The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

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

This Statement prescribes the accounting and financial reporting for (1) each type of accounting change and (2) error corrections. This Statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. The requirements of this Statement for changes in accounting principles apply to the implementation of a new pronouncement in absence of specific transition provisions in the new pronouncement. This Statement also requires that the aggregate amount of adjustments to and restatements of beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements.

We do not expect this standard to have any significant impact on the Commission.

GASB Statement No. 101, Compensated Absences
Effective for the fiscal year ending June 30, 2025

The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.

We do expect this standard to have an impact on the Commission.

Adjusting Journal Entries

Adjusting Journal Entry JE # 1			
To tie to Prior Year Equity			
0002200	Office Expense	4	
0006030	Fund Balance		4
Total		**4**	**4**

Adjusting Journal Entry JE # 2			
To adjust pension liability accounts			
0005600	Pension Liability	69,081	
0005700	Deferred inflows	747	
0005800	Deferred outflows	22,706	
0002600	Pension Expense		92,534
Total		**92,534**	**92,534**

Adjusting Journal Entry JE # 3			
To adjust accrued vacation for CY			
0005500	Accrued Vacation	26,405	
0002500	Vacation expense		26,405
Total		**26,405**	**26,405**

Reclassifying Journal Entries

None.

Proposed Journal Entries

None.

Solano Local Agency Formation Commission
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ILLUSTRATIVE MANAGEMENT REPRESENTATION LETTER

May 18, 2023

James Marta & Company LLP
Certified Public Accountants
Sacramento, California

This representation letter is provided in connection with your audit of the governmental activities, the general fund of Local Agency Formation Commission of Solano County as of June 30, 2022 and 2021 and for the years then ended, and the related notes to the financial statements, for the purpose of expressing opinions on whether the basic financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows, where applicable, of the various opinion units of Local Agency Formation Commission of Solano County in accordance with accounting principles generally accepted for governments in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of May 18, 2023.

Financial Statements

- We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated July 15, 2022, for the preparation and fair presentation of the financial statements of the various opinion units referred to above in accordance with U.S. GAAP.
- We acknowledge our responsibility 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.
- We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- We acknowledge our responsibility for compliance with the laws, regulations, and provisions of contracts and grant agreements.
- We acknowledge that we are responsible for distributing the issued report as well as the communication with governance letter and internal control letter to all governing board members.
- We have reviewed, approved, and taken responsibility for the financial statements and related notes.

- We have a process to track the status of audit findings and recommendations.
- We have identified and communicated to you all previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
- Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
- All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
- The effects of uncorrected misstatements summarized in the attached schedule and aggregated by you during the current engagement are immaterial, both individually and in the aggregate, to the applicable opinion units and to the financial statements as a whole.
- The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
- We have reviewed and approved the adjusting journal entries reflected in the audit statements and Attachment A.
- All component units, as well as joint ventures with an equity interest, are included and other joint ventures and related organizations are properly disclosed.
- All funds and activities are properly classified.
- All funds that meet the quantitative criteria in GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus* as amended, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, for presentation as major are identified and presented as such and all other funds that are presented as major are considered important to financial statement users.
- All components of net position, nonspendable fund balance, and restricted, committed, assigned, and unassigned fund balance are properly classified and, if applicable, approved.
- Our policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position/fund balance are available is appropriately disclosed and net position/fund balance is properly recognized under the policy.
- All revenues within the statement of activities have been properly classified as program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
- All expenses have been properly classified in or allocated to functions and programs in the statement of activities, and allocations, if any, have been made on a reasonable basis.
- All interfund and intra-entity transactions and balances have been properly classified and reported.
- Special items and extraordinary items have been properly classified and reported.
- Deposit and investment risks have been properly and fully disclosed.
- Capital assets, including infrastructure assets, are properly capitalized, reported, and if applicable, depreciated.
- All required supplementary information is measured and presented within the prescribed guidelines.
- With regard to investments and other instruments reported at fair value:
  - The underlying assumptions are reasonable and they appropriately reflect management’s intent and ability to carry out its stated courses of action.

- The measurement methods and related assumptions used in determining fair value are appropriate in the circumstances and have been consistently applied.
- The disclosures related to fair values are complete, adequate, and in accordance with U.S. GAAP.
- There are no subsequent events that require adjustments to the fair value measurements and disclosures included in the financial statements.

Information Provided

- We have provided you with:
  - Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements of the various opinion units referred to above, such as records, documentation, meeting minutes, and other matters;
  - Additional information that you have requested from us for the purpose of the audit; and
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- All transactions have been recorded in the accounting records and are reflected in the financial statements.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
  - Management;
  - Employees who have significant roles in internal control; or
  - Others where the fraud could have a material effect on the financial statements.
- We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, vendors, regulators, or others.
- We are not aware of any pending or threatened litigation, claims, and assessments whose effects should be considered when preparing the financial statements
- We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
- There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices.
- Local Agency Formation Commission of Solano County has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
- We have disclosed to you all guarantees, whether written or oral, under which Local Agency Formation Commission of Solano County is contingently liable.
- We have disclosed to you all nonexchange financial guarantees, under which we are obligated and have declared liabilities and disclosed properly in accordance with GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, for those guarantees where it is more likely than not that the entity will make a payment on any guarantee.
- For nonexchange financial guarantees where we have declared liabilities, the amount of the liability recognized is the discounted present value of the best estimate of the future outflows expected to be incurred as a result of the guarantee. Where there was no best estimate but a range of estimated future outflows has been established, we have recognized the minimum amount within the range.
- We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed in accordance with GASB Statement No. 62 (GASB-62), *Codification of Accounting and Financial Reporting Guidance Contained in Pre-*

November 30, 1989 FASB and AICPA Pronouncements. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.

- We have identified and disclosed to you the laws, regulations, and provisions of contracts and grant agreements that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
- There are no:
  - Violations or possible violations of laws or regulations, or provisions of contracts or grant agreements whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, including applicable budget laws and regulations.
  - Unasserted claims or assessments that our lawyer has advised are probable of assertion and must be disclosed in accordance with GASB-62.
  - Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB-62
- Local Agency Formation Commission of Solano County has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset or future revenue been pledged as collateral, except as disclosed to you.
- We have complied with all aspects of grant agreements and other contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

Pension and Postretirement Benefits

- We believe that the actuarial assumptions and methods used to measure pension and other postemployment benefit liabilities and costs for financial accounting purposes are appropriate in the circumstances.
- We are unable to determine the possibility of a withdrawal liability in a multiemployer benefit plan.

Required Supplementary Information

- With respect to the required supplementary information accompanying the financial statements:
- We acknowledge our responsibility for the presentation of the required supplementary information in accordance with accounting principles generally accepted in the United States of America and Governmental Accounting Standards.
- We believe the required supplementary information, including its form and content, is measured and fairly presented in accordance with accounting principles generally accepted in the United States of America and Governmental Accounting Standards.
- The methods of measurement or presentation have not changed from those used in the prior period.

To the best of our knowledge and belief, no events have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.

Richard J. Seithel

Richard Seithel, Executive Officer

Attachment A
Journal Entry Report

Adjusting Journal Entries

Adjusting Journal Entry JE # 1			
To tie to Prior Year Equity			
0002200	Office Expense	4	
0006030	Fund Balance		4
Total		**4**	**4**

Adjusting Journal Entry JE # 2			
To adjust pension liability accounts			
0005600	Pension Liability	69,081	
0005700	Deferred inflows	747	
0005800	Deferred outflows	22,706	
0002600	Pension Expense		92,534
Total		**92,534**	**92,534**

Adjusting Journal Entry JE # 3			
To adjust accrued vacation for CY			
0005500	Accrued Vacation	26,405	
0002500	Vacation expense		26,405
Total		**26,405**	**26,405**