KERN LOCAL AGENCY FORMATION COMMISSION

FINANCIAL STATEMENTS WITH INDEPENDENT AUDITOR'S REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2023

KERN LOCAL AGENCY FORMATION COMMISSION
JUNE 30, 2023

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JUNE 30, 2023

Board of Commissioners

Zack Scrivner

David Couch

Saul Ayon

John Crump

Andrae Gonzales

Gary McKibbin

Karen Sanders

Vince Zaragoza

Barbara Fowler

Management

Blair Knox
Executive Officer

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Kern Local Agency Formation Commission
Bakersfield, California

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities and the major fund of the Kern Local Agency Formation Commission (the Commission), as of and for the fiscal year ended June 30, 2023, and the related notes to the basic financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Commission as of June 30, 2023, and the respective changes in financial position thereof for the fiscal 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 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.

Responsibilities of Management for the Financial Statements

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

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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 auditing standards generally accepted in the United States of America and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, we:

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis, budgetary comparison schedule – Governmental General Fund, cost-sharing defined benefit pension plan – schedule of the proportionate share of the net pension liability, cost-sharing defined benefit pension plan – schedule of pension contributions, and notes to the required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express 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 November 10, 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 the Commission's 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.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
November 10, 2023

This section of the Kern Local Agency Formation Commission's (the Commission) financial statements presents our management's discussion and analysis (MD&A) of the Commission's financial condition and results of operations for the fiscal year ended June 30, 2023. As management of the Commission, we offer readers of the Commission's basic financial statements this narrative overview and analysis, which is designed to focus on current financial activities, resulting changes, and currently known facts with respect to the Commission's performance during the fiscal year ended June 30, 2023. Please read it in conjunction with the Commission's basic financial statements, which follow this section.

Fiscal Year 2022-23 Financial Highlights

- The Commission received $582,228 in operating contributions from the County of Kern, the cities of Kern County, and the special districts of Kern County.
- During fiscal year 2022-23, the Commission disbursed $1,105,163.
- Total liabilities and deferred inflows of resources of the Commission exceeded its assets and deferred outflows of resources at the close of the recent fiscal year by $447,089.
- At the close of the current fiscal year, the Commission's major General Fund reported an ending fund balance of $344,607, a decrease of $42,685 in comparison with the prior year. This decrease is due to receiving fewer operating contributions than amounts disbursed during the year.

Variances between the Commission's budgeted and actual amounts included the following:

- Actual operating revenues were $104,211 less than budgeted, due to less than expected contributions from Governmental Agencies resulting from an excess carry-over in from the prior years.
- User fee revenue was $18,140 less than budgeted due to fewer proposals being processed.
- Salaries and employee benefits were $32,855 less than budgeted due to less than expected California Public Employees Retirement System (CalPERS) retirement adjustments.
- Office expenditures were $14,151 less than budgeted due to the implementation of Governmental Accounting Standards Board (GASB) Statement No. 68.
- Professional and specialized services were $18,207 less than budgeted. The decrease is due to no special studies being conducted and effective management of such services.
- Transportation and travel expenditures were $10,316 less than budgeted due to attendance of additional budgeted training being cancelled due to COVID-19 pandemic.

Overview of the Financial Statements

The Commission's basic financial statements include (1) government-wide financial statements, (2) fund financial statements and (3) notes to the basic financial statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Commission's finances in a manner similar to a private sector business.

The Statement of Net Position presents information on all of the Commission's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference between the four reported as net position (deficit). Over time, increases or decreases in net position compared to the Commission's adopted financial model may serve as a useful indicator of the ability of the Commission to continue to operate.

The Statement of Activities presents information showing how the Commission's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected revenues, unpaid expenses, and contingent liabilities).

Fund Financial Statements

A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Commission, like local governments, uses fund accounting to ensure compliance with finance-related legal requirements. Fund financial statements report essentially the same functions as those reported in the government-wide financial statements. However, unlike the government-wide financial statements, fund financial statements focus on near-term inflows and outflows of spending resources, as well as on balances of spendable resources available at the end of the fiscal year.

Because of the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the governmental fund with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Commission adopts an annual appropriated budget for its governmental fund. A budgetary comparison statement has been provided for this fund to demonstrate compliance with the budget.

Notes to Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Government-Wide Financial Analysis

Statement of Net Position: Net position may serve over time as a useful indicator of the Commission's financial position. In the case of the Commission, liabilities and deferred inflows of resources exceeded assets and deferred outflows by $447,089 at the close of the most recent fiscal year. However, financial statement users need to consider other factors, both financial and non-financial, in assessing the Commission's financial position. These factors include changes in services, changes in state funding, and changes in the economy.

Changes in the Commission's net position as of June 30, 2023 and 2022, are follows:

	2023	2022	Change
Current assets	$ 390,312	$ 426,507	$ (36,195)
Noncurrent assets	52,797	88,449	(35,652)
Total assets	443,109	514,956	(71,847)
Deferred outflows of resources	337,325	128,808	208,517
Current liabilities	78,081	72,726	5,355
Noncurrent liabilities	964,452	315,249	649,203
Total liabilities	1,042,533	387,975	654,558
Deferred inflows of resources	184,990	218,632	(33,642)
Net position			
Net investment in capital assets	20,421	22,562	(2,141)
Unrestricted (deficit)	(467,510)	14,595	(482,105)
Total net position (deficit)	$ (447,089)	$ 37,157	$ (484,246)

The Commission's net position (deficit) decreased by $ 484,246 during the current fiscal year. The decrease in the Commission's net position (deficit) was primarily attributed to a decrease in revenues received during the year as well as an increase in the net pension liability. Refer to Note 5 - Defined Benefit Pension Plan, of the Commission's notes to the basic financial statements for additional information.

Statement of Activities: A summary of the Commission's statements of activities for the years ended June 30, 2023 and 2022, is as follows:

	2023	2022	Change
Revenues			
Program revenues	$ 614,088	$ 635,188	$ (21,100)
General revenues	6,829	3,805	3,024
Total revenues	620,917	638,993	(18,076)
Expenses			
General government	1,105,163	504,851	600,312
Change in net position	(484,246)	134,142	(618,388)
Net position (deficit) - beginning of year	37,157	(96,985)	134,142
Net position (deficit) - end of year	$ (447,089)	$ 37,157	$ (484,246)

Revenues: Changes in revenues from the prior year are briefly summarized as follows:

The Commission's program revenues decreased by $21,100 compared to the prior period due to budgetary decreases in expectation of resuming their normal operations.

Expenses: Changes in expenses from the prior year are briefly summarized as follows:

General governmental expenses were $ 600,312 more than the prior year due to the following:

- Salaries and employee benefits were $65,151 less than the previous year due to an adjustment in employee benefit obligations.
- Refer to Note 5 - Defined Benefit Pension Plan, of the Commission's notes to the basic financial statements for additional information.

Financial Analysis of the Commission's Major General Fund

As noted earlier, fund accounting is used by the Commission to ensure and demonstrate compliance with finance related legal requirements.

As of the end of the current fiscal year, the Commission's General Fund reported an ending fund balance of $344,607, a decrease of $42,685 in comparison with prior year. The increase was mostly attributed to an effective management of expenditures and revenues received.

Capital Assets and Debt Administration

Capital Assets – The Commission's capital assets for its governmental activities as of June 30, 2023, amounted to $52,797 (net of accumulated depreciation and amortization). Capital assets include furniture and office equipment and right-to-use leased asset.

Debt Administration – At the end of the current fiscal year, the Commission's long-term obligation was for compensated absences of $46,674.

Factors Bearing on the Commission's Future

The pandemic has reduced revenues to the County of Kern, cities, and special districts and brought uncertainty to the number of proposals that will likely be brought before the Commission. Staffing levels and job responsibilities will need to be evaluated as budgets are considered.

Contacting the Commission's Financial Management

The Commission's financial report is design to provide the Commission's Board, management, creditors, legislative and oversight agencies, citizens, and customers with an overview of Kern Local Agency Formation Commission's finances and to demonstrate its accountability for funds received. For additional information about this report, please contact Blair Knox, Executive Director, at 5300 Lennox Avenue, Suite 303, Bakersfield, California 93309.

KERN LOCAL AGENCY FORMATION COMMISSION
STATEMENT OF NET POSITION
JUNE 30, 2023

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

Current Assets:	
Cash and cash equivalents (Note 2)	$ 390,312
Total Current Assets	390,312
Noncurrent Assets:	
Capital assets, net (Note 3)	52,797
Total Assets	443,109
Deferred Outflows of Resources (Note 5):	
Pension contributions subsequent to the measurement date	69,080
Changes of assumptions	94,046
Differences between expected and actual experience	6,086
Net differences between projected and actual earnings on plan investments	168,113
Total Deferred Outflows of Resources	337,325
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 780,434

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

Liabilities:	
Accounts payable	$ 12,572
Accrued payroll	14,481
Long-term liabilities:	
Due within one year:	
Compensated absences (Note 4)	18,652
Lease liability (Note 4)	32,376
Due after one year:	
Compensated absences (Note 4)	46,674
Net pension liability (Note 5)	917,778
Total Liabilities	1,042,533
Deferred Inflows of Resources (Note 5):	
Difference between employer's contribution and proportionate share of contributions	46,945
Differences between expected and actual experience	138,045
Total Deferred Inflows of Resources	184,990
Net Position:	
Net investment in capital assets	20,421
Unrestricted	(467,510)
Total Net Position	(447,089)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	$ 780,434

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

KERN LOCAL AGENCY FORMATION COMMISSION
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

		Program Revenues		Net (Expense) Revenue and Changes in Net Position (Deficit)
Functions/Programs	Expenses	Charges for Services	Operating Contributions	Governmental Activities
Primary Government:				
General Government	$ 1,105,163	$ 31,860	$ 582,228	$ (491,075)
General Revenues:				
Interest				6,829
Change in net position				(484,246)
Net position at beginning of year				37,157
Net position at end of year				$ (447,089)

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

KERN LOCAL AGENCY FORMATION COMMISSION
BALANCE SHEET
GOVERNMENTAL GENERAL FUND
JUNE 30, 2023

ASSETS	
Cash and cash equivalents (Note 2)	$ 390,312
Total Assets	$ 390,312
LIABILITIES AND FUND BALANCE	
Liabilities:	
Accounts payable and accrued expenses	$ 12,572
Accrued payroll	14,481
Current portion of compensated absences (Note 4)	18,652
Total Liabilities	45,705
Fund Balance (Note 1):	
Unassigned	344,607
Total Fund Balance	344,607
Total Liabilities and Fund Balance	$ 390,312

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

KERN LOCAL AGENCY FORMATION COMMISSION
RECONCILIATION OF THE GOVERNMENTAL GENERAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2023

Total Fund Balance - Governmental Fund		$ 344,607
Amounts reported for governmental activities in the statement of net position are different from amounts reported in the governmental fund because:		
Capital assets: In the governmental fund, only current assets are reported. In the statement of net position, all assets are reported, including capital assets and accumulated depreciation. Capital assets at year-end consist of:		
Capital assets at historical cost	$ 152,515	
Accumulated depreciation and amortization	(99,718)	
Net		52,797
Long-term liabilities: In the governmental fund, only current liabilities are reported. In the statement of net position, all liabilities are reported. Long-term liabilities at year-end consist of:		
Compensated absences	(46,674)	
Lease liability	(32,376)	
Net pension liability	(917,778)	
Total		(996,828)
Deferred outflows and inflows of resources relating to pensions: In the governmental fund, 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 reported.		
Deferred outflows of resources relating to pensions		337,325
Deferred inflows of resources relating to pensions		(184,990)
Total Net Position - Governmental Activities		$ (447,089)

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

KERN LOCAL AGENCY FORMATION COMMISSION
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
GOVERNMENTAL GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

REVENUES	
Contributions from governmental agencies	$ 582,228
User fees	31,860
Interest	6,829
Total Revenues	620,917
EXPENDITURES	
Salaries and employee benefits	511,884
Professional and specialized services	73,793
Lease Expense - Buildings	33,511
SDRMA Insurance	8,318
Office expense	20,592
Travel and transportation	9,022
Publications and legal notices	1,764
Special department expenditures	1,903
Interest expense	2,815
Total Expenditures	663,602
Net Change in Fund Balance	(42,685)
Fund Balance, Beginning of Year	387,292
Fund Balance, End of Year	$ 344,607

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

KERN LOCAL AGENCY FORMATION COMMISSION
RECONCILIATION OF THE CHANGE IN FUND BALANCE
TO THE CHANGE IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

Net Change in Fund Balance - Governmental Fund	$	(42,685)
Capital outlays are reported in the governmental fund as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation or amortization expense. This is the amount by which net additions to capital outlays of $2,918 are less than depreciation and amortization expense of $38,570 in the period.		(35,652)
Long-term compensated absences are reported in the statement of activities, but they do not require the use of current financial resources. Therefore, long-term compensated absences are not reported as expenditures in the governmental fund. This is the amount by which the long-term compensated absence liability changed during the year.		(14,253)
Repayment of leases is an expenditure in the governmental fund, but repayment reduces long-term liabilities in the statement of net position.		33,511
Pension costs are reported in the governmental fund when employer contributions are made. However, in the statement of activities, pension costs are recognized on the accrual basis of accounting. This year, the difference between accrual basis of accounting pension costs and actual employer contributions was:		(425,167)
Total Change in Net Position - Governmental Activities	$	(484,246)

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Nature of Activities

Local Agency Formation Commissions (LAFCOs) were created by State legislation in 1963. Their purpose is to provide for the orderly growth of local government and to prevent urban sprawl. LAFCOs are funded by an assessment on the operating revenue of counties, cities, and special districts. The Kern Local Agency Formation Commission (the Commission) includes representatives of the general public in addition to these entities. Most of the day-to-day operations and responsibilities are derived from the review of proposed annexations and related spheres of influence. The Commission is governed by its own Board of Commissioners (the Board).

B. Reporting Entity

The Commission has no oversight responsibility for any other governmental entity; nor is the Commission's operation a component unit of any other governmental entity. Therefore, the reporting entity consists only of Commission operations.

C. Basis of Presentation, Basis of Accounting, and Measurement Focus

Accounting policies of the Commission conform to accounting principles generally accepted in the United States of America applicable to state and local governments.

Government-Wide Financial Statements

Government-wide financial statements display information about the Commission as a whole. These statements include separate columns for the governmental and business-type activities of the primary government. The Commission does not have business-type activities.

The government-wide financial statements consist of the Statement of Net Position and the Statement of Activities. The Statement of Net Position presents the financial condition of the governmental activities of the Commission at year-end. The Statement of Activities presents a comparison between direct expenses and program revenues for each program or function on the Commission's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department, and therefore, clearly identifiable to a particular function.

Government-wide financial statements are presented using the *economic resources measurement focus* and the *accrual basis of accounting*. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the Commission are reported in the government-wide financial statements. *Basis of accounting* refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of Governmental Accounting Standards Board (GASB) Statement No. 33. Program revenues include charges for services and payments made by parties outside of the reporting Commission's citizenry if that money is restricted. Program revenues are netted with program expenses in the Statement of Activities to present the net cost of each program.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation, Basis of Accounting, and Measurement Focus (Continued)

Fund Financial Statements

The underlying accounting system of the Commission is organized and operated on the basis of separate funds, 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 balance, revenues, and expenditures or expenses, as appropriate.

Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Fund financial statements for the Commission's governmental fund are presented after the government-wide financial statements. These statements display information about the Commission's major fund, the Governmental General Fund.

Governmental Fund Types

In the fund financial statements, governmental funds are presented using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets. Measurable means that the amounts can be estimated, or otherwise determined. Available means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period.

Assessments and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period to the extent normally collected within the availability period. Other revenue items are considered to be measurable and available when cash is received by the Commission.

Exchange transactions are recognized as revenues in the period in which they are earned (i.e., the related goods or services are provided). Locally imposed tax revenues are recognized as revenues in the period in which the underlying exchange transaction upon which they are based takes place. Imposed non-exchange transactions are recognized as revenues in the period for which they are imposed. If the period of use is not specified, revenue is recognized in the period in which it is earned. When an enforceable legal claim is not specified, revenue is recognized when an enforceable legal claim to the revenues arises or when revenue is received, whichever occurs first. Government-mandated and voluntary non-exchange transactions are recognized as revenues when all applicable eligibility requirements have been met.

In the fund financial statements, governmental funds are presented using the current financial resources measurement focus. This means that only current assets and current liabilities are generally included on the Balance Sheet. The reported fund balance (net current assets) is considered to be a measure of "available spendable resources." Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

As a result of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as government fund type expenditures or fund liabilities.

Amounts expended to acquire capital assets are recorded as *expenditures* in the year that resources were expended, rather than as fund assets. The proceeds of long-term debt are recorded as an *other financing source* rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation, Basis of Accounting, and Measurement Focus (Continued)

Major Fund

The major fund of the Commission is the Governmental General Fund, which is the general operating fund of the Commission and accounts for all revenues and expenditures of the Commission.

Budget

By state law, the Commission's Board must adopt a final budget no later than June 15. A public hearing must be conducted to receive comments prior to adoption. The Commission's Board satisfied these requirements. This budget is revised by the Commission's Board during the year to give consideration to unanticipated income and expenditures. It is this final revised budget that is presented in the financial statements.

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Fund Balance

Cash

The Commission maintains substantially all of its cash with the Kern County (the County) Treasurer-Tax Collector. This is an interest bearing account. The County pools these funds with those of other agencies in the County and invests the cash. These pooled funds are carried at cost, which approximates fair value.

The Commission also maintains two other accounts with a financial institution, which are also interest bearing accounts. The Federal Deposit Insurance Corporation (FDIC) insures cash balances held with this financial institution up to $250,000.

Capital Assets

The Commission's capital assets consist of furniture and office equipment that are reported as governmental activities in the Statement of Net Position. Capital assets are defined as assets with an initial individual cost of $5,000 or more and an estimated useful life in excess of one year. Purchased capital assets are accounted for at historical cost or estimated historical cost if actual historical cost is not known. Donated property and equipment are accounted for at their estimated fair value on the date received. Purchased capital assets are recorded as expenditures in the Governmental General Fund and capitalized (recorded and accounted for) in the Statement of Net Position. Capital assets are depreciated/amortized on the straight-line method over the estimated useful lives of the assets, ranging from 5-15 years.

Right-to-Use Leased Assets

Right-to-use leased assets are recorded at the amount of the initial measurement of the lease liabilities and modified by any lease payment made to the lessor at or before the commencement of the lease term, less any lease incentives received from the lessor at or below the commencement of the lease term along with any initial direct costs that are ancillary charges necessary to place the leased asset into service.

Right-to-use leased assets are amortized using the straight-line method over the shorter of the lease term or the useful life on the underlying asset, unless the lease contains a purchase option that the Commission has determined is reasonably certain of being exercised.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Fund Balance (Continued)

Compensated Absences

The Commission accrues vested liabilities for vacation. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the General Fund only if it is expected to be utilized or paid within the next year.

Employees have a vested right to accumulated sick leave. Accordingly, the total amount accumulated is accrued when incurred in the government-wide financial statements.

Net Position

Net position represents the residual interest in the Commission's assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted. In accordance with GASB Statement No. 34, the fund balance section on the Statement of Net Position was combined to report total net position and presented in three broad components: net investment in capital assets, restricted, and unrestricted. Net investment in capital assets includes capital assets net of accumulated depreciation. Net position is restricted when constraints are imposed by third parties or by law through constitutional provisions or enabling legislation. The remainder is categorized as unrestricted net position. The Commission does not have any restricted net position.

Fund Balance

Fund balances of governmental funds are classified based on the level of constraint placed on the resources of the funds as follows:

a. Nonspendable fund balance includes amounts that are not expected to be converted to cash, such as resources that are not in spendable form (e.g., inventories and prepaids) or that are legally or contractually required to be maintained intact.
b. Restricted fund balance includes amounts constrained to specific purposes by their providers or by law.
c. Committed fund balance includes amounts constrained to specific purposes by the Board. For this purpose, all commitments of funds shall be approved by a majority vote of the Board. The constraints shall be imposed no later than the end of the reporting period of June 30, although the actual amounts may be determined subsequent to that date but prior to the issuance of the financial statements.
d. Assigned fund balance includes amounts which the Board or its designee intends to use for a specific purpose. The Board delegates authority to assign funds to the assigned fund balance to the designee and authorizes the assignment of such funds to be made any time prior to the issuance of the financial statements.
e. Unassigned fund balance includes amounts that are available for any purpose.

When multiple types of funds are available for an expenditure, the Commission shall first utilize funds from the restricted fund balance as appropriate, then from the committed fund balance, then from the assigned fund balance, and lastly from the unassigned fund balance.

Defined Benefit Pension Plan

In the Commission's basic financial statements, the defined benefit pension plan (pension) is required to be recognized and disclosed using the accrual basis of accounting. In general, the Commission recognizes a net pension liability, which represents the Commission's proportionate share of the cost-sharing multiple-employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS) as reflected in the actuarial report provided by CalPERS. The net pension liability is measured as of the prior fiscal year-end (June 30, 2021, rolled forward to June 30, 2022, using standard update procedures as determined by an actuarial valuation). The

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Fund Balance (Continued)

Defined Benefit Pension Plan (Continued)

changes in the net pension liability are recorded as deferred inflows of resources or deferred outflows of resources depending on the nature of the change. The changes in the net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources (that arise from changes in actuarial assumptions or other inputs and differences between expected and actual experience) are amortized over a 5 year period on a straight-line basis and are recorded as a component of pension expense beginning with the period in which they are incurred.

Subsequent Events

The Commission has evaluated subsequent events through November 10, 2023, the date on which the financial statements were available to be issued.

Implementation of New Accounting Pronouncements

The Commission has adopted all current statements of GASB that are applicable. For the fiscal year ended June 30, 2023, the Commission implemented the following new standards issued by GASB with no impact to the financial statements.

GASB Statement No. 91 – *Conduit Debt Obligations.* The requirements of this statement are effective for fiscal years beginning after December 15, 2021. The Commission implemented this statement where applicable.

GASB Statement No. 94 – *Public-Private and Public-Public Partnerships and Availability Payment Arrangements.* The requirements of this statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. The Commission implemented this statement where applicable.

GASB Statement No. 96 – *Subscription-Based Information Technology Arrangements.* The requirements of this statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. The Commission implemented this statement where applicable.

GASB Statement No. 99 – *Omnibus 2022.* The requirements of this statement are effective as follows:

- The requirements related to extension of the use of the London Interbank Offered Rate (LIBOR), accounting for Supplemental Nutrition Assistance Program (SNAP) distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in GASB Statement No. 34, as amended, and terminology updates related to GASB Statement No. 53 and GASB Statement No. 63 are effective upon issuance.
- The requirements related to leases, public-private and public-public partnerships (PPPs), and subscription-based information technology arrangements (SBITAs) are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.
- The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of GASB Statement No. 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

The Commission implemented this statement where applicable.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Fund Balance (Continued)

Accounting Pronouncements Recently Issued and Applicable to Future Years

The following statements, issued recently by the GASB, are effective for year-ends after June 30, 2023. Management is evaluating the impact of the implementation of these statements, if any on the basic financial statements.

GASB Statement No. 100 – *Accounting Changes and Error Corrections—an Amendment of GASB Statement No. 62.* For fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

GASB Statement No. 101 – *Compensated Absences.* The requirements of this statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The net pension liability is considered to be a significant estimate with respect to these financial statements.

Change in Estimate

For the year ended June 30, 2023, the District changed the estimate of the value of reported amounts and probabilities to the net pension liability. The change is being applied prospectively, beginning July 1, 2022. The effect of this change in the current period is an increase of the District's net position by $468,054, net pension liability by $316,965, deferred outflows by $25,820, and deferred inflows by $176,909.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents classified in the governmental activities and governmental general fund financial statements consisted of the following at June 30, 2023:

	2023
Cash in Banks	$ 350,845
Cash in Kern County Investment Pool	39,467
Total Cash and Cash Equivalents	$ 390,312
Total Interest Income	$ 6,829

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in interest rates.

NOTE 2 – CASH AND CASH EQUIVALENTS (Continued)

Interest Rate Risk (Continued)

Information about the sensitivity of the fair value of the Commission's investments to interest rate fluctuations is provided by the following table that shows the distributions of the Commission's investments by maturity as of June 30, 2023:

		Remaining Maturity			
Investment Type	Amount	12 Months or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
County Investment Pool	$ 39,467	$ 39,467	$ -	$ -	$ -

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code or the Commission's investment policy, and the actual rating as of year-end for each investment type. The column marked "Exempt From Disclosure" identifies those investment types for which GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, an amendment of GASB Statement No. 3, does not require disclosure as to credit risk.

				Rating as of Year-End	
Investment Type	Amount	Minimum Legal Rating	Exempt From Disclosure	AAA	Not Rated
County Investment Pool	$ 39,467	N/A	$ -	$ -	$ 39,467

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the Commission's deposits may not be returned to it. Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, the Commission will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Commission's investment policy do not contain any legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than requiring a financial institution secure deposits made by state or local governments units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. The Commission complies with the California's Government Code Section 53638 (Public Deposit Act), in which the first $250,000 of the Commission's deposits are insured by the FDIC. Deposits of more than $250,000 insured amounts are fully collateralized by the bank by pledging identifiable U.S. Government Securities at 110%. GASB Statement No. 40 requires disclosure of deposits with financial institutions in excess of FDIC limits. At June 30, 2023, the Commission had $101,270 of deposits with financial institutions in excess of the FDIC limits.

Investment in County Investment Pool

The Commission is a participant in the County Investment Pool. The fair value of the Commission's investment in this pool is reported in the accompanying basic financial statements at amounts based upon the Commission's pro-rata share of the fair value provided by the County for the entire County portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County, which are recorded on an amortized cost basis. Interest earned on the pooled investments is credited to the Commission based on the Commission's average daily deposit balance during the allocation period with all remaining interest deposited with the

NOTE 2 – CASH AND CASH EQUIVALENTS (Continued)

Investment in County Investment Pool (Continued)

County. The disclosures in accordance with GASB Statements, including interest rate risk, credit risk, concentration, and rating, as well as custodial credit risk disclosures for the County's Investment Pool, are included in the County's Annual Comprehensive Financial Report (ACFR). The County's ACFR can be obtained either from the County's website at www.co.kern.ca.us or from the County's Auditor-Controller's office located at 1115 Truxtun Avenue, 2nd Floor, Bakersfield, California 93301.

Fair Value Measurement

GASB Statement No. 72 improved the measuring of fair value for financial reporting purposes and enhanced disclosures about the fair value hierarchy as established by accounting principles generally accepted in the United States of America. The Commission categorizes its fair value measurements within the fair value hierarchy. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Commission has the following recurring fair value measurement as of June 30, 2023:

- County Investment Pool is an uncategorized input not defined as a Level 1, Level 2, or Level 3 input.

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2023, is shown below:

	Balance June 30, 2022	Additions	Deletions	Balance June 30, 2023
Capital assets, being depreciated/amortized:				
Furniture and fixtures	$ 55,037	$ 2,918	$ (907)	$ 57,048
Right-to-use leased asset	95,467	-	-	95,467
Total capital assets, being depreciated/amortized	150,504	2,918	(907)	152,515
Less accumulated depreciation and amortization for:				
Furniture and fixtures	(31,168)	(4,876)	907	(35,137)
Right-to-use leased asset	(30,887)	(33,694)	-	(64,581)
Total accumulated depreciation and amortization	(62,055)	(38,570)	907	(99,718)
Total capital assets, being depreciated/amortized, net	$ 88,449	$ (35,652)	$ -	$ 52,797

Depreciation and amortization expense for the fiscal year ended June 30, 2023, was $38,570.

NOTE 4 – LONG-TERM LIABILITIES

A schedule of changes in long-term liabilities for the fiscal year ended June 30, 2023, is as follows:

	Balance June 30, 2022	Additions	Deletions	Balance June 30, 2023	Due Within One Year
Compensated absences, net	$ 50,863	$ 40,585	$ (26,122)	$ 65,326	$ 18,652
Lease liability	65,887	-	(33,511)	32,376	32,376
	$ 116,750	$ 40,585	$ (59,633)	$ 97,702	$ 51,028

NOTE 4 – LONG-TERM LIABILITIES (Continued)

During the fiscal year ended June 30, 2022, the Commission entered into a 35-month lease agreement as lessee for the use of office space. An initial lease liability was recorded in the amount of $95,467. As of June 30, 2023, the value of the lease liability was $32,376. The Commission is required to make monthly principal and interest payments of $2,928. The lease has an interest rate of 5.5%. The value of the right-to-use asset, net of accumulated amortization of $64,581 as of the end of the current fiscal year was $30,886.

The future principal and interest lease payments as of June 30, 2023, were as follows:

Year Ending June 30,	Principal	Interest	Total
2024	$ 32,376	$ 897	$ 33,273
	$ 32,376	$ 897	$ 33,273

NOTE 5 – DEFINED BENEFIT PENSION PLAN

CalPERS

Plan Description: All qualified permanent and probationary employees are eligible to participate in the Commission's Miscellaneous Employee Pension Plan (the Plan), a cost-sharing multiple-employer defined benefit pension plan administered by CalPERS. Benefit provisions under the Plan are established by State statute and Commission resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions, and membership information that can be found on the CalPERS website at http://www.calpers.ca.gov.

Benefits Provided: The Plan provides service retirement and disability benefits, annual cost of living adjustments (COLAs), and death benefits to eligible employees. 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 COLAs for the Plan are applied as specified by the Public Employees' Retirement Law (PERL).

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

	Miscellaneous Plan	
	Prior to January 1, 2013 (Classic)	On or after January 1, 2013 (PEPRA)
Hire date	3% at 60	2% at 62
Benefit formula	5 years of service	5 years of service
	Monthly for life	Monthly for life
Retirement age	59	59
Monthly benefits, as a % of eligible compensation	2% to 3%	2% to 3%
Retirement employee contribution rates	7.80%	7.25%
Required employer contribution rates	16.15%	7.73%

NOTE 5 – <u>DEFINED BENEFIT PENSION PLAN</u> (Continued)

CalPERS (Continued)

Contributions: Section 20814(c) of PERL requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan are determined annually on the 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 fiscal year ended June 30, 2023, the contributions recognized as part of pension expense for the Plan were as follows:

Contributions - Employer	$ 63,024

Pension Liability, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2023, the Commission reported a $917,778 net pension liability for its proportionate share of the net pension liability of the Plan.

The Commission'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 was measured as of June 30, 2022, 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, 2022, using standard update procedures. The Commission's proportion of the net pension liability was based on a projection of the Commission's long-term share of contributions to the Plan relative to the projected contributions of all participating employers of CalPERS, actuarially determined. The Commission's proportionate share of the net pension liability for the Plan as of June 30, 2021 and 2022, was as follows:

Proportion - June 30, 2021	0.01319%
Proportion - June 30, 2022	0.01961%
Change - Increase	0.00642%

For the fiscal year ended June 30, 2023, the Commission recognized pension expense of $425,167. At June 30, 2023, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 69,080	$ -
Changes of assumptions	94,046	-
Differences between expected and actual experience	6,086	-
Net differences between projected and actual earnings on pension plan investments	168,113	-
Differences between Employer's Contributions and Proportionate Share of Contributions	-	46,945
Change in Employer's Proportion	-	138,045
Total	$ 337,325	$ 184,990

NOTE 5 – DEFINED BENEFIT PENSION PLAN (Continued)

CalPERS (Continued)

Pension Liability, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

$69,080 was reported as deferred outflows of resources related to contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the measurement period ended June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Measurement Period Ended June 30,	
2024	$ (12,247)
2025	(5,547)
2026	(1,774)
2027	102,823
	$ 83,255

Actuarial Methods and Assumptions: The total pension liability in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions:

Valuation date	June 30, 2021
Measurement date	June 30, 2022
Actuarial cost method	Entry-Age actuarial cost method
Actuarial assumptions	
Discount rate	6.9%
Inflation	2.30%
Payroll growth	3.00%
Projected salary increase	Varies by entry age and service
Investment rate of return	6.9%
Mortality (a)	Derived using CalPERS' Membership Data for all Funds. Contract COLA up to 2.30% until Purchasing Power Protection Allowance Floor on Purchasing Power applies

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

Discount Rate: The discount rate used to measure the total pension liability was 6.9 percent for the Plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine that total pension liability.

NOTE 5 – DEFINED BENEFIT PENSION PLAN (Continued)

CalPERS (Continued)

Pension Liability, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

Discount Rate: (Continued)

According to Paragraph 30 of GASB Statement No. 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 6.9 percent investment return assumption used in this accounting valuation is not adjusted for administrative expenses. This is consistent with the funding discount rates at the end of the three-year funding discount rate phase-in period. The discount rate in the previous valuation as of June 30, 2020, reported a discount rate of 7.15 percent and the June 30, 2022 financial statements reported a discount rate of 7.15 percent, which was net of administrative expenses. Administrative expenses were assumed to be 15 basis points. An investment return excluding administrative expenses would have been 6.9 percent. Using this lower discount rate 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 Plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major 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 (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ 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 adjusted to account for the assumed administrative expenses.

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

Asset Class	Current Target Allocation	Real Return Years 1-10 [1,2]
Global Equity Cap Weighted	30%	4.45%
Global Equity Non-Cap Weighted	12%	3.84%
Private Equity	13%	7.28%
Treasury	5%	0.27%
Mortgage-Backed Securities	5%	50.00%
Investment Grade Corporates	10%	1.56%
High Yield	5%	2.27%
Emerging Market Debt	5%	2.48%
Private Debt	5%	3.57%
Real Assets	15%	3.21%
Leverage	-5%	-0.59%
Total	100%	

(1) An expected inflation of 2.3% was used for this period.

(2) Figures are based on the 2021 Asset Liability Management Study.

NOTE 5 – DEFINED BENEFIT PENSION PLAN (Continued)

CalPERS (Continued)

Pension Liability, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions (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 the Plan, calculated using the discount rate for the Plan, as well as what the Commission's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

1% Decrease		5.90%
Net Pension Liability	$	1,293,221
Current Discount Rate		6.90%
Net Pension Liability	$	917,778
1% Increase		7.90%
Net Pension Liability	$	608,882

Pension Plan Fiduciary Net Position: Detailed information about the Plan's fiduciary net position is available in the separately issued CalPERS financial reports.

Payable to the Pension Plan

At June 30, 2023, there was no outstanding amount of contributions to the Plan required for the year ended June 30, 2023.

NOTE 6 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Appropriations Category		Expenditure
General Fund		
Memberships	$	5,143
Insurance		1,318
Special Department Expenditures		303
TT/Personal Vehicle Mileage		338
Interest		2,815

REQUIRED SUPPLEMENTARY INFORMATION

KERN LOCAL AGENCY FORMATION COMMISSION
BUDGETARY COMPARISON SCHEDULE – GOVERNMENTAL GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues:				
Contributions from Governmental Agencies	$ 686,439	$ 686,439	$ 582,228	$ (104,211)
User Fees	50,000	50,000	31,860	(18,140)
Interest	-	-	6,829	6,829
Total Revenues	736,439	736,439	620,917	(115,522)
Expenditures				
Salaries and Employee Benefits	544,739	544,739	511,884	32,855
Memberships	1,600	1,600	6,743	(5,143)
SDRMA Insurance	7,000	7,000	8,318	(1,318)
Office Expenditures	28,000	28,000	13,849	14,151
Professional and Specialized Services	92,000	92,000	73,793	18,207
Publications and Legal Notices	6,000	6,000	1,764	4,236
Lease Expense - Buildings	36,500	36,500	33,511	2,989
Special Department Expenditures	1,600	1,600	1,903	(303)
Travel and transportation	16,000	16,000	5,684	10,316
TT/Personal Vehicle Mileage	3,000	3,000	3,338	(338)
Interest	-	-	2,815	(2,815)
Total Expenditures	736,439	736,439	663,602	72,837
Net Change in Fund Balance	-	-	(42,685)	(42,685)
Fund Balance at Beginning of Year	387,292	387,292	387,292	-
Fund Balance at End of Year	$ 387,292	$ 387,292	$ 344,607	$ (42,685)

See accompanying notes to the required supplementary information.

KERN LOCAL AGENCY FORMATION COMMISSION
COST-SHARING DEFINED BENEFIT PENSION PLAN
SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
JUNE 30, 2023

Last 10 Years*	2023	2022	2021	2020	2019
Proportion of the net pension liability	0.01961%	0.01358%	0.01358%	0.01431%	0.01497%
Proportionate share of the net pension liability	$ 917,778	$ 250,452	$ 572,815	$ 573,044	$ 564,176
Covered payroll	$ 277,596	$ 209,521	$ 253,410	$ 250,495	$ 235,118
Proportionate share of the net pension liability as a percentage of covered payroll	330.62%	119.54%	226.04%	228.76%	239.95%
Plan's fiduciary net position	$ 1,986,724	$ 2,382,878	$ 1,996,581	$ 2,000,493	$ 1,964,429
Plan's fiduciary net position as a percentage of the total pension liability	74.40%	90.49%	77.71%	77.73%	77.69%

Last 10 Years*	2018	2017	2016	2015
Proportion of the net pension liability	0.01640%	0.01702%	0.01725%	0.01743%
Proportionate share of the net pension liability	$ 613,971	$ 564,468	$ 473,111	$ 430,897
Covered payroll	$ 320,326	$ 181,412	$ 185,279	$ 175,090
Proportionate share of the net pension liability as a percentage of covered payroll	191.67%	311.15%	255.35%	246.10%
Plan's fiduciary net position	$ 1,979,011	$ 1,859,176	$ 1,879,566	$ 1,854,458
Plan's fiduciary net position as a percentage of the total pension liability	75.39%	75.87%	79.89%	81.15%

*Fiscal year 2015 was the first year of implementation, therefore only nine years are shown. Additional years will be added to this schedule in future fiscal years until 10 years of data is presented.

KERN LOCAL AGENCY FORMATION COMMISSION
COST-SHARING DEFINED BENEFIT PENSION PLAN
SCHEDULE OF PENSION CONTRIBUTIONS
JUNE 30, 2023

Last 10 Years*	2023	2022	2021	2020	2019
Contractually required contribution (actuarially determined)	$ 63,024	$ 20,000	$ 23,728	$ 23,766	$ 21,345
Contributions in relation to the actuarially determined contributions	83,024	20,000	23,728	23,766	21,345
Contribution deficiency (excess)	$ (20,000)	$ -	$ -	$ -	$ -
Covered payroll	$ 277,596	$ 209,521	$ 253,410	$ 250,495	$ 235,118
Contributions as a percentage of covered payroll	29.91%	9.55%	9.36%	9.49%	9.08%

Last 10 Years*	2018	2017	2016	2015
Contractually required contribution (actuarially determined)	$ 20,445	$ 27,772	$ 25,889	$ 21,478
Contributions in relation to the actuarially determined contributions	20,445	27,772	25,889	21,478
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Covered payroll	$ 320,326	$ 181,412	$ 185,279	$ 175,090
Contributions as a percentage of covered payroll	6.38%	15.31%	13.97%	12.27%

*Fiscal year 2015 was the first year of implementation, therefore only nine years are shown. Additional years will be added to this schedule in future fiscal years until 10 years of data is presented.

NOTE 1 – BUDGETS AND BUDGETARY INFORMATION

In accordance with the provisions of Section 29000-29144 of the Government Code of the State of California (the Government Code), commonly known as the County Budget Act, a Kern Local Agency Formation Commission (Commission) budget is adopted on or before June 15th for each fiscal year. Budgets are adopted for the Governmental General Fund on the modified accrual basis of accounting. Under the modified accrual basis of accounting, property tax revenues are recognized only to the extent that they are collectible within 60 days of year-end.

Expenditures are controlled on the object level for all Commission budgets. Any excess of budgeted expenditures and other financing uses over revenue and other financing sources is financed by beginning available fund balance as provided for in the County Budget Act.

NOTE 2 – PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

There were no changes in benefit terms that applied to all members of the pension plan. In December 2017, the California Public Employees Retirement System (CalPERS) Board adopted a new mortality assumptions for participating plans. The new mortality table was developed from the 2017 experience study and includes 15 years of projected ongoing mortality improvements using 90 percent of scale MP 2016 published by the Society of Actuaries.

NOTE 3 – PENSION CONTRIBUTIONS

Pre-retirement and post-retirement mortality rates include 20 years of mortality improvements using Scale BB published by the Society of Actuaries. Scale BB is an updated mortality improvement scale recently published from studies done on social security data and replaces scale AA. Scale BB consists of an expected annual improvement in mortality that varies by age and also differs for males and females. The expected improvement is greater, at most ages, for males and females.

Actuarial assumptions and methods used to set the actuarially determined contributions:

Valuation date	June 30, 2021
Measurement date	June 30, 2022
Actuarial cost method	Individual Entry-Age actuarial cost method
Amortization method	Level percentage of payroll and direct rate smoothing
Asset valuation method	Fair Value
Actuarial assumptions:	
Discount rate	6.90%
Inflation	2.30%
Projected salary increase	Varies by entry age and service
Investment rate of return	6.9%

OTHER REPORT

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

Board of Commissioners
Kern Local Agency Formation Commission
Bakersfield, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of the Kern Local Agency Formation Commission (the Commission), as of and for the fiscal year ended June 30, 2023, and the related notes to the basic financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated November 10, 2023.

Report on Internal Control over Financial Reporting

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

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

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

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Stockton, CA 95207
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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 Commission'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 Commission's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
November 10, 2023