SAN DIEGO COUNTY
AIR POLLUTION CONTROL DISTRICT

2021 Annual Financial Report

As of and for the Four Months Ended
June 30, 2021

MGO Certified Public Accountants

SAN DIEGO COUNTY AIR POLLUTION CONTROL DISTRICT
2021 Annual Financial Report
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Certified Public Accountants

Independent Auditor's Report

To the Members of the San Diego County Air Pollution Control District Governing Board
San Diego County Air Pollution Control District
San Diego, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the San Diego County Air Pollution Control District, California (District), as of and for the four months ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The District's 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2021, and the respective changes in financial position for the four months then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Notes 1 and 8 to the basic financial statements, California Assembly Bill No. 423 amended State law to restructure the Governing Board of the District and to establish duties for the District to increase transparency and public engagement. As a result, the District was no longer a blended component unit of the County of San Diego, California (County) as of February 28, 2021, and commenced operations on March 1, 2021 as a separate entity. Upon separation from the County, the County contributed certain assets and liabilities to the District, resulting in a net contribution of $12.9 million to the net position of governmental activities and $29.0 million to the governmental funds fund balances.

Other Matters

Required Supplementary Information

Management has omitted management's discussion and analysis, budgetary comparison information, the schedule of changes in net pension liability and related ratios, the pension plans schedule of employer contributions, the schedule of changes in the net OPEB liability and related ratios, and the OPEB plan schedule of employer contribution that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2022 on our consideration of the District'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 District'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 District's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

San Diego, California
September 29, 2022

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SAN DIEGO COUNTY AIR POLLUTION CONTROL DISTRICT
Statement of Net Position
June 30, 2021

	Governmental Activities
Assets	
Current assets:	
Cash and investments in the County of San Diego Treasury Investment Pool	$ 80,365,636
Accounts receivable	296,853
Interest receivable	130,805
Due from other governments	3,828,696
Inventory	284,458
Noncurrent assets:	
Nondepreciable capital assets	2,641,032
Depreciable capital assets, net of accumulated depreciation	7,284,563
Capital assets, net of accumulated depreciation	9,925,595
Total assets	94,832,043
Deferred Outflows of Resources	
Deferred outflows of resources related to pension	13,676,892
Deferred outflows of resources related to OPEB	162,344
Total deferred outflows of resources	13,839,236
Liabilities	
Current liabilities:	
Accounts payable	376,455
Deposits from others	2,165,803
Due to other governments	749,512
Unearned revenue	58,556,542
Compensated absences	409,257
Noncurrent liabilities:	
Compensated absences	613,887
Net pension liability	37,311,042
Net OPEB liability	820,400
Total liabilities	101,002,898
Deferred Inflows of Resources	
Deferred outflows of resources related to pension	1,323,304
Net Position	
Net investment in capital assets	9,925,595
Unrestricted (deficit)	(3,580,518)
Total net position	$ 6,345,077

See Accompanying Notes to the Basic Financial Statements.

SAN DIEGO COUNTY AIR POLLUTION CONTROL DISTRICT
Statement of Activities - Governmental Activities
For the Four Months Ended June 30, 2021

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Change in Net Position
Primary government:				
Governmental activities:				
Public protection	$ 22,825,958	$ 4,026,578	$ 11,650,624	$ (7,148,756)
Total governmental activities	22,825,958	4,026,578	11,650,624	(7,148,756)
General revenue:				
Investment income				275,478
Other				242,913
Proceeds from sale of capital assets				29,305
Total general revenues				547,696
Extraordinary item—contribution from the County of San Diego				12,946,137
Change in net position				6,345,077
Net position, beginning				-
Net position, ending				$ 6,345,077

See Accompanying Notes to the Basic Financial Statements.

SAN DIEGO COUNTY AIR POLLUTION CONTROL DISTRICT

Balance Sheet
Governmental Funds
June 30, 2021

	General Fund	Special Revenue Funds: Carl Moyer Program	Special Revenue Funds: Community Air Protection Program (AB 617) Fund	Special Revenue Funds: GMERP Fund	Special Revenue Funds: Other Governmental Fund - FARMER Fund	Total Governmental Funds
Assets						
Cash and investments	$ 19,677,085	$ 11,048,527	$ 37,120,663	$ 11,440,520	$ 1,078,841	$ 80,365,636
Accounts receivable, net	296,853	-	-	-	-	296,853
Interest receivable	51,966	15,124	41,325	20,318	2,072	130,805
Due from other governments	3,828,696	-	-	-	-	3,828,696
Inventory	284,458	-	-	-	-	284,458
Total assets	$ 24,139,058	$ 11,063,651	$ 37,161,988	$ 11,460,838	$ 1,080,913	$ 84,906,448
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	$ 128,160	$ 88,776	$ 59,519	$ 100,000	$ -	$ 376,455
Deposits from others	2,165,803	-	-	-	-	2,165,803
Due to other governments	493,252	-	256,260	-	-	749,512
Unearned revenue	-	10,482,235	36,516,480	10,520,309	1,037,518	58,556,542
Total liabilities	2,787,215	10,571,011	36,832,259	10,620,309	1,037,518	61,848,312
Fund balances:						
Nonspendable	284,458	-	-	-	-	284,458
Restricted	-	492,640	329,729	840,529	43,395	1,706,293
Unassigned	21,067,385	-	-	-	-	21,067,385
Total fund balances	$ 21,351,843	$ 492,640	$ 329,729	$ 840,529	$ 43,395	$ 23,058,136

Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds.	$ 9,925,595
Deferred outflows of resources related to pensions	13,676,892
Deferred outflows of resources related to OPEB	162,344
Long term liabilities are not due and payable in the current period and therefore, are not reported as fund liabilities in governmental funds:	
Compensated absences	(1,023,144)
Net pension liability	(37,311,042)
Net OPEB liability	(820,400)
Deferred inflows of resources related to pensions	(1,323,304)
Net position of governmental activities	$ 6,345,077

See Accompanying Notes to the Basic Financial Statements.

SAN DIEGO COUNTY AIR POLLUTION CONTROL DISTRICT

Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Four Months Ended June 30, 2021

	General Fund	Special Revenue Funds: Carl Moyer Program	Special Revenue Funds: Community Air Protection Program (AB 617) Fund	Special Revenue Funds: GMERP Fund	Special Revenue Funds: Other Governmental Fund - FARMER Fund	Total Governmental Funds
Revenues:						
Licenses and permits	$ 3,331,290	$ -	$ -	$ -	$ -	$ 3,331,290
Forfeitures and penalties	695,288	-	-	-	-	695,288
Intergovernmental	7,807,022	1,928,317	1,229,887	500,000	185,398	11,650,624
Investment income	107,354	30,422	87,791	45,144	4,767	275,478
Other	242,913	-	-	-	-	242,913
Total revenues	12,183,867	1,958,739	1,317,678	545,144	190,165	16,195,593
Expenditures:						
Public protection						
Salaries and wages	7,294,290	-	-	-	-	7,294,290
Services and supplies	2,714,631	-	97,959	-	-	2,812,590
Other charges	9,315,206	1,883,741	102,797	500,000	147,754	11,949,498
Capital outlay	107,684	-	11,711	-	-	119,395
Total expenditures	19,431,811	1,883,741	212,467	500,000	147,754	22,175,773
Excess (deficiency) of revenues over (under) expenditures	(7,247,944)	74,998	1,105,211	45,144	42,411	(5,980,180)
Other financing sources (uses):						
Transfers in	1,060,562	-	-	-	-	1,060,562
Transfers out	-	(16,641)	(1,015,212)	-	(28,709)	(1,060,562)
Proceeds from sale of capital assets	29,305	-	-	-	-	29,305
Total other financing sources (uses)	1,089,867	(16,641)	(1,015,212)	-	(28,709)	29,305
Extraordinary item - contribution from the County of San Diego	27,509,920	434,283	239,730	795,385	29,693	29,009,011
Net change in fund balances	21,351,843	492,640	329,729	840,529	43,395	23,058,136
Fund balances, beginning	-	-	-	-	-	-
Fund balances, ending	$ 21,351,843	$ 492,640	$ 329,729	$ 840,529	$ 43,395	$ 23,058,136

Net change in fund balances of governmental funds		$ 23,058,136
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over estimated useful lives as depreciation expense.		
Capital outlay recorded as capital assets	$ 119,395	
Disposition of asset	(50,177)	
Depreciation expense	(156,405)	(87,187)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds.		
Change in compensated absences	25,354	
Change in pension related amounts	(627,591)	
Change in OPEB related amounts	39,239	(562,998)
Extraordinary item contributions, which are not current financial resources and not reported in governmental funds.		(16,062,874)
Change in net position of governmental activities		$ 6,345,077

See Accompanying Notes to the Basic Financial Statements.

SAN DIEGO COUNTY AIR POLLUTION CONTROL DISTRICT
Statement of Fiduciary Net Position
Fiduciary Fund
June 30, 2021

		Custodial Fund
Assets:		
Cash and investments	$	41,704
Interest receivable		59
Total assets		41,763
Net position restricted for:		
Hot spots program - air pollution	$	41,763

See Accompanying Notes to the Basic Financial Statements.

SAN DIEGO COUNTY AIR POLLUTION CONTROL DISTRICT
Statement of Changes in Fiduciary Net Position
Fiduciary Fund
For the Four Months Ended June 30, 2021

	Custodial Fund
Additions:	
Interest income	$ 41,763
Change in net position	41,763
Net position, beginning	-
Net position, ending	$ 41,763

See Accompanying Notes to the Basic Financial Statements.

NOTE 1 - REPORTING ENTITY

The San Diego County Air Pollution Control District, California (the District), was established in 1955 as an independent local air pollution control district to protect people and the environment from the harmful effects in air pollution pursuant to California Health and Safety Code Section 40002. Prior to March 1, 2021, the District was governed by the five-member County of San Diego Board of Supervisors and had been reported as a blended component unit of the County of San Diego, California (the County). On March 1, 2021, California Assembly Bill 423 amended the California Health and Safety Code to establish a new eleven-member Governing Board consisting of two members from the County Board of Supervisors, the Mayor or a City Council member from the City of San Diego, five City Council members, each being from a city within one of the five County supervisorial districts, and three public members. As a result of the new Governing Board for the District, effective March 1, 2021, the District no longer qualified as a blended component unit of the County.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District's accounting policies and financial reporting conform to accounting principles generally accepted in the United States of America and are based upon the Governmental Accounting Standard Board (GASB) pronouncements. The following is a summary of the significant policies:

A. Government-Wide and Fund Financial Statements

The basic financial statements include government-wide financial statements (statement of net position and statement of activities) and fund financial statements.

The government-wide financial statements focus on the District as a whole and the change in aggregate financial position resulting from the activities of the fiscal period. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. However, interfund services provided and used are not eliminated in the process of consolidation. Governmental activities are normally supported by taxes and intergovernmental revenues. The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Interest income and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and the fiduciary fund after the government-wide financial statements. The fiduciary fund is excluded from the government-wide financial statements. The governmental funds display information about the District's major funds and its other governmental fund. In governmental and fiduciary funds, assets and liabilities are presented in order of relative liquidity.

The General Fund is the principal operating fund of the District. It is used to account for all financial resources, except those required to be accounted for in another fund.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Government-Wide and Fund Financial Statements (Continued)

Special revenue funds are used to account for the proceeds of specific revenue sources (other than those for debt service or major capital projects) that are either restricted or committed to expenditures for specified purposes. The District has three major Special Revenue Funds as follows:

- The Carl Moyer Program fund is legally restricted for projects that reduce mobile source emissions and associated health risks, and for program administration under the Carl Moyer Program. Revenue is received annually from the California Air Resources Board (CARB) through an application process that considers the San Diego County's total population and air quality attainment status. Revenue is derived from annual smog abatement fees paid by owners of vehicles that are up to 8 model-years old and thus exempt from smog check requirements.
- The Community Air Protection Program (AB 617) Fund is legally restricted for District administration of the Community Air Protection Program, to select locations to participate in the program and monitor and improve air quality in disadvantaged communities that experience disproportionate burdens from exposure to air pollution due to environmental, health, and socioeconomic factors. This fund supports annual program staffing, capital expenditures, and services and supplies as necessary to measure air pollutants within the identified disadvantaged communities and provides incentive funding to reduce the emissions of those air pollutants and improve community capacity to participate in the process.
- The Goods Movement Emission Reduction Program (GMERP) is legally restricted for projects that reduce emissions and associated health risk from freight movement, and for program administration under the GMERP.

B. Basis of Accounting and Measurement Focus

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as is the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Revenues which are considered susceptible to accrual include interest and state and federal grants provided they are received within 60 days from the end of the fiscal year. Licenses and permits and other revenues are recorded as revenues when received in cash because they generally are not measurable until actually received.

Expenditures are recognized when the related fund liability is incurred except for (1) principal and interest of general long-term debt, which are recognized when due, and (2) employee annual leave and claims and judgments from litigation, which are recorded in the period due and payable since such amounts will not currently be liquidated with expendable available financial resources. General capital assets acquisitions are reported as expenditures in governmental funds.

The fiduciary fund is used to account for assets held by the District as a custodian for CARB, and is accounted for as a custodial fund.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Accounts Receivable and Due from Other Governments

The District's major receivables are comprised mainly of licenses and permits operations and due from other governments for federal and state grant activities. The District considers receivables to be fully collectible, accordingly, no allowance for doubtful accounts has been provided. If amounts become uncollectible, they will be charged to operations when that determination is made.

D. Inventory

Inventories are expensed when consumed using primarily the first-in, first-out (FIFO) for air pollution research materials and reported in governmental funds as an asset with an offsetting nonspendable fund balance amount.

E. Capital Assets

Capital assets are of a long-term character and include land, construction in progress, equipment, and structures. Capital assets are recorded at historical cost if purchased or constructed. Capital assets with original unit costs equal to or greater than the capitalization thresholds shown in the table below are reported in the government-wide financial statements. Depreciation is charged over the capital assets' estimated useful lives using the straight-line method and governmental fund type depreciation is only shown in the statement of activities. Capital assets contributed from the County have useful lives carried over upon separation from the County. The table below shows the range of estimated useful lives for each capital assets category.

	Capitalization Thresholds	Estimated Useful Lives
Land	$ 0	N/A
Equipment	1,000	1-19 years
Structures	50,000	36 years

F. Deposits from Others

The District receives fees associated with permits from various customers in advance. The fees are recognized as revenues when the District completes the inspection and approves the permits.

G. Unearned Revenues

In the government-wide and governmental fund financial statements, unearned revenue represents amounts received, which have not been earned. Unearned revenue arises when the District receives resources before it has a legal claim to them, as when grant monies are received in advance prior to the incurrence of qualified expenditures. In subsequent periods, when the District has a legal claim to the resources, the liability for unearned revenue is removed from the financial statement and revenue is recognized.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Compensated Employee Absences

The District's policy is to permit employees to accumulate earned but unused vacation, compensatory time, holiday and sick leave benefits. Each of these benefits is subject to certain limits based on employee class, except for sick leave and compensatory time that is subject to Fair Labor Standards Act (FLSA) rules or the California Labor Code. All vacation pay and a certain portion of compensatory and sick pay for specified employee classes is accrued in the government-wide financial statements. Except for specified employee classes, there is no liability for unpaid accumulated sick leave since the District does not cash out unused sick leave when employees separate from service with the District. However, employees eligible for retirement benefits that meet minimum balance requirements may apply unused sick leave toward determining their length of service for the purpose of calculating retirement benefits.

Accumulated leave benefits including vacation, sick leave, and compensatory time worked are recorded in the government-wide statement of net position. Amounts recorded as accumulated leave benefits include the employer's share of Social Security and Medicare taxes. These amounts would not be expected to be liquidated from expendable available financial resources, but would be expected to be liquidated in future years as employees elect to use these benefits as prescribed by Civil Service rules and regulations.

District employees in the unclassified service and certain employees hired by the County prior to 1979 and continue to serve for the District may receive up to 50% and 25%, respectively, of the cash value of all or a portion of their sick leave balances upon termination or retirement. The cash value of these benefits is included in the accumulated leave benefits noted above. This liability has been recorded in the current and long-term portion of compensated absences in the government-wide statement of net position.

All District employees who were hired by the County prior to the District's separation from the County and have completed at least five years of continuous service in the County retirement system, and have a sick leave balance of at least one hundred hours, may convert, at retirement, all or a portion of their sick leave balance to retirement service credits on a hour-for-hour basis. The conversion of these balances to retirement service credits is included in the District's actuarial accrued liability, as part of the annual actuarial valuation which includes assumptions regarding employee terminations, retirement, death, etc.

I. Pension

The District continues to participate in the San Diego County Employees Retirement Association Pension Plan (SDCERA-PP) after the separation from the County on March 1, 2021. The District recognizes its proportionate share of the SDCERA-PP's collective net pension liability. Essentially, the net pension liability represents the excess of the total pension liability over the fiduciary net position of the SDCERA-PP reflected in the actuarial report provided by the SDCERA-PP actuary. The net pension liability is measured as of June 30, 2020. Changes in the net pension liability are recorded in the period incurred, as pension expense or as deferred outflows of resources or deferred inflows of resources depending on the nature of the change. The changes in net pension liability that are recorded as deferred outflows of resources or deferred inflows of resources are those that arise from changes in actuarial assumptions or other inputs, changes in proportionate share and differences between employer's contributions and proportionate share of contributions, differences between expected and actual experience in the total pension liability, contributions to the pension plan subsequent to the measurement date, and the net difference between projected and actual earnings on SDCERA-PP investments.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Pension (Continued)

For purposes of measuring the net pension liability and deferred outflows/inflows of resources, information about the fiduciary net position of the SDCERA-PP and additions to/deductions from the SDCERA-PP fiduciary net position have been determined on the same basis as they are reported by SDCERA. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefits terms. Investments are reported at fair value.

J. OPEB

The District continues to participate in the San Diego County Employees Retirement Association retiree health Plan (SDCERA-RHP) after the separation from the County. The District recognizes its proportionate share of the SDCERA-RHP collective net Other Postemployment Benefits liability (net OPEB liability). Essentially, the net OPEB liability represents the excess of the total OPEB liability over the fiduciary net position of the SDCERA-RHP reflected in the actuarial report provided by the SDCERA-RHP actuary. The net OPEB liability is measured as of June 30, 2020. Changes in the net OPEB liability are recorded in the period incurred, as OPEB expense or as deferred outflows of resources or deferred inflows of resources depending on the nature of the change. The changes in net OPEB liability that are recorded as deferred outflows of resources or deferred inflows of resources are those that arise from changes in actuarial assumptions or other inputs, changes in proportionate share and differences between employer's contributions and proportionate share of contributions, differences between expected and actual experience in the total OPEB liability, contributions to the OPEB plan subsequent to the measurement date, and the net difference between projected and actual earnings on SDCERA-RHP investments.

For purposes of measuring the net OPEB liability and deferred outflows/inflows of resources, information about the fiduciary net position of the SDCERA-RHP and additions to/deductions from the SDCERA-RHP fiduciary net position have been determined on the same basis as they are reported by SDCERA. For this purpose, benefit payments are recognized when due and payable in accordance with the benefits terms. Investments are reported at fair value.

K. Components of Net Position

In the government-wide financial statements, Net Position is categorized as follows:

Net Investment in Capital Assets – consists of capital assets net of accumulated depreciation reduced by the outstanding debt and deferred outflows/inflows of resources attributed to the acquisition, construction or improvement of these assets.

Restricted Net Position – consists of restricted assets reduced by liabilities related to those assets. It is the District's policy to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position components are available. As of June 30, 2021, there was no amount reported by the District for restricted net position.

Unrestricted Net Position – consists of that portion of net position that doesn't meet the definition of Net Investment in Capital Assets or Restricted Net Position.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Fund Balances

In the fund financial statements, governmental funds report fund balances as nonspendable, restricted, committed, assigned or unassigned based on the extent to which the District is bound to observe constraints imposed on the use of resources or on the specific purposes for which amounts in the funds can be spent.

Nonspendable fund balance – amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example, inventories and prepaid amounts. The District has $284,160 of nonspendable fund balance as of June 30, 2021.

Restricted fund balance - amounts with constraints placed on their use that are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance - amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Governing Board. The Governing Board may establish fund balance commitments by adoption of an ordinance, resolution, or formal board action memorialized by minute orders as may be required by law. All are equally binding. Those committed amounts cannot be used for any other purpose unless the District removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.

Assigned fund balance - amounts that are constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed. Intent should be expressed by the highest level of decision-making authority (the Governing Board), or by a body or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes.

Unassigned fund balance – the residual classification for the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. The General Fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, if expenditures incurred for specific purpose exceeded the amount restricted, committed, or assigned to those purpose, it may be necessary to report a negative unassigned fund balance.

M. 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 amounts reported in the basic financial statements and accompanying notes. Actual results could differ from those estimates.

N. New Governmental Accounting Standards Implemented During the Four Months Ended June 30, 2021

There were no new GASB Statements implemented by the District that significantly impacted the District's basic financial statements as of and during the four months ended June 30, 2021.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. Upcoming Governmental Accounting Standards Implementation

The requirements of the following accounting standards become effective in future periods, if applicable to the District. The District's management is currently in the process of evaluating the potential impacts to the District's basic financial statements.

- GASB Statement No.87, *Leases*, effective for the fiscal year ending June 30, 2022.
- GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements,* effective for the fiscal year ending June 30, 2023.
- GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, effective for the fiscal year ending June 30, 2023.
- GASB Statement No. 99, *Omnibus 2022*, effective for the fiscal year ending June 30, 2023 and thereafter.

- GASB Statement No. 100, *Accounting Changes and Errors Corrections,* effective for the fiscal year ending June 30, 2024.
- GASB Statement No. 101*, Compensated Absences*, effective for the fiscal year ending June 30, 2025.

NOTE 3 - CASH IN COUNTY TREASURY

The District's cash is held in the County's Investment Pool (Pool). The Pool is a County sponsored "external investment pool" wherein moneys of the County and other legally separate external entities (including the District), which are not part of the County reporting entity, are commingled (pooled) and invested on the participants' behalf. The Pool is not registered with the Securities and Exchange Commission (SEC) as an investment company. The Pool does not have any legally binding guarantees of share values.

The investment activities of the County's Treasury in managing the pool are governed by the California Government Code §53601 and the County of San Diego Treasury's Investment Policy. Investments are categorized into its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are quoted prices for similar assets in active markets; Level 3 inputs are significant unobservable inputs. None of the County's investments are valued using Level 1 and Level 3 inputs. Interest earned on pooled cash and investments are allocated to participating funds based upon their average daily cash balance during the allocation month. Fair value adjustments to the pool are recorded annually. Interest earned on pooled investments is allocated based upon their average daily cash balance during the allocation month. The District's proportionate share of cash and investments in the County Pool is valued by amortized cost.

A separately issued annual financial report for the Pool can be obtained from the County Treasurer-Tax Collector at 1600 Pacific Highway, Room 152, San Diego, California, 92101 and can also be accessed at https://www.sdttc.com.

NOTE 4 - CAPITAL ASSETS

A summary of changes in capital assets for the four months ended June 30, 2021 is as follows:

	Beginning Balance March 1, 2021	Addition	Deletion	Ending Balance June 30, 2021
Non-depreciable Capital Assets:				
Land	$ 1,551,017	$ -	$ -	$ 1,551,017
Construction in progress	1,090,015	-	-	1,090,015
Total Non-depreciable Capital Assets	2,641,032	-	-	2,641,032
Depreciable Capital Assets:				
Equipment	3,270,447	119,395	(50,177)	3,339,665
Structures	4,101,303	-	-	4,101,303
Total Depreciable Capital Assets	7,371,750	119,395	(50,177)	7,440,968
Less Accumulated Depreciation				
Equipment	-	(127,924)	-	(127,924)
Structures	-	(28,481)	-	(28,481)
Total Accumulated Depreciation	-	(156,405)	-	(156,405)
Total Depreciable Capital Assets, Net	7,371,750	(37,010)	-	7,284,563
Capital Assets, Net	$ 10,012,782	$ (37,010)	$ -	$ 9,925,595

Depreciation expense for the four months ended June 30, 2021 was $156,405 and allocated to the public protection function.

NOTE 5 - PENSION PLAN

Certain District employees were hired by the County and have participated in the San Diego County Employees Retirement Association pension plan (SDCERA-PP or the Plan). The membership status has been carried over to the District upon the District’s separation from the County effective March 1, 2021. All District’s employees are classified as General members.

A. Plan Description

The District contributes to the SDCERA-PP, a cost-sharing, multiple-employer, defined benefit pension plan that is administered by the Board of Retirement of the San Diego County Employees Retirement Association (SDCERA), a public employee retirement system established by the County on July 1, 1939. SDCERA is an independent governmental entity separate and distinct from the District and the County. The SDCERA-PP provides retirement, disability, death and survivor benefits for its members under the County Employees Retirement Law of 1937 (Government Code Section 31450 et. seq.), the "Retirement Act".

NOTE 5 - PENSION PLAN (Continued)

A. Plan Description (Continued)

The management of SDCERA is vested with the Board of Retirement. The Board consists of nine members and two alternates made up of member-elected representatives, Board of Supervisors-appointed representatives and the County Treasurer-Tax Collector who is elected by the general public and a member of the Board of Retirement by law. All members of the Board of Retirement serve terms of three years except for the County Treasurer-Tax Collector whose term runs concurrent with his term as County Treasurer.

B. Plan Membership

The participating employers in the SDCERA-PP consist of the District, the County of San Diego; the Superior Court of California - County of San Diego; the San Dieguito River Valley Joint Powers Authority; the Local Agency Formation Commission; and, the San Diego County Office of Education.

All employees of the District and the other aforementioned participating employers working in a permanent position at least 20 hours each week are members of the SDCERA. Membership begins with the first biweekly payroll period in the month following employment. Members are vested after accruing five years of service credit. There are separate retirement plans (types of membership) - General and Safety, under the SDCERA-PP. Safety membership is extended to those involved in active law enforcement or who otherwise qualify for Safety membership including court service officers and probation officers. All other employees including employees of the District are classified as General members.

The SDCERA-PP has five Tiers. Subject to the provisions of California Public Employees' Pension Reform Act of 2013 (PEPRA), California Government Code Section 7522 et seq. and Assembly Bill (AB) 197, any new employee hired on or after January 1, 2013 through June 30, 2018 who became a General member, was placed into Tier C; while any new employee hired on or after July 1, 2018 who became a General member is placed into Tier D. Tier C and Tier D are the current open plans for all new General employees; Tiers I, A, and B are generally closed to new entrants but have active members. On March 8, 2002, the County of San Diego Board of Supervisors eliminated Tier II and established Tier A for active General Members who entered on or after March 8, 2002 and before August 28, 2009. All active General Members were converted to Tier A unless they elected to opt-out during a one-time opt-out period. All deferred General Tier II Members and active Members who elected to opt out of Tier A were converted to Tier I. Both Tier I and Tier II are closed to new members.

NOTE 5 - PENSION PLAN (Continued)

C. Benefits Provided

The tiers and their basic provisions are listed in the following table:

Tier Name	Governing Code	Membership Effective Date	Basic Provisions	Final Average Salary Period
General Tier I	§31676.12	Before March 8, 2002 (1)	2.62% at 62; maximum 3% COLA	Highest 1 - year
General Tier A	§31676.17	March 8, 2002 to August 27, 2009	3.0% at 60; maximum 3% COLA	Highest 1 - year
General Tier B	§31676.12	August 28, 2009 to December 31, 2012	2.62% at 62; maximum 2% COLA	Highest 3 - year
General Tier C	§7522.20(a)	January 1, 2013 to June 30, 2018	2.5% at 67; maximum 2% COLA	Highest 3 - year (2)
General Tier D	§31676.01	July 1, 2018	1.62% at 65; maximum 2% COLA	Highest 3 - year (2)

(1) All general members with membership dates before March 8, 2002 who made a specific and irrevocable election to opt out of General Tier A. This also included those General Members in deferred status on March 8, 2002.
(2) PEPRA limits the amount of compensation that can be used to calculate retirement benefit for Tier C and Tier D to 100% of the 2013 Social Security taxable wage base limit for General members and 120% for Safety members. These amounts will be adjusted with price inflation starting in 2014.

General members enrolled in Tier 1, A or B are eligible to retire once they attain the age of 70 regardless of service or at age 50 (55 for Tier B) and have acquired 10 or more years of retirement service credit. A General member in Tier 1, A or B with 30 years of service is eligible to retire regardless of age. General members enrolled in General Tier C or D are eligible to retire once they attain the age of 70 regardless of service or at age of 52, and have acquired five or more years of retirement service credit. The retirement benefit the member will receive is based upon age at retirement, final average compensation, years of retirement service credit and retirement plan and tier.

For members enrolled in Tier 1, A or B, the maximum monthly retirement allowance is 100% of final compensation. PEPRA limits the amount of compensation that can be used to calculate the retirement benefit for Tier C and Tier D to 100% of the 2013 Social Security taxable wage base limit for General Members and 120% for Safety Members. These amounts will be adjusted with price inflation starting in 2014. The member may elect an unmodified retirement allowance, or choose an optional retirement allowance. The unmodified retirement allowance provides the highest monthly benefit and a 60% continuance to an eligible surviving spouse or domestic partner. An eligible surviving spouse or domestic partner is one married to or registered with the member one year prior to the effective retirement date. Certain surviving spouse or domestic partners may also be eligible if marriage or domestic partnership was at least two years prior to the date of death and the surviving spouse or domestic partner has attained age 55. There are four optional retirement allowances the member may choose. Each of the optional retirement allowances requires a reduction in the unmodified retirement allowance in order to allow the member the ability to provide certain benefits to a surviving spouse, domestic partner, or named beneficiary having an insurable interest in the life of the member.

NOTE 5 - PENSION PLAN (Continued)

C. Benefits Provided (Continued)

The County Employees Retirement Law of 1937 (Government Code Section 31450 et seq.) assigns the County Board of Supervisors the authority to establish and amend benefit provisions. In addition to the aforementioned retirement, disability, death and survivor benefits, SDCERA provides an annual cost-of-living benefit to all retirees. The cost-of-living adjustment (COLA), based upon the Consumer Price Index for the San Diego-Carlsbad Area (with 1982-84 as the base period), is capped at 3.0% for Tier 1 and Tier A; and capped at 2.0% for Tier B, Tier C and Tier D. The County Employees Retirement Law of 1937 (Government Code Section 31450 et seq.) assigns the SDCERA Board of Retirement authority to approve retiree members and beneficiaries cost-of-living increases.

D. Contributions

SDCERA-PP is a contributory plan, meaning both the member and the employer pay contributions into the system; membership and contributions are mandatory. All members are required to make contributions to SDCERA regardless of the retirement plan or tier in which they are included. Those contribution rates are determined by an actuarial valuation as of June 30, 2019. At that point, the District was a blended component unit of the County. The District carries contribution rates applied after the separation.

Member contribution rates for fiscal year 2021 ranged from 6.50% to 18.40% of compensation (not adjusted for employer rates of employee contributions). The District and the other participating agencies contribute to the retirement plan based upon actuarially determined contribution rates adopted by the Board of Retirement. Employer contribution rates are adopted annually based upon recommendations received from SDCERA's actuary after the completion of the annual actuarial valuation. The average employer contribution rate for fiscal year 2021 was 41.77 % (not adjusted for pick-up) of compensation. The Retirement Act requires that District and member contributions be actuarially determined to provide a specific level of benefit. California Government Code Section 31454 (Section 31454) requires the County Board of Supervisors to adjust the rates of the San Diego County employer and employee retirement contributions in accordance with the recommendations of the Board of Retirement of SDCERA (SDCERA Board). Section 31454 allows the County Board of Supervisors to set (amend) the rate to a higher rate than that recommended by the SDCERA Board, but cannot fix the rate lower than the recommended rate. Contribution rates are expressed as a percentage of covered payroll and member rates vary according to age at entry, benefit tier level and certain negotiated contracts that provide for the District to pay a portion of members' contributions. Contributions to the Plan from the District were $4,551,984 for the four months ended June 30, 2021.

Employer and employee contribution rates and active members for the General plans are as follows:

Employer/Employee Contribution Rates and Active Members by Tier

	Employer Contribution Rates	Employee Contribution Rate
General Tier 1	44.32%	8.89% - 16.72%
General Tier A	44.32%	10.63% - 18.40%
General Tier B	44.32%	7.66% - 14.62%
General Tier C	37.66%	9.14%
General Tier D	35.02%	6.50%

NOTE 5 - PENSION PLAN (Continued)

D. Contributions (Continued)

SDCERA issues a publicly available financial report that includes financial statements and required supplementary information for the SDCERA-PP. The financial report may be obtained by writing to San Diego County Employees Retirement Association, 2275 Rio Bonito Way, Suite 100, San Diego, California 92108-1685 or by calling (619) 515-6800 or by visiting www.sdcera.org/finance.

E. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2021, the District reported a liability of $37,311,042 for its proportionate share of the collective Net Pension Liability (NPL). The NPL was measured as of June 30, 2020 and was determined by rolling forward the Total Pension Liability (TPL) as of the June 30, 2019 actuarial valuation date. The NPL is equal to the difference between the TPL and the Plan's Fiduciary Net Position. The Plan's Fiduciary Net Position is equal to the fair value of Plan assets (excluding the Health Insurance Allowance Reserve). Pension amounts, including the District's proportionate share of the NPL, are determined for the General membership classes based on their benefit provisions, actuarial experience, receipts and expenses. The total pension liability for each membership class was calculated based on the participants in and benefits provided for the respective membership class, and the SDCERA-PP fiduciary net position was determined in proportion to the valuation value of assets for each membership class.

For the District's General membership class, actual or statutorily required contributions for the fiscal year ended June 30, 2020 were used as the basis for determining the proportion of pension amounts, including the NPL. The ratio of the County's General member contributions to the total SDCERA-PP General member contributions for all participating employers is multiplied by the SDCERA-PP total General member NPL to determine the District's proportionate share of the General membership class NPL.

At June 30, 2020, the District's proportionate share of employer contributions was approximately 0.775%, which was an increase of approximately 0.0366% from its proportion measured as of June 30, 2019. For the four months ended June 30, 2021, the District recognized pension expense of $2,282,576. At June 30, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions to the pension plan subsequent to the measurement date	$4,551,984	$ -
Changes in proportionate share and differences between employer's contributions and proportionate share of contributions	1,504,774	643,851
Changes of assumptions or other inputs	2,336,863	-
Net difference between projected and actual earnings on pension plan investments	4,707,557	-
Difference between expected and actual experience in the total pension liability	575,714	679,453
	$13,676,892	$1,323,304

NOTE 5 - PENSION PLAN (Continued)

E. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Deferred outflows of resources and deferred inflows of resources noted above represent the unamortized portion of changes to the net pension liability to be recognized in future periods in a systematic and rational manner.

Projected earnings on pension investments are recognized as a component of pension expense. The net difference between projected and actual earnings on pension plan investments is reported as a deferred outflow of resources or deferred inflow of resources and amortized as a component of pension expense on a closed basis over a five-year period, beginning with the period in which they are incurred.

Changes in proportionate share and differences between employer's contributions and proportionate share of contributions, changes of assumptions and other inputs, and differences between expected and actual experience in the total pension liability, are amortized over the average of the expected remaining service lives (service lives) of all employees that are provided with pensions through the SDCERA-PP and are recorded as a component of pension expense, beginning with the period in which they are incurred.

$4,551,984 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2022.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30	Amount
2022	$1,171,530
2023	2,510,110
2024	2,811,172
2025	1,308,792
Total	$7,801,604

F. Actuarial Assumptions

Total Pension Liability represents the portion of the actuarial present value of projected benefit payments attributable to past periods of employee service. The significant actuarial assumptions used to measure the total pension liability as of June 30, 2020 (the measurement date) are shown in the following table:

Inflation	2.75%
Salary increases	4.15% to 10.50%, vary by service, including inflation
Discount rate	7.00%, net of pension plan investment and administrative expenses, including inflation
Cost-of-living adjustment	Maximum of 3.00% of retirement income for Tier I and A Maximum of 2.00% of retirement income for Tier B, C, and D
Date of last experience study	July 1, 2015 through June 30, 2018

NOTE 5 - PENSION PLAN (Continued)

F. Actuarial Assumptions (Continued)

Mortality rates for General members and beneficiaries are based on the Pub-2010 General Healthy Retiree Amount-Weighted Above-Median Mortality Table (separate tables for males and females) times 100% for males and 105% for females, projected generationally with the two-dimensional mortality improvement scale MP-2018. Mortality rates for General members with a disability retirement are based on Pub-2010 Non-Safety Disabled Retiree Amount-Weighted Mortality Table (separate tables for males and females) times 75% for males and 75% for females, projected generationally with the two-dimensional mortality improvement scale MP-2018.

The allocation of investment assets within the SDCERA portfolio is approved by the Board of Retirement. Plan assets are managed on a total return basis with a long-term objective of achieving the assumed investment rate of return. The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adding expected inflation and subtracting expected investment expenses and a risk margin. The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before deducting investment expenses, are shown in the following table. This information was used in the derivation of the long-term expected investment rate of return assumption for the June 30, 2019 actuarial valuation and rolled forward to the June 30, 2020 measurement period:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Large Cap Equity	18.00%	5.44%
Small Cap Equity	2.00%	6.18%
Developed International Equity	15.00%	6.54%
Global Equity	5.80%	6.45%
Emerging Markets Equity	7.00%	8.73%
High Yield Bonds	6.00%	3.64%
Intermediate Bonds	19.20%	1.25%
Private Real Estate (Core)	7.20%	4.51%
Private Real Estate (Non-Core)	1.80%	5.82%
Private Equity	7.00%	9.00%
Infrastructure	4.50%	5.83%
Hedge Funds	4.00%	4.90%
Private Debt	1.00%	6.50%
Timber	0.75%	4.34%
Farmland	0.75%	5.63%
Total	100%	

NOTE 5 - PENSION PLAN (Continued)

G. Discount Rate

The discount rate used to measure the total pension liability was 7.00 percent as of June 30, 2020. The projection of cash flows used to determine the discount rate assumed SDCERA-PP member contributions will be made at the current contribution rates and that employer contributions will be made at rates equal to the actuarially determined contribution rates. For this purpose, only employer contributions that are intended to fund benefits for current SDCERA-PP members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future SDCERAPP members and their beneficiaries, as well as projected contributions from future SDCERA-PP members, are not included. Based on those assumptions, the SDCERA-PP's net position was projected to be available to make all projected future benefit payments for current SDCERA-PP members. Therefore, the long-term expected rate of return on SDCERA-PP investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2020.

H. Sensitivity of the District's Proportionate Share of the Net Pension Liability to the Changes in the Discount Rate

The following table presents the District's proportionate share of the Net Pension Liability as of June 30, 2020, calculated using the discount rate of 7.00%, as well as what the District's proportionate share of the Net Pension Liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.00%) or 1-percentage-point higher (8.00%) than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
District's proportionate share of the net pension plan liability	$56,457,934	$37,311,042	$21,651,503

NOTE 6 - OTHER POSTEMPLOYMENT BENEFITS – RETIREE HEALTH PLAN

Certain District employees were hired by the County and have been participated in the SDCERA retiree health plan. The membership status has been carried over to the District upon the District's separation from the County effective March 1, 2021. All District's employees are General members.

A. Plan Description

The District contributes to the SDCERA retiree health plan (SDCERA-RHP), a cost-sharing multiple-employer defined benefit health plan administered by SDCERA. The SDCERA-RHP is administered as an Internal Revenue Code Section 401(h) account (Health Benefits 401(h) Trust) within the defined benefit pension plan under the authority granted by the Retirement Act to the SDCERA Board of Retirement. The Health Benefits 401(h) Trust was established by the SDCERA Retirement Board and the County's Board of Supervisors. The Retirement Act assigns the authority to establish and amend Health Insurance Allowance (HIA) benefits to the SDCERA Board of Retirement.

SDCERA issues a publicly available financial report that includes financial statements and required supplementary information for the SDCERA-RHP. The financial report may be obtained by writing to San Diego County Employees Retirement Association, 2275 Rio Bonito Way, Suite 100, San Diego, California 92108-1685 or by calling (619) 515-6800 or by visiting www.sdcera.org/finance.

NOTE 6 - OTHER POSTEMPLOYMENT BENEFITS – RETIREE HEALTH PLAN (Continued)

B. Benefits Provided

The SDCERA Retirement Board approved the SDCERA-RHP HIA benefits for eligible retired Tier I and Tier II members. The SDCERA-RHP is closed to members in the other Tiers. The HIA is paid from the Health Benefits 401(h) Trust, which is pooled with total fund assets for investment purposes, and is used exclusively to fund future retired member health insurance allowances and program administration. The HIA is not a vested SDCERA benefit and is not guaranteed. It may be reduced or discontinued at any time. The HIA may be applied to a member's insurance premiums for an SDCERA-sponsored plan or toward medical, dental, and prescription insurance premiums paid to other providers selected by the member. The allowance may not be used toward dependents' premiums, nor can it be used to cover any additional medical expenses incurred. It may not be used toward expenses for vision insurance, office visits or prescription co-payments. An allowance (or any portion of an allowance) that the retiree is unable to use, is forfeited.

Currently, an HIA benefit is paid to retired General and Safety Tier I and Tier II Members with at least 10 years of SDCERA service credit. Reciprocal service credit and purchased service credit from work in a prior public agency do not count toward the total service credit used to determine the level of allowance. The allowance increases for each year of service credit, with a maximum allowance of $400 per month available for Members with 20 or more years of SDCERA service credit. When Members become eligible for Medicare, their HIA allowance is set at $300 per month, plus reimbursement for Medicare Part B premiums.

Members who were granted a disability retirement and were determined to be totally disabled are eligible for the maximum allowance. Members with less than 10 years of service credit who were granted a disability retirement and determined to be partially disabled are eligible for the minimum allowance.

The benefit amounts for non-disabled retirees in Tiers I and II are listed in the following table:

Years of SDCERA Service Credit*	Monthly Allowance If Not Eligible for Medicare	Monthly Allowance If Eligible for Medicare
Less than 10	$0	$0
10	200	300
11	220	
12	240	
13	260	
14	280	In addition to the allowance,
15	300	$93.50 will be reimbursed to use
16	320	toward the cost of the monthly
17	340	Medicare Part B premium.
18	360	
19	380	
20 or more	400	

*Members who retired on or before September 30, 1991 may be eligible for the maximum allowance.

Upon the retiree's death, the HIA may be transferred to the retiree's eligible spouse or registered domestic partner. The duration of coverage is lifetime for retiree plus continuance to an eligible surviving spouse or registered domestic partner for life. The level of HIA payable to the survivor is the same as that payable to the retiree.

NOTE 6 - OTHER POSTEMPLOYMENT BENEFITS – RETIREE HEALTH PLAN (Continued)

C. Contributions

The SDCERA-RHP is funded by employer contributions that are based on a biennial actuarial valuation, actuarially determined 20-year level dollar amortization schedule. The Actuarial Valuation of Other Postemployment Benefits (OPEB) as of June 30, 2019, established the fiscal year 2021 employer contribution rate of 1.40 percent of covered payroll which amounted to $154,680 in required contributions made by the District. The Internal Revenue Code limits employer contributions to a 401(h) account to a maximum of 25 percent of the employer's normal cost contributions to the pension plan.

D. OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2021, the District reported a liability of $820,400 for its proportionate share of the collective Net Other Postemployment Benefits Liability (NOL). The NOL was measured as of June 30, 2020 (measurement date), and determined based upon the results of the actuarial valuation as of June 30, 2019. The Plan's Fiduciary Net Position (plan assets) and the Total OPEB Liability (TOL) were also valued as of the measurement date. The NOL is equal to the difference between the TOL and the Plan's Fiduciary Net Position. The Plan's Fiduciary Net Position is equal to the fair value of assets.

The District's proportion of the NOL, as well as its proportion of the other OPEB related deferred outflows of resources and deferred inflows of resources is determined using the employer contributions from each employer category from July 1, 2019 through June 30, 2020 as provided to the SDCERA Actuary from SDCERA. The ratio of the District's contributions to the total employer contributions is multiplied by the SDCERA-RHP total NOL to determine the District's proportionate share of the NOL. The same calculation is performed for the other OPEB related deferred outflows of resources and deferred inflows of resources. At June 30, 2020 the District's proportionate share of the NOL was approximately 0.826%. For the year ended June 30, 2021, the District recognized OPEB expense of $51,709. At June 30, 2021, the District reported deferred outflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources
Contributions to the OPEB plan subsequent to the measurement date	$154,680
Net difference between projected and actual earnings on OPEB plan investments	7,664
	$162,344

Deferred outflows of resources noted above represent the unamortized portion of changes to net OPEB liability to be recognized in future periods in a systematic and rational manner.

Projected earnings on OPEB investments are recognized as a component of OPEB expense. The net difference between projected and actual earnings on OPEB plan investments is reported as a deferred outflow of resources or deferred inflow of resources and amortized as a component of OPEB expense on a closed basis over a five-year period, beginning with the period in which they are incurred.

NOTE 6 - OTHER POSTEMPLOYMENT BENEFITS – RETIREE HEALTH PLAN (Continued)

D. OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

Changes in proportionate share and differences between employer's contributions and proportionate share of contributions, changes of assumptions and other inputs, and differences between expected and actual experience in the total OPEB liability, are amortized over the average of the expected remaining service lives (service lives) of all employees that are provided with OPEB through the SDCERA-RHP and are recorded as a component of OPEB expense, beginning with the period in which they are incurred.

$154,680 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the NOL in the year ending June 30, 2022.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30,	Amount
2022	$2,376
2023	1,642
2024	1,964
2025	1,682
	$7,664

E. Actuarial Assumptions

The TOL in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement, as shown in the table below:

Inflation	2.75%
Salary increase	General: 4.15% to 10.50%, including inflation
Discount rate	7.00%
Health care trend	Non-Medicare: 6.75%, graded to ultimate 4.50% over 9 years Medicare: 6.25% graded to ultimate 4.50% over 7 years
Health insurance allowance subsidy increases	0.00%

Mortality rates include Post-retirement mortality rates and Pre-retirement mortality rates. Post-retirement mortality rates include healthy retirement and disabled retirement.

Healthy Retirement. For General members and all beneficiaries, mortality rates are based on Pub-2010 General Healthy Retiree Headcount-Weighted Above-Median Mortality Table (separate tables for males and females) times 100% for males and 105% for females, projected generationally with the two-dimensional mortality improvement scale MP-2018.

Disabled Retirement. For General members, mortality rates are based on Pub-2010 Non-Safety Disabled Retiree Headcount-Weighted Mortality Table (separate tables for males and females) times 75% for males and 75% for females, projected generationally with the two-dimensional mortality improvement scale MP-2018.

NOTE 6 - OTHER POSTEMPLOYMENT BENEFITS – RETIREE HEALTH PLAN (Continued)

E. Actuarial Assumptions (Continued)

The aforementioned mortality data reasonably reflect the mortality experience as of the measurement date. These mortality tables were adjusted to future years using the generational projection to reflect future mortality improvement between the measurement date and those years.

Pre-retirement. For General members, mortality rates are based on the Pub-2010 General Employee Headcount-Weighted Above-Median Mortality Table (separate tables for males and females) times 100% for males and 100% for females, projected generationally with the two-dimensional mortality improvement scale MP-2018.

The actuarial assumptions used in the June 30, 2020 valuation were based on the results of an experience study for the period from July 1, 2015 through June 30, 2018. They are the same as the assumptions used in the June 30, 2020 funding actuarial valuation for SDCERA-RHP.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Large Cap Equity	18.00%	5.44%
Small Cap Equity	2.00%	6.18%
Developed International Equity	15.00%	6.54%
Global Equity	5.80%	6.45%
Emerging Markets Equity	7.00%	8.73%
High Yield Bonds	6.00%	3.64%
Intermediate Bonds	19.20%	1.25%
Private Real Estate (Core)	7.20%	4.51%
Private Real Estate (Non-Core)	1.80%	5.82%
Private Equity	7.00%	9.00%
Infrastructure	4.50%	5.83%
Hedge Funds	4.00%	4.90%
Private Debt	1.00%	6.50%
Timber	0.75%	4.34%
Farmland	0.75%	5.63%
Total	100%	

NOTE 6 - OTHER POSTEMPLOYMENT BENEFITS – RETIREE HEALTH PLAN (Continued)

F. Discount Rate

The discount rate used to measure the TOL was 7.00% as of June 30, 2020. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made at rates equal to the actuarially determined contribution rates. For this purpose, only employer contributions that are intended to fund benefits for current SDCERA-RHP members and their beneficiaries are included.

Projected employer contributions that are intended to fund the service costs (if any) for future SDCERA-RHP members and their beneficiaries, as well as projected contributions (if any) from future SDCERA-RHP members, are not included. Based on those assumptions, the SDCERA-RHP's Fiduciary Net Position was projected to be available to make all projected future benefit payments for current SDCERA-RHP members. Therefore, the long-term expected rate of return on SDCERA-RHP investments was applied to all periods of projected benefit payments to determine the TOL as of June 30, 2020.

G. Sensitivity of the County's Proportionate Share of the Net OPEB Liability to the Changes in the Discount Rate and Changes in the Healthcare Cost Trend Rate

The following table presents the County's proportionate share of the Net OPEB Liability (NOL) as of June 30, 2020, calculated using the discount rate of 7.00%, as well as what the County's proportionate share of the NOL would be if it were calculated using a discount rate that is 1-percentage-point lower (6.00%) or 1-percentage-point higher (8.00%) than the current rate; and presents the County's proportionate share of the NOL as of June 30, 2020 and what it would be if it were calculated using a healthcare cost trend rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
District’s proportionate share of the net OPEB plan liability	$893,640	$820,400	$756,139

NOTE 7 - INTERFUND ACTIVITIES

Interfund transfers result from the transfer of assets without the expectation of repayment. Transfers are most commonly used to move revenues from Special Revenue Funds to the General Fund to finance various programs accounted for in other funds. Interfund transfers for the four months ended June 30, 2021 were as follows:

	Transfers Out			
	Special Revenue Funds			
	Carl Moyer Program Fund	Community Air Protection Program Fund	Funding Agriculture Replacement Measures for Emission Reduction Program Fund	Total
Transfers In				
General Fund	$16,641	$1,015,212	$28,709	$1,060,562

NOTE 8 - EXTRAORDINARY ITEM – CONTRIBUTION FROM COUNTY OF SAN DIEGO

Upon separation from the County effective March 1, 2021, the County contributed certain assets and liabilities to the District. The following is a summary of the contributed assets and liabilities to the District as of March 1, 2021:

	March 1, 2021
Assets:	
Cash and investments in the County of San Diego Treasury Investment Pool	$68,528,775
Accounts receivable	138,442
Due from other governments	484,417
Inventory	284,458
Total Assets	$69,436,093
Liabilities:	
Accounts payable	$(40,427,081)
Total Contribution – County of San Diego governmental funds	$29,009,011
Reconciliation to governmental activities:	
Capital assets, net of depreciation	$10,012,782
Compensated absences	(1,048,498)
Net pension liability	(33,778,747)
Net OPEB liability	(801,148)
Deferred outflows of resources relating to pension	11,150,137
Deferred outflows of resources relating to OPEB	103,853
Deferred inflows of resources relating to pension	(1,701,253)
Total Contribution – County of San Diego governmental activities	$12,946,137

NOTE 9 - CONTINGENT LIABILITIES

The District is subject to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disaster. The District is subject to various lawsuits as well as grievances by labor unions. The District's management believes, based upon consultation with the District attorneys, that any unasserted claims, in the aggregate, will not result in a material adverse financial impact to the District.

SAN DIEGO COUNTY
AIR POLLUTION CONTROL DISTRICT

Federal Single Audit Reports

For the Four Months Ended
June 30, 2021

MGO Certified Public Accountants

SAN DIEGO COUNTY AIR POLLUTION CONTROL DISTRICT
Federal Single Audit Reports
For the Four Months Ended June 30, 2021

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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Members of the San Diego County Air Pollution Control District Governing Board
San Diego County Air Pollution Control District
San Diego, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the San Diego County Air Pollution Control District (District), as of and for the four months ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 29, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District'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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Macias Gini & O'Connell LLP

San Diego, California
September 29, 2022

**Independent Auditor's Report on Compliance for the Major Federal Program;
Report on Internal Control Over Compliance; and
Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

To the Members of the San Diego County Air Pollution Control District Governing Board
San Diego County Air Pollution Control District
San Diego, California

Report on Compliance for the Major Federal Program

We have audited the San Diego County Air Pollution Control District's (District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the District's major federal program for the four months ended June 30, 2021. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the District's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on the Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the four months ended June 30, 2021.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of governmental activities, each major fund, and the aggregate remaining fund information of the District, as of and for the four months ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated September 29, 2022, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Macias Gini É O'Connell LLP

San Diego, California
September 29, 2022

SAN DIEGO COUNTY AIR POLLUTION CONTROL DISTRICT
Schedule of Expenditures of Federal Awards
For the Four Months Ended June 30, 2021

Federal Grantor/Federal Program Name	Direct(D) Indirect(I)	Federal Assistance Listing Number	Award Identifying Number	Federal Expenditures	Expenditures to Subrecipients
United States Environmental Protection Agency					
Air Pollution Control Program Support	D	66.001	A09059210	$ 566,373	$ -
Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	D	66.034	PM-98T046010	97,855	-
Total United States Environmental Protection Agency				664,228	-
United States Department of Homeland Security					
Homeland Security Biowatch Program	D	97.091	06OHBIO00009	277,183	-
Total Expenditures of Federal Awards				**$ 941,411**	**$ -**

See Accompanying Notes to the Schedule of Expenditures of Federal Awards.

SAN DIEGO COUNTY AIR POLLUTION CONTROL DISTRICT
Notes to the Schedule of Expenditures of Federal Awards
For the Four Months Ended June 30, 2021

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal award activity of the San Diego County Air Pollution Control District (the District) under programs of the federal government for the four months ended June 30, 2021. Pursuant to California Assembly Bill No. 423, on March 1, 2021 the District separated from the County of San Diego and became a separate legal entity. The District's reporting entity is defined in Note 1 in the notes to the District's basic financial statements. Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not, present the financial position of the District. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations*, Part 200, *Uniform Administrative Requirements*, *Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported in the accompanying Schedule are presented using the modified accrual basis of accounting for grants accounted for in governmental funds. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 – ASSISTANCE LISTING NUMBERS (ALN)

The ALNs included in the accompanying Schedule were determined based on the program name, review of grant contract information, and the U.S. General Services Administration's SAM.gov website.

NOTE 4 – INDIRECT COST RATE

The District has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance Section 2 CFR 200.414.

SAN DIEGO COUNTY AIR POLLUTION CONTROL DISTRICT
Schedule of Findings and Questioned Costs
For the Four Months Ended June 30, 2021

Section I – Summary of Auditor's Results

Financial Statements:

Type of report the auditor issued on whether the financial statements were prepared in accordance with GAAP:	Unmodified
Internal control over financial reporting:	
▪ Material weakness(es) identified?	No
▪ Significant deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards:

Internal control over major federal program:	
▪ Material weakness(es) identified?	No
▪ Significant deficiency(ies) identified?	None reported
Type of auditor's report issued on compliance for major federal program:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No

Identification of major federal program:

Assistance Listing Number	Name of Federal Award Program
66.001	Air Pollution Control Program Support

Dollar threshold used to distinguish between type A and type B programs:	$750,000
Auditee qualified as low-risk auditee?	No

SAN DIEGO COUNTY AIR POLLUTION CONTROL DISTRICT
Schedule of Findings and Questioned Costs (Continued)
For the Four Months Ended June 30, 2021

Section II – Financial Statement Findings

No matters reported.

Section III – Federal Award Findings and Questioned Costs

No matters reported.