LAFCO

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San Diego Local Agency Formation Commission

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AGENDA REPORT
Business | Action

February 5, 2018

TO: San Diego Commissioners

FROM: Keene Simonds, Executive Officer
Ruth Arellano, Executive Assistant
Erica Blom, Administrative Assistant

SUBJECT: **Final Audit for Fiscal Year Ending June 30, 2017**

SUMMARY

The San Diego Local Agency Formation Commission (LAFCO) will receive a report from Davis Farr, LLC auditing the Commission's financial statements for fiscal year (FY) 2017. The report concludes all tested transactions were accompanied by sufficient documentation, and with limited exceptions no material weaknesses were identified. One recommendation is identified in the accompanying management letter for LAFCO to retain an outside bookkeeper to reconcile account statements on a quarterly basis as well as assist in year-end closing activities. The overall fund balance finished with a net increase of $61,004 or 4.3% from $1.408 million in FY 2016 to $1.469 million in FY 2017. The report is being presented to the Commission to formally receive and file and provide direction on related matters.

BACKGROUND

Accounting Procedures

San Diego LAFCO's financial records are directly managed by staff with technical support provided by the County of San Diego's Auditor-Controller's Office. These support services are highlighted by staff accessing and utilizing the County's PeopleSoft software system in executing payroll, budgeting, and accounts receivable/payable transactions. LAFCO also recently established an internal accounting system operated on QuickBooks that is manually synched with PeopleSoft and provides an independent registry of agency accounting records.

Establishing an Audit Practice

San Diego LAFCO contracted for its first outside audit in April 2012 and retained the firm of Mayer, Hoffman, and McCann to prepare inaugural audit reports starting with FY 2009. This firm – which subsequently was renamed as Davis Farr, LLC – has prepared audits for LAFCO each thereafter and is under contract to continue through FY 2018.[1]

DISCUSSION

Consistent with the workplan this item is for San Diego LAFCO to formally receive and accept a final report on the audit prepared by Davis Farr, LLC on the Commission's financial statements for FY 2017. The report is also accompanied by a management letter addressed to the Commission summarizing Davis Farr, LLC's findings with respect to compliance and internal controls. A summary of key findings drawn from these documents follow.

- LAFCO finished FY2017 with a total fund balance of $1,469,699; an improvement over the prior fiscal year of $61,004 or 4.3%. The change is attributed to an increase in current assets (cash) and most directly tied to collecting an approximate 13% increase in agency apportionments.

- LAFCO finished FY 2017 with an unassigned portion of the total fund balance of $1,394,699; an improvement over the prior fiscal year of $258,079 or 23%. The change is primarily attributed to releasing earlier commitments and assignments associated with subsidizing certain jurisdictional proposals.

- Government Accounting Standards Board (GASB) guidelines (Nos. 67 and 68) necessitate that net pension liabilities be reported on the balance sheet to provide a clearer picture of financial obligations. Accordingly, and based on these pension liability requirements, LAFCO's net position at the end of FY 2017 totaled $15,443. This total marks a decrease in net position of ($37,657) or (71%) compared to the prior fiscal year and attributed – and among other factors – to a rise in compensated absences.

- Two significant adjustments were necessitated as a result of the audit process, and as such marked as deficiencies in internal control. These adjustments follow.

  - LAFCO did not adjust the accrued payroll liability at the end of the year; resulting in an adjustment and reduction in expenses of $14,800.

  - LAFCO did not record several payments for payable goods at the end of the year; resulting in an adjustment and increase in expenses of $39,950.

1 State law was amended in 2013 and specifies a local agency can contract for outside auditing services with the same entity for a maximum duration of six years

- It is recommended LAFCO consider retaining a bookkeeper or certified public accountant to review account transactions on a quarterly basis and provide assistance with year-end closing and audit preparation.

ANALYSIS

Davis Farr LLC's audit report provides an unqualified opinion that LAFCO's financial statements for FY 2017 are reliable representations of the Commission's financial position as of June 30, 2017. The audit affirms LAFCO overall maintains effective levels of internal controls in managing its financial records and transactions, which helps to ensure maximum accountability with respect to the agency's use of public funds. Further, the two adjustments necessitated during the audit process as described in the preceding section were both sourced to the time period in which there was a transition in the Executive Officer position, and as such – while in error – understandable given the circumstances. Nonetheless, staff agrees with the recommendation for LAFCO to retain an outside bookkeeper as an additional check in reconciling account statements on a quarterly basis and has been incorporated into the proposed workplan and budget for FY 2018.

RECOMMENDATION

This item is for the Commission to receive and file while providing any direction to staff with respect to addressing related issues going forward.

PROCEDURES

This item has been placed on the agenda for action as part of the Commission's business calendar. The following procedures, accordingly, are recommended in the consideration of this item:

1) Receive verbal report from staff;
2) Invite comments from interested audience members (voluntarily); and
3) Consider recommendation.

Respectfully,

Keene Simonds

Keene Simonds	Ruth Arellano	Erica Blom
Executive Officer	Executive Assistant	Administrative Assistant

Attachments: 1) Audit Management Letters
2) Audit Report for FY 2017

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Davis Farr LLP
2301 Dupont Drive | Suite 200 | Irvine, CA 92612
Main: 949.474.2020 | Fax: 949.263.5520

Board of Commissioners
San Diego Local Agency Formation Commission
San Diego, California

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Independent Auditor's Report

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 each major fund of San Diego Local Agency Formation Commission (the LAFCO), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the LAFCO's basic financial statements, and have issued our report thereon dated January 25, 2018.

Internal Control Over Financial Reporting

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

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

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

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. We consider the following deficiency in internal control to conform to that definition:

(1) Adjustments Detected During the Audit

Auditing Standards require that the auditor include an internal control recommendation when material adjustments are detected during the audit process. For the fiscal year ended June 30, 2017, we noted the following adjustments:

- The LAFCO did not adjust the accrued payroll liability at June 30, 2017. The adjustment resulted in a reduction of expenses in the amount of $14,800.
- The LAFCO did not record several payments made after June 30, 2017 as accounts payable for goods/services received prior to yearend. The adjustment resulted in an increase of expenses in the amount of $39,950.

In addition to the material audit adjustments noted above, there were several less significant adjustments to depreciation expense, accumulated depreciation, payroll expense, compensated absences, cash, unrealized gain/loss on investments, interest income, and interest receivable.

Recommendation

To minimize auditor detected adjustments the LAFCO should consider engaging a Bookkeeper or Certified Public Accountant to review accounting transactions on a quarterly basis and provide assistance with the yearend close and audit preparation to ensure accounting records are in compliance with generally accepted accounting principles.

Management's Response

Management agrees with the recommendation and will explore implementing opportunities proceeding forward.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the LAFCO's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not 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.*

LAFCO's Response

LAFCO's written response to the significant deficiencies identified in our audit has not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Davis Farr LLP

Irvine, California
January 25, 2018

Davis Farr LLP
2301 Dupont Drive | Suite 200 | Irvine, CA 92612
Main: 949.474.2020 | Fax: 949.263.5520

To the Board of Commissioners
San Diego Local Agency Formation Commission

We have audited the financial statements of the governmental activities, and each major fund of the San Diego Local Agency Formation Commission (LAFCO) for the year ended June 30, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated December 5, 2017. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by LAFCO are described in Note 1 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during 2017. We noted no transactions entered into by LAFCO during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the LAFCO's financial statements was:

> Management's estimate of the Pension Obligation Bonds Payable is based on information provided by the County of San Diego based on actuarial reports. We evaluated the key factors and assumptions used to develop the Pension Obligation Bonds Payable in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

> Footnote 4: Long-Term Liabilities
> Footnote 6: Retirement Plan

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following were significant adjustments detected by the audit process:

- $14,800 adjustment to decrease accrued liabilities and payroll expense
- $39,950 adjustment to increase accounts payable and various expenses accounts

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated January 25, 2018.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

<u>Other Matters</u>

We applied certain limited procedures to *Management's Discussion and Analysis*, the *Schedule of the Plan's Proportionate Share of the Net Pension Liability*, the *Schedule of Pension Plan Contributions*, and *the Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual* which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

This information is intended solely for the use of Board of Commissioners and management of LAFCO and is not intended to be, and should not be, used by anyone other than these specified parties.

Davis Farr LLP

Irvine, California
January 25, 2018

Attachment Two

SAN DIEGO LOCAL AGENCY FORMATION COMMISSION

Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

(With Independent Auditors' Report Thereon)

SAN DIEGO LOCAL AGENCY FORMATION COMMISSION

Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

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Davis Farr LLP
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Board of Commissioners
San Diego Local Agency Formation Commission
San Diego, California

Independent Auditors' Report

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the San Diego Local Agency Formation Commission (the LAFCO), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the LAFCO's basic financial statements as listed in the table of contents.

Management's Responsibility 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 controls 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 auditors' 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 opinion.

Other Matters

Prior Year Comparative Financial Statements

We have previously audited the LAFCO's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 25, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis*, *Budgetary Comparison Information, Schedule of the Plan's Proportioned Share of the Net Pension Liability (Cost Sharing Plan),* and the *Schedule of Plan Contributions (Cost Sharing Plan)* 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 January 25, 2018 on our consideration of the LAFCO's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering LAFCO's internal control over financial reporting and compliance.

Davis Farr LLP

Irvine, California
January 25, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

SAN DIEGO LOCAL AGENCY FORMATION COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the San Diego Local Agency Formation Commission's (the Commission) annual financial report presents Management's Discussion and Analysis of the Commission's financial performance during the year ended June 30, 2017, plus other significant conditions and events. This section should be read in conjunction with the financial statements, which follow.

Financial Highlights

- The Commission finished FY 2016-17 with an operating net of $61,104; an improvement over the prior fiscal year total of ($3,142). The change is attributed to the Commission collecting an approximate 13% increase in agency apportionments.

- Government Accounting Standards Board (GASB) guidelines (Nos. 67 and 68) necessitate that net pension liabilities be reported on the balance sheet to provide a clearer picture of financial obligations. Accordingly, and based on these pension liability requirements, the Commission's net position at the end of FY 2016-17 totaled $15,443. This total marks a decrease in net position of ($37,657) or (71%) compared to the prior fiscal year and attributed – and among other factors – to a rise in compensated absences.

- The Commission finished FY 2016-17 with a total fund balance of $1,469,699; an improvement over the prior fiscal year of $61,004 or 4.3%. The change is attributed to an increase in current assets (cash) as a result of the aforementioned operating net.

- The Commission finished FY 2016-17 with an unassigned portion of the total fund balance of $1,394,699; an improvement over the prior fiscal year of $258,079 or 23%. The change is primarily attributed to releasing earlier commitments and assignments associated with subsidizing certain jurisdictional proposals.

Overview of Required Financial Statements

Financial statements provide information about the Commission, whose records are maintained by both the County of San Diego accounting system and the San Diego LAFCO. The County and Wells Fargo Bank provide treasury and investment services to the Commission.

- The Condensed Statement of Net Assets provides an overview of the Commission's assets (or resources) and liabilities (or obligations).

- The Condensed Statement of Revenues, Expenses and Changes in Net Assets provides information regarding the Commission's operating revenues, operating expenses, income from operations, non-operating revenue and change in net assets.

- The Supplemental Schedules of Revenues, Expenses and Changes in Net Assets Actual vs. Budget contained in the audit provide detailed information regarding budgeted revenues and expenses compared to actual revenues and expenses.

Condensed Statement of Net Position
June 30, 2016 and 2017

	2017	2016	2016 to 2017 Change
Assets			
Cash Investments	1,513,144	1,457,702	55,442
Interest Receivable	2,868	1,571	1,297
Capital Assets	7,427	10,102	(2,675)
Total Assets	$1,523,439	$1,469,375	$54,064

Liabilities:	2017	2016	2016 to 2017 Change
Total Liabilities	$2,111,642	$1,460,411	$651,231
Net Position:			
Net Investment Capital Assets	7,427	10,102	(2,675)
Unrestricted	8,016	42,998	(34,982)
Total Net Position	$15,443	$53,100	($37,567)

Condensed Statement of Revenues, Expenses and Changes in Net Assets
June 30, 2016 and 2017

	2017	2016	2016 to 2017 Change
Total Operating Revenues	$1,708,752	$1,586,150	$122,602
Total Operating Expenses	$1,647,748	$1,589,292	$58,456

SAN DIEGO LOCAL AGENCY FORMATION COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Agency Assets

The Commission's assets at the end of FY 2016-17 totaled $1,523,439. This amount marks an increase over the prior fiscal year of $54,064 or 4%. Assets classified as current with the expectation they could be readily liquidated represent over 99% of the total amount and tied to cash and investments. Assets classified as non-current make up the remainder and tied to capital assets and specifically office equipment.

Agency Liabilities

The Commission's liabilities at the end of FY 2016-17 totaled $2,111,642. This amount marks an increase over the prior fiscal year of $651,231 or 45%. Liabilities classified as current representing obligations owed in the near-term equal 10% of the total amount and largely attributed to covering compensated absences. Liabilities classified as non-current make up the remaining 90% of the total and predominately tied to the Commission's pension obligations, which tally $1,661,384.

Conditions Affecting Current Financial Position

The economic condition of the Commission as it appears on the balance sheet reflects financial stability. The Commission and its Executive Officer will continue to maintain a watchful eye over expenditures and remain committed to sound and transparent fiscal management practices to deliver the highest quality service to the people of San Diego County. There are no known conditions adversely effecting the Commission's current financial condition. Lastly, there was no disagreement between the auditor and management in matters concerning financial accounting, reporting, or auditing during the course of the FY 2016-17 audit.

Request for Information

This financial report is designed to provide citizens, taxpayers, and the local agencies that financially support the Commission with a general overview of the Commission's finances and accountability therein. If there are any questions or a need for additional financial information, the Commission's Executive Officer can be reached at (858) 614-7755.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

SAN DIEGO LOCAL AGENCY FORMATION COMMISSION
Statement of Net Position
June 30, 2017
(With comparative information for the prior year)

	Governmental Activities	
	2017	2016
Assets:		
Current assets		
Cash and investments (note 2)	$ 1,513,144	1,457,702
Interest receivable	2,868	1,571
Total current assets	1,516,012	1,459,273
Noncurrent assets		
Capital assets, net (note 3)	7,427	10,102
Total assets	1,523,439	1,469,375
Deferred outflow of resources:		
Deferred outflow of resources - contributions note 6)	148,798	135,423
Deferred outflow of resources - actuarial (note 6)	627,075	130,530
Total deferred outflow of resources	775,873	265,953
Liabilities:		
Current liabilities		
Accounts payable	32,713	23,461
Accrued liabilities	13,600	27,117
Pension obligation bonds (note 4)	17,908	16,897
Compensated absences (note 4)	144,164	36,099
Total current liabilities	208,385	103,574
Noncurrent liabilities		
Pension obligation bonds (note 4)	238,120	230,745
Compensated absences (note 4)	3,753	102,724
Net pension obligation (note 6)	1,661,384	1,023,368
Total noncurrent liabilities	1,903,257	1,356,837
Total liabilities	2,111,642	1,460,411
Deferred inflow of resources:		
Deferred inflow of resources - actuarial (note 6)	172,227	221,817
Net position (deficit):		
Investment in capital assets	7,427	10,102
Unrestricted	8,016	42,998
Total net position	$ 15,443	53,100

See accompanying notes to the basic financial statements.

SAN DIEGO LOCAL AGENCY FORMATION COMMISSION
Statement of Activities
For the Fiscal Year Ended June 30, 2017
(With comparative information for the prior year)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Contributions and Grants	Program Revenues: Capital Contributions and Grants	Net (Expense) Revenue and Changes in Net Assets - Governmental Activities: 2017	Net (Expense) Revenue and Changes in Net Assets - Governmental Activities: 2016
Governmental activities:						
General government	$ 1,730,721	126,016	-	-	(1,604,705)	(1,346,688)
Interest	15,688	-	-	-	(15,688)	(18,768)
Total governmental activities	$ 1,746,409	126,016	-	-	(1,620,393)	(1,365,456)
General revenues:						
Apportionment					1,577,636	1,394,946
Investment income					5,100	9,438
Total general revenues					1,582,736	1,404,384
Change in net position					(37,657)	38,928
Net position, beginning of year					53,100	14,172
Net position, end of year					$ 15,443	53,100

See accompanying notes to the basic financial statements

FUND FINANCIAL STATEMENTS

SAN DIEGO LOCAL AGENCY FORMATION COMMISSION
Governmental Funds
Balance Sheet
June 30, 2017
(With comparative information for the prior year)

	General Fund	
	2017	2016
Assets		
Cash and investments (note 2)	$ 1,513,144	1,457,702
Interest receivable	2,868	1,571
Total assets	$ 1,516,012	1,459,273
Liabilities and Fund Balance		
Liabilities:		
Accounts payable	$ 32,713	23,461
Accrued liabilities	13,600	27,117
Total liabilities	46,313	50,578
Fund balance:		
Committed:		
Fire protection district reorganizations	-	175,000
Assigned:		
Montecito Ranch development	-	22,075
Contingency	75,000	75,000
Unassigned	1,394,699	1,136,620
Total fund balance	1,469,699	1,408,695
Total liabilities and fund balance	$ 1,516,012	1,459,273

See accompanying notes to the basic financial statements

SAN DIEGO LOCAL AGENCY FORMATION COMMISSION
Governmental Funds
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
June 30, 2017

Fund balances of governmental funds	$ 1,469,699
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital Related Items	
When capital assets (property, plant, equipment) that are to be used in governmental activities are purchased or constructed, the cost of those assets are reported as expenditures in governmental funds. However, the Statement of Net Position includes those capital assets among the assets of San Diego LAFCO as a whole.	
Capital assets	31,950
Accumulated depreciation	(24,523)
Long-Term Debt Transactions	
Long-term liabilities applicable to San Diego LAFCO's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities. All liabilities (both current and long-term) are reported in the Statement of Net Position.	
Net pension obligation	(1,661,384)
Pension obligation bonds payable	(256,028)
Compensated absences	(147,917)
Deferred Outflows and Inflows of Resources	
Certain deferred outflows and inflows of resources are not due and payable in the current period and are not current assets or financial resources, therefore these items are not reported in the governmental funds.	
Deferred outflows - contributions	148,798
Deferred outflows - actuarial	627,075
Deferred inflows - actuarial	(172,227)
Net position of governmental activities	$ 15,443

See accompanying notes to the basic financial statements.

SAN DIEGO LOCAL AGENCY FORMATION COMMISSION
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Fiscal Year Ended June 30, 2017
(With comparative information for the prior year)

	General Fund	
	2017	2016
Revenues:		
Apportionment	$ 1,577,636	1,394,946
Filing fees	61,328	105,256
Charges for services	64,688	76,510
Investment income	5,100	9,438
Total revenues	1,708,752	1,586,150
Expenditures:		
General government:		
Salaries and benefits	863,784	784,107
Service and supplies	749,536	773,935
Debt service:		
Principal	18,740	12,482
Interest	15,688	18,768
Total expenditures	1,647,748	1,589,292
Excess (deficiency) of revenues over (under) expenditures	61,004	(3,142)
Fund balance at beginning of year	1,408,695	1,411,837
Fund balance at end of year	$ 1,469,699	1,408,695

See accompanying notes to the financial statements

SAN DIEGO LOCAL AGENCY FORMATION COMMISSION
Governmental Funds
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
to the Statement of Activities
For the Fiscal Year Ended June 30, 2017

Net changes in fund balances - total governmental funds	$ 61,004

Amounts reported for governmental activities in the Statement of Activities are different because:

Capital Related Items

When capital assets that are to be used in governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in governmental funds. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation expense	(2,675)

Long-Term Debt Transactions

Some expenses reported in the Statement of Activities do not require the use of current financial resources. Therefore, these expenses are not reported as expenditures in governmental funds. Repayment of debt service is reported as an expenditure in governmental funds and, thus, has the effect of reducing fund balances because current financial resources have been used. For the Agency as a whole, however, the principal payments reduce the liabilities in the Statement of Net Position and do not result in an expense in the Statement of Activities.

Net change in net pension obligation	(78,506)
Net change in pension obligation bonds	(8,386)
Net change in compensated absences	(9,094)
Change in net position of governmental activities	$ (37,657)

See accompanying notes to the basic financial statements.

(1) Summary of Significant Accounting Policies

The financial statements of the San Diego Local Agency Formation Commission (San Diego LAFCO) have been prepared in conformity with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

a. Description of the Reporting Entity

San Diego Local Agency Formation Commission (LAFCO) is political subdivision of the State of California and responsible for regulating the formation and development of local governmental agencies and municipal service areas under the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (CKH). This includes timing the establishment, expansion, and reorganization of local government and their public services to meet current and future community needs. LAFCOs inform their regulatory powers through various administrative and planning activities with an increasing emphasis on performance measurement. There are currently more than 100 local agencies – cities, towns, and special districts – under LAFCO's oversight in San Diego County.

State Law requires that County Auditors apportion the net operating cost of LAFCO's among the membership categories represented on each Commission. Net operating costs for the San Diego LAFCO are apportioned: two-sevenths to the County of San Diego; one-seventh to the City of San Diego; two-sevenths among the remaining seventeen cities within the County of San Diego; and two-sevenths among independent special districts. Formulas in State Law stipulate how apportionment within the city and special district classes is determined. State Law also authorizes LAFCO's to establish a schedule of fees and service charges to recover the reasonable costs of providing the service for which fees are charged.

The San Diego LAFCO is an independent agency and its budget is not subject to County approval.

b. Basis of Accounting and Measurement Focus

The *basic financial statements* of the San Diego LAFCO are composed of the following:

(a) Government-wide financial statements
(b) Fund financial statements
(c) Notes to the basic financial statements

Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all the activities of the San Diego LAFCO.

(1) Summary of Significant Accounting Policies (Continued)

b. Basis of Accounting and Measurement Focus (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a function or segment. Program revenues include charges for services that are restricted to meeting the operational or capital requirements of a particular function or segment. Assessments, investment income, and other items not properly included among program revenues are reported instead as general revenues.

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 reporting government 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 nonexchange transactions are recognized in accordance with the requirements of GASB Statement No. 33.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as expenditures. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as other financing sources. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as expenditures.

Fund Financial Statements

In the fund financial statements, governmental funds are presented using the *modified accrual basis of accounting*. 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. The San Diego LAFCO uses an availability period of 60 days for all revenues.

Charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period to the extent normally collected within the availability period. Other revenue items are considered to be measurable and available where cash is received from the government.

(1) Summary of Significant Accounting Policies (Continued)

b. Basis of Accounting and Measurement Focus (Continued)

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 their balance sheets. 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.

Due to the nature of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by noncurrent liabilities. Since they do not affect net current position, such long-term amounts are not recognized as governmental 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 *other financing sources* rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

Governmental Fund Balances

Fund balances are reported in the fund statements in the following classifications:

Nonspendable Fund Balance

Nonspendable Fund Balance – this includes amounts that cannot be spent because they are either not spendable in form (such as inventory) or legally or contractually required to be maintained intact (such as endowments).

Spendable Fund Balance

Restricted Fund Balance – this includes amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation. If the Commission action limiting the use of funds is included in the same action (legislation) that created (enables) the funding source, then it is restricted.

(1) Summary of Significant Accounting Policies (Continued)

b. Basis of Accounting and Measurement Focus (Continued)

Committed Fund Balance – this includes amounts that can be used only for the specific purposes determined by a formal action of the Commission. It includes legislation (Commission action) that can only be overturned by new legislation requiring the same type of voting consensus that created the original action. Therefore, if the Commission action limiting the use of the funds is separate from the action (legislation) that created (enables) the funding source, then it is committed, not restricted. The San Diego LAFCO considers a resolution, to constitute a formal action of the Board of Commissioners for the purposes of establishing committed fund balance.

Assigned Fund Balance – this includes amounts that are designated or expressed by the Commission, but does not require a formal action like a resolution or ordinance. The Commission may delegate the ability of an employee or committee to assign uses of specific funds, for specific purposes. Such delegation of authority has not yet been granted.

Unassigned Fund Balance – this includes the remaining spendable amounts which are not included in one of the other classifications.

Net Position Flow Assumption – Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Fund Balance Flow Assumption – Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned and unassigned fund balance in the governmental fund financial statements flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as a separate column in the fund financial statements.

(1) Summary of Significant Accounting Policies (Continued)

b. Basis of Accounting and Measurement Focus (Continued)

The San Diego LAFCO reports the following major governmental fund:

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

c. Cash and Investments

Cash and cash equivalents include amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the government.

Investments are reported in the accompanying balance sheet at fair value, except for certain certificates of deposit and investment contracts that are reported at cost because they are not transferable, and they have terms that are not affected by changes in market interest rates. Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation, maturity, or sale of investments.

d. Fair Value Measurement

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

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

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

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

(1) Summary of Significant Accounting Policies (Continued)

d. Fair Value Measurement (Continued)

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

e. Capital Assets

Capital assets are recorded at cost for purchases in excess of $7,500 that have an expected useful life of three years or more. Capital assets used in operations are depreciated over their estimated useful lives using the straight-line method in the government-wide financial statements. Depreciation is charged as an expense against operations and accumulated depreciation is reported on the respective balance sheet. The useful life used for depreciation purposes is as follows:

Machinery and equipment	3-10 years
Furniture and Fixtures	5-7 years

f. Compensated Absences

Permanent San Diego LAFCO employees earn from 10 to 25 vacation days a year, depending upon their length of employment, and 13 sick days a year. Employees can carry forward up to twice their annual allotment in earned but unused vacation days. When the Executive Officer either voluntarily separates or retires from the San Diego LAFCO after a minimum of 5 years of service they will be compensated for 50% of all unused sick leave at their current rate of pay. Upon termination or retirement, permanent employees are entitled to receive compensation at their current base salary for all unused vacation leave.

g. Pensions

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported by the San Diego County Employees Retirement Association (SDCERA). For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value. SDCERA audited financial statements are publicly available reports that can be obtained at SDCERA's website under Forms and Publications.

(1) Summary of Significant Accounting Policies (Continued)

g. Pensions (Continued)

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

Valuation Date (VD)	June 30, 2015
Measurement Date (MD)	June 30, 2016
Measurement Period (MP)	June 30, 2015 to June 30, 2016

h. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The LAFCO has two items that qualifies for reporting in this category: deferred outflows – contributions and deferred outflows - actuarial. These are reported on the Statement of Net Position.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The LAFCO has one item that qualifies for reporting in this category: deferred inflows – actuarial. This is reported on the Statement of Net Position.

i. Estimates

The presentation of basic 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 revenue and expenditures during the reporting period. Actual results could differ from those estimates.

j. Prior Year Data

Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the San Diego LAFCO's prior year financial statements, from which this selected financial data was derived. Certain minor reclassifications of prior year data have been made in order to enhance their comparability with current year figures.

(2) Cash and Investments

Cash and investments as of June 30, 2017, consist of the following:

Demand deposits	$ 73,127
Cash held by the County of San Diego	1,440,017
Total cash and investments	$ 1,513,144

a. Investments Authorized by the San Diego LAFCO's Investment Policy

The San Diego LAFCO's investment policy authorizes investments in the under-mentioned agencies/institutions:

- State Local Agency Investment Fund (LAIF)
- County of San Diego Treasury Account

b. Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates are. The County of San Diego investment portfolio has a weighted average maturity of 398 days. For additional information see the County of San Diego's Comprehensive Annual Financial Report. This report can be obtained at the Auditor-Controller County of San Diego office located at the 1600 Pacific Highway, San Diego, California, 92101.

c. Disclosure Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The San Diego County Investment Pool was rated AAA by Standards and Poor as of June 30, 2017.

d. Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, an organization will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, an organization will not be able to recover the value of its investments or collateral securities that are in the possession of another party.

The California Government Code and the San Diego LAFCO's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits made by state or local government units by

(2) Cash and Investments (Continued)

d. Custodial Credit Risk (Continued)

pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the government unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure San Diego LAFCO deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

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

(3) Capital Assets

A summary of changes in capital assets follows:

		Balance at July 1, 2016	Additions	Deletions	Balance at June 30, 2017
Capital assets:					
Equipment	$	31,950	-	-	31,950
Accumulated depreciation:					
Equipment		(21,848)	(2,675)	-	(24,523)
Total	$	10,102	(2,675)	-	7,427

(4) Long Term Liabilities

The following is a summary of changes in long-term liabilities for the year ended June 30, 2017:

		Balance at July 1, 2016	Additions	Deletions	Balance at June 30, 2017	Due within one year
Pension obligation bonds	$	247,642	27,126	(18,740)	256,028	17,908
Compensated absences		138,823	44,661	(35,567)	147,917	144,164
Total	$	386,465	71,787	(54,307)	403,945	162,072

(4) Long Term Liabilities (Continued)

a. Pension Obligation Bonds

The San Diego LAFCO participates in the County of San Diego County Employee Retirement Association's (SDCERA) pension plan as discussed further in Note 6. As such they are liable for a share of the County's Taxable Pension Obligation Bonds (POB). POBs are issued by the County to reduce its pension unfunded actuarial liability and to achieve interest rate savings by issuing bonds at interest rates which are less than the assumed rate of return earned on proceeds placed in the SDCERA pension plan. POBs also have been issued to refund previously issued POB debt. Because current federal tax law restricts the investment of the proceeds of tax-exempt bonds in higher-yielding taxable securities, POBs are issued on a taxable basis.

The County of San Diego has issued a total of six series of Pension Obligation Bonds in 2002, 2004 and 2008, with maturities ranging from August 15, 2015 to August 15, 2026. All bonds were issued at variable interest rates ranging from 3.28-6.03%. Additional information on the bonds can be found in the County of San Diego's Comprehensive Annual Financial Report. The following is a summary of debt service requirements to maturity for LAFCO's Share of the County's Pension Obligation Bonds:

Year Ending June 30	Principal	Interest	Total
2018	$ 17,908	13,115	31,023
2019	18,962	12,062	31,024
2020	20,092	10,930	31,022
2021	21,308	9,716	31,024
2022	22,597	8,425	31,022
2023-2027	155,161	19,017	174,178
Total	$ 256,028	73,265	329,293

b. Compensated Absences

The San Diego LAFCO's policies relating to compensated absences are described in Note 1. This liability, to be paid in future years from the general fund, at June 30, 2017 is $147,917.

(5) Insurance

Insurance is provided on behalf of the San Diego LAFCO by the County of San Diego Insurance Policy. The San Diego LAFCO pays its pro-rata share of insurance costs to the County. For coverage limits see the County of San Diego's Comprehensive Annual Financial Report. This report can be obtained at the Auditor-Controller County of San Diego office located at the 1600 Pacific Highway, San Diego, California, 92101.

(6) Retirement Plan

Plan Description

San Diego LAFCO employees who work in a permanent position for at least 20 hours each week are eligible to participate in the San Diego County Employees Retirement Association (SDCERA) cost-sharing multiple employer defined benefit pension plan. All eligible San Diego LAFCO employees are considered General Members. The plan was established under the County Employees Retirement Law of 1937. A nine-member Board of Retirement oversees the plan for five employers. SDCERA issues a publicly available report that include financial statements and required supplementary information. The SDCERA financial report may be obtained by writing to SDCERA: 227 Rio Bonito Way, Suite 2000, San Diego, California 92108.

Benefits Provided

SDCERA provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. The Plans' provisions and benefits in effect at June 30, 2016, are summarized as follows:

	General Members			
Hire date	Prior to March 8, 2002 (Tier I)	March 8, 2002 to August 2009 (Tier A)	August 28, 2009 to January 1, 2013 (Tier B)	On or after January 1, 2013 (Tier C)
Benefit formula	2.62% @ 62	3.00% @ 60	2.62% @ 62	2.50% @ 67
Benefit vesting schedule	5 years service	5 years of service	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life	monthly for life	monthly for life
Retirement age	50-65	50-65	50-65	55-67
Monthly benefits, as a % of eligible compensation	1.34% to 2.62%	2.00% to 3.00%	1.34% to 2.62%	1.30% to 2.50%
Required employee contribution rates	10.83%	12.14%	9.54%	8.27%
Required employer contribution rates	39.95%	39.95%	39.95%	33.52%

Contribution Description

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through the SDCERA annual actuarial valuation process. 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 employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. All members are required to make contributions to SDCERA regardless of the retirement plan in which they are included. The average member contribution rate as of June 30, 2016 for 2015-2016 (based on the June 30, 2014 valuation) was 11.20% (not adjusted for pick-up) of compensation.

(6) Retirement Plan, (Continued)

Actuarial Methods and Assumptions used to determine Total Pension Liability

For the measurement period ending June 30, 2016 (the measurement date), the total pension liability was remeasured by revaluing the total pension liability as of June 30, 2015 (before the roll forward) to include the following actuarial assumptions that the Retirement Board has adopted for use in the pension funding valuation as of June 30, 2016 and using this revalued total pension liability in rolling forward the results from June 30, 2015 to June 30, 2016:

Actuarial Cost Method	Entry Age Actuarial Cost Method
Asset Valuation Method	Market Value of Assets
Actuarial Assumptions	
Discount Rate	7.25%
Inflation	3.00%
Payroll Growth	4.25% to 10.25%
Investment Rate of Return	7.25%, net of pension plan investment expense, including inflation

Discount Rate

The discount rate used to measure the TPL was 7.25% as of June 30, 2016. The projection of cash flows used to determine the discount rate assumed plan 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 plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the Plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL as of June 30, 2016.

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 weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation and deducting expected investment expenses. The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected investment rate of return assumptions are summarized in the following table:

(6) Retirement Plan, (Continued)

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Large Cap U.S Equity	17.685%	5.80%
Small Cap U.S Equity	1.965%	6.47%
Developed International Equity	16.200%	6.97%
Emerging Markets Equity	9.150%	8.93%
U.S Core Bonds	10.000%	0.84%
High Yield Bonds	5.000%	3.47%
Global Bonds	2.000%	0.49%
Bank Loan	5.000%	2.34%
Cash & Equivalents	2.000%	-0.46%
Real Estate	4.500%	4.45%
Vale Added Real Estate	4.500%	7.10%
Hedge Fund (Fund to Funds)	8.000%	4.40%
Private Real Asset	6.000%	9.00%
Private Equity	8.000%	9.00%
Total	100.000%	

The Net Pension Liability (NPL) for each membership class is the Total Pension Liability (TPL) minus the Plan Net Position. The Total Pension Liability for each membership class is obtained from internal valuation results. The Plan Net Position for each membership class was estimated by adjusting the valuation value of assets for each membership class by the ration of the total SDCERA Plan Net Position to total SDCERA valuation value of assets.

The NPL is allocated based on the actual employer contributions with the membership class.

(1) First calculate the ratio of employer's contributions to the total contributions for the membership class. This ratio is multiplied by the NPL for the membership class to determine the employer's proportionate share of the NPL for the membership class.
(2) The liability for Section 415(m) Replacement Benefit Program for each employer is added to the respective employers. San Diego LAFCO does not have a liability in this category.

(3) NPL is equal to NPL in (1) and NPL in (2) above.

(6) Retirement Plan, (Continued)

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

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (c) = (a) - (b)
Balance at: 6/30/2015	$ 6,629,558	5,606,190	1,023,368
Balance at: 6/30/2016	5,627,860	3,966,476	1,661,384
Net Changes during 2015-16	$ (1,001,698)	(1,639,714)	638,016

The LAFCO's proportionate share of the net pension liability as of June 30, 2015 and 2016 was as follows:

Proportion – June 30, 2015	0.050%
Proportion – June 30, 2016	0.056%
Change – Increase (Decrease)	0.006%

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

The following presents the net pension liability of the Plan as of the Measurement Date, calculated using the discount rate of 7.25 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.25 percent) or 1 percentage-point higher (8.25 percent) than the current rate:

	Discount Rate – 1% (6.25%)	**Current Discount Rate (7.25%)**	**Discount Rate + 1% (8.25%)**
Plan's Net Pension Liability	$ 2,444,133	$ 1,661,384	$ 1,018,873

Subsequent Events

There were no subsequent events that would materially affect the results presented in this disclosure.

(6) Retirement Plan, (Continued)

Recognition of Gains and Losses

Under GASB 68, deferred inflows and deferred outflows of resources related to pensions are recognized in pension expense systematically over time.

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

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

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

The expected average remaining service lifetime (EARSL) is calculated by dividing the total future service years by the total number of plan participants (active, inactive, and retired).

The EARSL for the Plan was 4.87 years, which was calculating each active employee's expected remaining service life as the present value of $1 per year of future service at zero percent interest, setting the remaining service life to zero for each nonactive or retired member, and then dividing the sum of the amounts by the total number of active employee, nonactive and retired members.

Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions

For the measurement period ending June 30, 2016 (the measurement date), San Diego LAFCO recognized a pension expense of $240,677 for the Plan.

As of the June 30, 2016 measurement date, San Diego LAFCO reports other amounts for the Plan as deferred outflow and deferred inflow of resources related to pensions as follows:

(6) Retirement Plan, (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Fiscal Year 16/17 Contributions	$ 148,798	$ -
Change of assumptions	271,460	
Differences between expected and actual experience	-	85,805
Net difference between projected and actual earnings on pension plan investments	271,552	-
Changes in proportion and differences between employer contributions and proportionate share of contributions*	84,063	86,422
Total	$ 775,873	$ 172,227

* - Each employer is required to recognize an employer-specific type of deferred inflows and deferred outflows. This is derived from the difference between actual contributions made by the employer and the employer's proportionate share of the risk pool's total contributions. This deferral and the corresponding amortization amount are calculated separately by each employer. The employer's pension expense is adjusted for the amortization of this additional deferral. This item is required to be amortized over the plan's Expected Average Remaining Service Lives (EARSL).

Amounts reported as deferred outflows and inflows of resources in the previous chart, including the employer-specific item, will be recognized in future pension expense as follows:

Measurement period Ended June 30:	Deferred Outflows/Inflows of Resources
2017	$ 105,392
2018	126,362
2019	153,973
2020	69,121

In addition to the above amounts, $148,798 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

(7) Other Post-Employment Benefits

a. Plan Description

Effective July 1, 2007, the San Diego LAFCO commenced contributing to the SDCERA retiree health plan, (SDCERA-RHP) a cost-sharing multiple-employer defined benefit health plan administered by SDCERA. The Retirement Act assigns the authority to establish and amend health allowance benefits to the SDCERA Board of Retirement. The retiree health plan provides a non-taxable health insurance allowance to Tier I and Tier II retirees. Health insurance allowances range from $200 per month to $400 per month based on members' service credits. (See note below regarding SDCERA Financial Report information.)

b. Funding Policy

The SDCERA-RHP was established and is administered as an Internal Revenue Code Section 401(h) account within the defined benefit pension plan under the authority granted by the Retirement Act to the SDCERA Board of Retirement. The SDCERA-RHP is funded by employer contributions that are based on an actuarially determined 20-year level dollar amortization schedule. The health insurance allowance is not a vested benefit and may be reduced or discontinued at any time by the SDCERA Board of Retirement. Additionally, the total amount of employer contributions is limited by the provisions of 401(h).

The San Diego LAFCO's employer contributions to the SDCERA-RHP for the three years ended June 30, 2017, which equaled the required contributions, were the following:

Fiscal Year Ended June 30	Annual Required Contribution (ARC)	Contributions Made	Percentage of ARC Contributed
2017	$ 9,323	9,323	100%
2016	8,189	8,189	100%
2015	8,122	8,122	100%

(8) Related Party Transactions

The San Diego LAFCO reimburses the County for annual cost of participating in County administered workers' compensation and liability insurance plans, employee benefit programs, and payroll and information technology support services. LAFCO also makes lease payments to the County for their operating office space. Total payments made to San Diego County during fiscal year ended June 30, 2017 were $75,722.

The following is a schedule of future minimum lease payments required under the operating lease agreement with the County:

(8) Related Party Transactions, (Continued)

Year Ending June 30,	Minimum Lease Payments
2018	$ 77,615
2019	79,559
2020	81,544
2021	13,646
	$ 252,364

REQUIRED SUPPLEMENTARY INFORMATION

SAN DEIGO LOCAL AGENCY FORMATION COMMISSION

Schedule of the Plan's Proportionate Share of the Net Pension Liability and Related Ratios as of the Measurement Date

Last Ten Fiscal Years *

	Measurement Period		
	6/30/2016	6/30/2015	6/30/2014
Plan's Proportion of the Net Pension Liability (Asset)	0.056%	0.050%	0.056%
Plan's Proportionate Share of the Net Pension Liability (Asset)	$ 1,661,384	$ 1,023,368	$ 893,715
Plan's Covered Payroll	$ 459,712	$ 411,232	$ 444,346
Plan's Proportionate Share of the Net Pension Liability (Asset) as a percentage of its Covered Payroll	361.397%	248.850%	201.130%
Plan's Proportion of the Fiduciary Net Position	70.910%	78.320%	81.940%
Plan's Share of Risk Pool FNP	$ 3,966,476	$ 5,606,190	$ 6,007,635
Plan's Proportionate Share of the Fiduciary Net Position as a percentage of the Plan's Total Pension Liability	70.479%	84.564%	87.050%
Plan's Proportionate Share of Aggregate Employer	0.056%	0.050%	0.056%

Notes to Schedule

Benefit Changes: None

Changes of Assumptions: For the measurement period ending June 30, 2016, the discount rate was changed from 7.50 percent (net of administrative expense) to 7.25 percent, payroll growth changed from 4.5-9.75 percent to 4.25-10.25 percent, and the investment rate of return was changed from 7.5 percent to 7.25 percent.

For the measurement period ending June 30, 2015, the discount rate was changed from 7.75 percent (net of administrative expense) to 7.50 percent, the inflation rate was changed from 3.25 percent to 3.00 percent, payroll growth changed from 4.75-10.00 percent to 4.50-9.75 percent, and the investment rate of return was changed from 7.75 percent to 7.50 percent

* - The fiscal year ended June 30, 2015 was the first year of implementation of GASB 68. As such only three years have been presented above.

SAN DEIGO LOCAL AGENCY FORMATION COMMISSION

Schedule of the Plan Contributions

Last Ten Fiscal Years *

	Fiscal Year 20116-17	Fiscal Year 2015-16	Fiscal Year 2014-15
Actuarially Determined Contribution	$ 148,798	$ 135,423	$ 142,703
Contributions in Relation to the Actuarially Determined Contribution	148,798	135,423	142,703
Contribution Deficiency (Excess)	$ -	$ -	$ -
Covered Payroll	$ 462,897	$ 459,712	$ 411,232
Contributions as a Percentage of Covered Payroll	32.145%	29.458%	34.701%

Notes to Schedule:

Fiscal Year End:	6/30/2017
Valuation Date:	6/30/2014

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry Age
Amortization Method	Level Percent of Payroll
Asset Valuation Method	5-year smooth market
Discount Rate	7.50%
Projected Salary Increase	4.50% to 9.75%, vary by service
Inflation	3.00%
Payroll Growth	3.00% for Tier 1 and Tier 2; 2.00% for Tier B and Tier C

* - The fiscal year ended June 30, 2015 was the first year of implementation of GASB 68. As such only three years have been presented above.

SAN DIEGO LOCAL AGENCY FORMATION COMMISSION
Governmental Funds
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
For the Fiscal Year Ended June 30, 2017
(With comparative information for the prior year)

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Assessments	$ 1,578,564	1,578,564	1,577,636	(928)	1,394,946
Filing fees	145,365	145,365	61,328	(84,037)	105,256
Charges for services	150,000	150,000	64,688	(85,312)	76,510
Investment income	5,500	5,500	5,100	(400)	9,438
Total revenues	1,879,429	1,879,429	1,708,752	(170,677)	1,586,150
Expenditures:					
General government:					
Salaries and benefits	1,073,177	1,073,177	863,784	209,393	784,107
Service and supplies	911,887	911,887	749,536	162,351	773,935
Debt service:					
Principal	-	-	18,740	(18,740)	12,482
Interest	-	-	15,688	(15,688)	18,768
Total expenditures	1,985,064	1,985,064	1,647,748	337,316	1,589,292
Excess (deficiency) of revenues over (under) expenditures	(105,635)	(105,635)	61,004	166,639	(3,142)
Net change in fund balances	-	-	-	-	-
Fund balances at beginning of year	1,408,695	1,408,695	1,408,695	-	1,411,837
Fund balances at end of year	$ 1,303,060	1,303,060	1,469,699	166,639	1,408,695

(1) Budgetary Reporting

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