LAFCO

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San Diego Local Agency Formation Commission

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March 7, 2016

TO: Local Agency Formation Commission

FROM: Executive Officer

SUBJECT: FY 2014-15 LAFCO Audit

EXECUTIVE SUMMARY

Attached is the San Diego LAFCO's audit for FY 2014-15 prepared by Davis Farr LLP (formerly known as Mayer Hoffman McCann - MHM P.C.). The audit covered the Commission's Basic Financial Statements and leave balance system. According to the independent audit, all LAFCO transactions were recognized in the financial statements in the proper period, and there was no disagreement between our auditor and management in matters concerning financial accounting, auditing, reporting, or leave balance computations. In addition, no difficulties were encountered in the preparation of the audit and no material misstatements were identified during the overall audit process. Lastly, no corrections or exceptions were noted, and no transactions were entered by LAFCO staff for which there was a lack of authoritative guidance or consensus.

In terms of audit findings, the Commission finished FY 2014-15, $65,517 under budget. Total actual budgeted expenditures approved by the Commission were $1,723,121 and total actual expenditures amounted to $1,657,604. The audit also confirmed that certain special projects designated as a priority have been subsidized by the Commission through the transfer of trust fund monies into LAFCO's operating accounts. These projects involved fire agency reorganizations, island elimination, and document management. Important conclusions and highlights of the audit are summarized below:

- In FY 2014-15, the Commission finished the fiscal year $65,517 under budget total actual *budgeted* expenditures were $1,723,121 and total *actual* expenditures were $1,657,604.

- The Commission's unassigned total fund balance increased from $1,171,322 in FY 2013-14 to $1,180,649 in FY 2014-15.

- New Government Accounting Standards Board (GASB) requirements were applied to relevant portions of the FY 2014-15 audit. Application of these new standards (GASB Nos. 67 and 68) require that net pension liabilities be reported on the balance sheet, providing a clearer picture of the size and nature of the financial obligations to current and former employees for past services rendered. This new auditing procedure has changed the way all public agencies, including LAFCO, report liabilities. Application of this new auditing procedure usually results in an overall decrease in an agency's reportable total net position. Based on the new GASB requirements, LAFCO's total net position is shown as a negative $44,941 in FY 2014-15. In comparison to the previous year (FY 2013-14), the Commission had a total net position of $1,062,805. The net position decrease between the two fiscal years was expected as a result of the implementation of GASB Nos. 67 and 68.

- The Commission finished FY 2014-15 with a total fund balance of $1,352,724, compared to $1,463,397 in FY 2013-14. This represents a decrease of $110,673 and is shown on the Statement and Schedule of Revenues, Expenditures and Changes in Fund Balance. This change is primarily attributable to decreased revenue caused by the Commission's fee waiver program for designated special projects, such as LAFCO's fire agency and island reorganization program; increased County of San Diego Records Management/Information Technology project costs; and a delay in the receipt of processing fee revenue owed by applicants for reorganizations spanning multiple fiscal years.

Conclusion

In conclusion, we are pleased to present Davis Farr's audit findings to the Commission. The audit did not disclose any irregularities, misstatements, difficulties, or corrections needed with respect to LAFCO's financial transactions and leave balance system during FY 2014-15. Implementation of GASB Nos. 67 and 68 has caused LAFCO to report its net position differently in FY 2014-15 than in previous years. As a result, the Commission's net pension obligation increased by $893,715 compared to the prior audit year. This change is an accounting and auditing level change and does not affect the actual amount of funds the Commission has placed in trust with the County of San Diego's treasury. However, application of GASB Nos. 67 and 68 reaffirms the Commission's long-standing fiscal management strategy of maintaining a sufficient balance within its trust funds held with the County of San Diego to cover potential liabilities.

LAFCO's auditor, Jennifer Farr, CPA and co-owner of Davis Farr LLP., will present the audit findings at the March 7th meeting. If there are any topics that need to be referred to the Commission's audit committee (Chairman Horn, Vice Chairman Abed, and Commissioners Vanderlaan and MacKenzie), then a committee meeting can be convened immediately after the regular LAFCO meeting on March 7th. Otherwise, the Commission should hear a presentation from LAFCO staff and Ms. Farr, and receive and file the 2014-15 audit report. Therefore, it is

RECOMMENDED: That your Commission

(1) Receive a presentation from LAFCO staff and Jennifer Farr; and

(2) Receive and file LAFCO's FY 2014-15 Audit and leave balance review prepared by Davis Farr LLP.

Respectfully Submitted,

MICHAEL D. OTT
Executive Officer

MDO:trl

Attachments

(1) Statement of Significant Audit Findings–SAS 114 letter
(2) Report on Internal Controls–SAS 115 letter
(3) Leave System Review
(4) FY 2014-15 Audit of LAFCO's Basic Financial Statements

cc: Jennifer Farr, CPA
Jeff Ball
Grant Farrell

DavisFarr
CERTIFIED PUBLIC ACCOUNTANTS

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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, 2015. 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 June 1, 2015. 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. As described in Note 15 to the financial statements, the LAFCO changed accounting policies related to Financial Reporting for Pensions by adopting Statement of Governmental Accounting Standard (GASB Statement) No. 68, Accounting and Financial Reporting for Pensions in 2015. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the Statement of Revenues, Expenditures, and Changes in Net Position. 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. There were no material misstatements detected as a result of our audit procedures. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

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 February 5, 2016.

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.

Other Matters

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
February 5, 2016

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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, 2015, and the related notes to the financial statements, which collectively comprise the LAFCO's basic financial statements, and have issued our report thereon dated February 5, 2016.

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.

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.*

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
February 5, 2016

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INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

We have performed the procedures enumerated below, which were agreed to by the San Diego Local Agency Formation Commission (LAFCO) solely to assist LAFCO management in determining if the paid time-off balances are accurate for the fiscal year ended June 30, 2015. Management of LAFCO is responsible for the paid time-off records and the procedures relating to those records. This engagement to apply agreed-upon procedures was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of this report. Consequently, we make no representations regarding the sufficiency of the procedures described below either for the purposes for which this report has been requested or for any other purposes.

The procedures performed and the results of those procedures are as follows:

1. We obtained and analyzed the San Diego LAFCO leave policy in order to gain an understanding of the policies relating to vacation, sick and compensatory time off.

2. We obtained an understanding of the internal controls relating to the accumulation of the leave balance information for all employees in order to determine the adequacy of those procedures over tracking employee leave balances.

   Results: We have no recommended changes to the process of accumulating leave balances.

3. We obtained a Leave Balance Worksheet detailing beginning and ending leave balances by employee for every pay period from July 1, 2014 to June 30, 2015 and recalculated ending balances for each employee to ensure mathematical accuracy.

   Results: We noted no exceptions.

4. We obtained Office Attendance Records detailing each employee's hours worked and leave time taken for every pay period during the period July 1, 2014 to June 30, 2015. We recalculated balances of sick, vacation and compensated leave taken for each employee for mathematical accuracy and agreed the activity to the related information on Leave Balance Worksheet.

   Results: We noted no exceptions.

5. We agreed the beginning leave balance of each Leave Balance Worksheet to the ending leave balance on the previous Leave Balance Worksheet for all Leave Balance Worksheets to determine if there were any adjustments to the balances.

   Results: We noted no adjustments.

6. We reviewed fiscal year end balances by employee to ensure the accrued vacation leave was less than two times annual accrual, which is the maximum accrual per LAFCO's policy. If the leave balances exceeded the maximum, we obtained evidence of the Executive Officer's approval.

   Results: We noted no exceptions.

7. For employees who did not work a full 40 hours, we recalculated each employee's accrued hours based on hours worked for each pay period.

   Results: We noted no exceptions.

8. We recalculated the value of compensated leave based on hours reported on the Leave Balance Worksheet and salary information obtained on year end Payroll Registers.

   Results: We noted no exceptions.

We were not engaged to, and did not perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of LAFCO management and Board of Commissioners and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes.

Davis Farr LLP

Irvine, California
February 5, 2016

SAN DIEGO LOCAL AGENCY FORMATION COMMISSION

Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

(With Independent Auditors' Report Thereon)

SAN DIEGO LOCAL AGENCY FORMATION COMMISSION

Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

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

Independent Auditor's 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, 2015, 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 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 opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and each major fund of the LAFCO, as of June 30, 2015, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As described further in note 9 to the financial statements, during the year ended June 30, 2015 the City implemented Governmental Accounting Standards Board (GASB) Statement No. 68. As part of the implementation of this accounting standard, net position as of June 30, 3014 was restated. Our opinion is not modified with respect to this matter.

Other Matters

Prior Year Comparative Financial Statements

The financial statements of the LAFCO as of and for the year ended June 30, 2014 were audited by other auditors whose report dated February 4, 2015 expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, 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 February 5, 2016 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
February 5, 2016

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, 2015, plus other significant conditions and events. This section should be read in conjunction with the financial statements, which follow.

Financial Highlights

- The Commission's total actual FY 2014-15 expenditures were $65,517 under total budgeted expenditures of $1,723,121.

- The Commission's unassigned total fund balance grew from $1,171,322 in FY 2013-14 to $1,180,649 in FY 2014-15.

- New Government Accounting Standards Board (GASB) requirements were applied to relevant portions of the FY 2014-15 audit. Application of these new GASB standards (GASB Nos. 67 and 68) require that net pension liabilities be reported on the balance sheet, providing a clearer picture of the size and nature of the financial obligations to current and former employees for past services rendered. Based on the new GASB requirements, LAFCO's net position accordingly decreased by $1,107,746 from $1,062,805 as reported in FY 2013-14 to a negative net position of $44,941 in FY 2014-15. This change was anticipated.

- The Commission finished FY 2014-15 with a total fund balance of $1,352,724, compared to $1,463,397 in FY 2013-14. This represents a $110,673 decrease and is shown on the Statement and Schedule of Revenues, Expenditures and Changes in Fund Balance. This change is primarily attributable to decreased revenue caused by the Commission's fee subsidization program for designated special projects (e.g., fire agency and island reorganizations, County of San Diego Records Management/Information Technology project), and a delay in the receipt of processing fee revenue owed by applicants for reorganizations spanning multiple fiscal years.

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, 2014 and 2015

	2015	2014	2014 to 2015 Change
	Assets		
Cash Investments	$1,518,497	$1,540,231	($21,734)
Interest Receivable	1,143	438	705
Capital Assets	12,867	16,594	(3,727)
Total Assets	$1,532,507	$1,557,263	($24,756)

Liabilities and Net Position
June 30, 2014 and 2015

Liabilities:	2015	2014	2014 to 2015 Change
Total Liabilities	$1,439,475	$ 494,458	$945,017
Net Position:			
Net Investment Capital assets	12,867	16,594	(3,727)
Unrestricted	(57,808)	1,046,211	(1,104,019)
Total Net Position	($44,941)	$1,062,805	($1,107,746)

Condensed Statement of Revenues, Expenses and Changes in Net Assets
June 30, 2014 and 2015

	2015	2014	2014 to 2015 Change
Total Operating Revenues	$1,546,931	$1,625,112	($78,181)
Total Operating Expenses	$1,657,604	$1,474,085	$183,519

Current Assets

The Commission's assets consist of cash, accounts receivable and interest receivable. Other than office equipment valued at $31,950, the Commission has no other capital assets. The Commission's file materials consist of records of current and past boundary changes and extensions of public services, local agency spheres of influence and municipal service reviews and budgetary, administrative and procedural files. During the fiscal year ending June 30, 2015, the Commission had a total fund balance of $1,352,724. Of this total, $150,000 was designated as "committed" for fire district reorganizations and other priority jurisdictional projects and $22,075 was designated as "assigned" in association with the Montecito Ranch development in Ramona, and the remainder of the fund balance totaled $1,180,649 and was classified as unassigned. In comparison, the Commission's unassigned total fund balance was $1,171,322 in FY 2013-14.

Long-Term Debt and Liabilities

LAFCO liabilities are related to accounts payable, accrued liabilities, and long-term liabilities (Pension Obligation Bonds and compensated absences). The Pension Obligation Bond balance due within one year and beyond one year for the year ending on June 30, 2015 as of June 30, 2014 was $245,609, compared to $282,740 on June 30, 2013. The Pension Obligation Bond amount due within one year as of June 30, 2015 was $11,620, and $233,989 beyond one year. The balance due within one year for compensated absences as of June 30, 2015 was $39,966, and $93,269 beyond one year. The net pension obligation figures per GASB Nos. 67 and 68 now require that net pension liabilities be reported on the balance sheet to provide a clearer picture of the size and nature of the financial obligations to current and former employees for past services rendered. Based on the new GASB requirements, LAFCO's net pension obligation liability for the year ending on June 30, 2015 was $893,715. There is no net pension obligation figure to report for 2014 because GASB 67 and 68 did not apply to the previous audit year.

Conditions Affecting Current Financial Position

Expenditures are predicated upon the Commission's staffing costs, cost allocation fees for use of County facilities and services and operating expenses related to payment of Commissioner per diems for participating in Commission meetings and copy and mailing expenses for Commission notices of hearing, agendas and staff reports. The Commission was not involved with, nor a party to any litigation during FY 2014-15. The Commission continued to subsidize certain priority projects, such as a 490,136 acre jurisdictional reorganization of fire agencies (Rural and Pine Valley Fire Protection Districts), plus several other large fire agency reorganizations involving the Rancho Santa Fe Fire Protection District and County Service Area No. 107 (Elfin Forest), and Lakeside and San Miguel Fire Protection Districts and County Service Area No. 115 (Pepper Drive). Processing fees were not collected for these multi-year jurisdictional reorganizations per Commission authorization; consequently, all associated costs were absorbed by the Commission.

While these reorganizations furthered overall LAFCO objectives of government streamlining and simplification of service provision, the associated waiver of processing fees was a major contributor to a condition where expenses exceeded revenues in FY 2014-15 by $110,673. This condition was anticipated and will continue in FY 2015-16 and then likely end in FY 2015-16, unless the Commission designates additional special projects subject to fee waivers and reductions.

There were no significant difficulties in the preparation or completion of the audit; no material misstatements detected by the auditor as a result of audit procedures; no corrections or exceptions noted in LAFCO's general purpose financial statements or leave balance system; and no transactions entered by LAFCO staff during the year under review for which there was a lack of authoritative guidance or consensus. All significant transactions were recognized in the financial statements in the proper period. And lastly, there was no disagreement between the auditor and management in matters concerning financial accounting, reporting, or auditing during the course of the FY 2014-15 audit.

Request for Information

This financial report is designed to provide the County and local agencies that financially support the Commission, residents, property owners and taxpayers in San Diego with a general overview of the Commission's finances and the Commission's accountability for funds it receives.

If there are any questions about this report or a need for additional financial information, the San Diego LAFCO'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, 2015

(With comparative information for the prior year)

	Governmental Activities	
	2015	2014
Assets:		
Cash and investments (note 2)	$ 1,518,497	1,540,231
Interest receivable	1,143	438
Capital assets, net (note 3)	12,867	16,594
Total assets	1,532,507	1,557,263
Deferred outflow of resources:		
Deferred outflow of resources - contributions	142,703	-
Liabilities:		
Accounts payable	31,952	26,694
Accrued liabilities	134,964	50,578
Long-term liabilities (note 4 and 6):		
Due within one year:		
Pension obligation bonds	11,620	11,391
Compensated absences	39,966	36,772
Due beyond one year:		
Pension obligation bonds	233,989	271,349
Compensated absences	93,269	97,674
Net pension obligation	893,715	-
Total liabilities	1,439,475	494,458
Deferred inflow of resources:		
Deferred inflow of resources - actuarial	280,676	-
Net position (deficit):		
Investment in capital assets	12,867	16,594
Unrestricted	(57,808)	1,046,211
Total net position	$ (44,941)	1,062,805

See accompanying notes to the basic financial statements

SAN DIEGO LOCAL AGENCY FORMATION COMMISSION
Statement of Activities
For the Fiscal Year Ended June 30, 2015
(With comparative information for the prior year)

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets - Governmental Activities	
Functions/Programs	Expenses	Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants	2015	2014
Governmental activities:						
General government	$ 1,547,720	139,572	-	-	(1,408,148)	(1,213,974)
Total governmental activities	$ 1,547,720	139,572	-	-	(1,408,148)	(1,213,974)
General revenues:						
Assessments					1,395,035	1,397,440
Investment income					12,324	5,534
Total general revenues					1,407,359	1,402,974
Change in net position					(789)	189,000
Net position (deficit), beginning of year, as restated (note 9)					(44,152)	873,805
Net position (deficit), end of year					$ (44,941)	1,062,805

See accompanying notes to the basic financial statements

FUND FINANCIAL STATEMENTS

SAN DIEGO LOCAL AGENCY FORMATION COMMISSION
Governmental Funds
Balance Sheet
June 30, 2015
(With comparative information for the prior year)

	General Fund	
	2015	2014
Assets		
Cash and investments (note 2)	$ 1,518,497	1,540,231
Interest receivable	1,143	438
Total assets	$ 1,519,640	1,540,669
Liabilities and Fund Balance		
Liabilities:		
Accounts payable	$ 31,952	26,694
Accrued liabilities	134,964	50,578
Total liabilities	166,916	77,272
Fund balance:		
Committed:		
Fire protection district reorganizations	150,000	175,000
Records management project	-	95,000
Assigned:		
Montecito ranch development	22,075	22,075
Unassigned	1,180,649	1,171,322
Total fund balance	1,352,724	1,463,397
Total liabilities and fund balance	$ 1,519,640	1,540,669

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, 2015

Fund balances of governmental funds	$ 1,352,724
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	(19,083)
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	(893,715)
Pension obligation bonds payable	(245,609)
Compensated absences	(133,235)
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 finanical resources, therefore these items are not reported in the governmental funds.	
Deferred outflows - contributions	142,703
Deferred inflows - actuarial	(280,676)
Net position of governmental activities	$ (44,941)

SAN DIEGO LOCAL AGENCY FORMATION COMMISSION
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Fiscal Year Ended June 30, 2015
(With comparative information for the prior year)

	General Fund	
	2015	2014
Revenues:		
Assessments	$ 1,395,035	1,397,440
Filing fees	37,852	42,245
Charges for services	101,706	179,893
Investment income	12,338	5,534
Total revenues	1,546,931	1,625,112
Expenditures:		
General government:		
Salaries and benefits	666,826	727,723
Service and supplies	938,332	697,667
Debt service:		
Principal	37,131	30,000
Interest	15,315	18,695
Total expenditures	1,657,604	1,474,085
Excess (deficiency) of revenues over (under) expenditures	(110,673)	151,027
Net change in fund balances	(110,673)	151,027
Fund balances at beginning of year	1,463,397	1,312,370
Fund balances at end of year	$ 1,352,724	1,463,397

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, 2015

Net changes in fund balances - total governmental funds	$ (110,673)
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. This is the amount by which capital outlays exceeded depreciation in the current period.	
Capital expenditures and disposals	(1,370)
Depreciation expense	(2,357)
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	75,269
Payments on pension obligation bonds	37,131
Net change in compensated absences	1,211
Change in net position of governmental activities	$ (789)

(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

Local Agency Formation Commissions were created by the State Legislature in 1963 to encourage orderly growth and efficient provision of services by local public agencies. Commissions in every county, which are composed of ex-officio and appointed public members, regulate the formation and reorganization of local agencies.

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 of 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. 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

e. Compensated Absences

Permanent San Diego LAFCO employees earn from 20 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.

(1) Summary of Significant Accounting Policies (Continued)

f. 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.

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, 2013
Measurement Date (MD)	June 30, 2014
Measurement Period (MP)	June 30, 2013 to June 30, 2014

g. 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 one item that qualifies for reporting in this category: deferred outflows – contributions. This is 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.

h. 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.

(1) Summary of Significant Accounting Policies (Continued)

i. 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, 2015, consist of the following:

Demand deposits	$ 43,236
Cash held by the County of San Diego	1,475,261
Total Cash and Investments	$ 1,518,497

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.

(2) Cash and Investments (Continued)

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 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, 2014	Additions	Deletions	Balance at June 30, 2015
Capital assets:				
Equipment	$ 33,320	-	(1,370)	31,950
Accumulated depreciation:				
Equipment	(16,726)	(2,637)	280	(19,083)
Total	$ 16,594	(2,637)	(1,090)	12,867

(4) Long Term Liabilities

The following is a summary of changes in long-term liabilities for the year ended June 30, 2015:

	Balance at July 1, 2013	Additions	Deletions	Balance at June 30, 2014	Due within one year
Pension obligation bonds	$ 282,740	-	(37,131)	245,609	11,620
Compensated absences	134,446	38,755	(39,966)	133,235	39,966
Total	$ 417,186	38,755	(77,097)	378,844	51,586

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
2016	$ 11,620	17,262	28,882
2017	15,730	13,125	28,855
2018	16,672	12,209	28,881
2019	17,653	11,229	28,882
2020	18,704	10,176	28,880
2021-2025	111,985	32,395	144,380
2026-2027	53,245	2,895	56,140
Total	$ 245,609	99,291	344,900

(4) Long Term Liabilities (Continued)

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, 2015 is $133,235.

(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, 2015, 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	10.36%	12.47%	8.81%	8.03%
Required employer contribution rates	35.07%	35.07%	35.07%	28.96%

(6) Retirement Plan, (Continued)

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. For the measurement period ending June 30, 2014 (the measurement date), the average active employee contribution rate was 8.74%-11.45% of annual pay for Tier 1, A, and B members and 7.74% of annual pay for Tier C members, and the average employer's contribution rate was 33.05% of annual payroll for Tier 1, A, and B members and 26.91% of annual payroll for all Tier C members.

Actuarial Methods and Assumptions used to determine Total Pension Liability

For the measurement period ending June 30, 2014 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2013 total pension liability. The June 30, 2013 and June 30, 2014 total pension liability were based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Asset Valuation Method	Market Value of Assets
Actuarial Assumptions	
Discount Rate	7.75%
Inflation	3.25%
Payroll Growth	4.75% to 10.00%
Investment Rate of Return	7.75% Net of Pension Plan Investment and Administrative Expenses: includes Inflation

(6) Retirement Plan, (Continued)

Discount Rate

Discount rate: The discount rate used to measure the Total Pension Liability was 7.75% as of June 30, 2014 and June 30, 2013. 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 pension 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 Total Pension Liability as of both June 30, 2014 and June 30, 2013.

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:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Global Equity (U.S. and Non-U.S. Developed)	20%	6.37%
Emerging market equity	5%	8.42%
High yield bonds	5%	3.30%
Treasure Inflation Protected Securities (TIPS)	5%	4.80%
Emerging narket debt	10%	4.36%
U.S. Treasuries	40%	5.90%
Real Estate	10%	4.87%
Natural resources and other real assets	10%	6.49%
Hedge Funds - Macro	10%	6.89%
Hedge Funds - Relative Value	10%	3.20%
Private Equity	10%	10.83%
Total *	135%	

* -The total portfolio asset allocation is greater than 100% to reflect the portfolio's leveraged asset allocation

(6) Retirement Plan, (Continued)

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.

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: 6/30/2013	$ 6,945,874	5,714,063	1,231,811
Balance at: 6/30/2014	6,901,350	6,007,635	893,715
Net Changes during 2013-14	$ (44,524)	293,572	(338,096)

The LAFCO's proportionate share of the net pension liability as of June 30, 2013 and 2014 was as follows:

Proportion – June 30, 2013	0.059%
Proportion – June 30, 2014	0.056%
Change – Increase (Decrease)	(0.003%)

(6) Retirement Plan, (Continued)

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 7.75 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 (6.75 percent) or 1 percentage-point higher (8.75 percent) than the current rate (dollars in millions):

	Discount Rate – 1% (6.75%)	**Current Discount Rate (7.75%)**	**Discount Rate + 1% (8.75%)**
Plan's Net Pension Liability	$ 1,570,090	$ 893,715	$ 326,766

Subsequent Events

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

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 4.8 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.

(6) Retirement Plan, (Continued)

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

For the measurement period ending June 30, 2014 (the measurement date), San Diego LAFCO recognized a pension expense of $78,769 for the Plan.

As of the June 30, 2014 measurement date, San Diego LAFCO reports other amounts for the Plan as deferred outflow and deferred inflow of resources related to pensions as follows:

	Deferred Outflows of Resources	**Deferred Inflows of Resources**
Fiscal Year 14/15 Contributions	$ 142,703	$ -
Differences between Expected and Actual Experience	-	74,028
Net Difference between Projected and Actual Earnings on Pension Plan Investments	-	166,791
Changes in proportion and differences between employer contributions and proportionate share of contributions*	-	39,857
Total	$ 142,703	$ 280,676

* - 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).

(6) Retirement Plan, (Continued)

Amounts reported as deferred 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 Inflows of Resources
2016	$ 71,668
2017	71,668
2018	71,668
2019	65,672

In addition to the above amounts, $142,307 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, 2016.

(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 are limited by the provisions of 401(h).

(7) Other Post Employment Benefits, (Continued)

The San Diego LAFCO's employer contributions to the SDCERA-RHP for the three years ended June 30, 2015, which equaled the required contributions, were the following:

Fiscal Year Ended June 30	Annual Required Contribution (ARC)	Contributions Made	Percentage of ARC Contributed
2015	$ 8,122	8,122	100%
2014	8,550	8,550	100%
2013	8,524	8,524	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, 2015 were $78,064.

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

Year Ending June 30,	Minimum Lease Payments
2016	$ 73,730
2017	75,573
2018	19,009
	$ 168,313

(9) Prior Period Adjustments

Below is a summary of prior period adjustments affecting net position of Governmental Activities:

	Governmental Activities
As previously reported	$ 1,062,805
a.) GASB 68	(1,106,957)
As restated	$ (44,152)

a.) During the fiscal year ended June 30, 2015 the LAFCO implemented GASB No. 68. As part of the implementation of this accounting standard, net position as of June 30, 3014 was restated. It is not practical to restate the 2014 information due to the unavailability of information.

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 *

	6/30/2014
Plan's Proportion of the Net Pension Liability (Asset)	0.056%
Plan's Proportionate Share of the Net Pension Liability (Asset)	$ 893,715
Plan's Covered-Employee Payroll	$ 444,346
Plan's Proportionate Share of the Net Pension Liability (Asset) as a percentage of its Covered Payroll	201.13%
Plan's Proportion of the Fiduciary Net Position	81.94%
Plan's Share of Risk Pool FNP	$ 6,007,635
Plan's Additional Payments to Side Fund During Measurement Period	$ -
Plan's Proportionate Share of the Fiduciary Net Position *(sum of the two preceding lines)*	$ 6,007,635
Plan's Proportionate Share of the Fiduciary Net Position as a percentage of the Plan's Total Pension Liability	87.050%
Plan's Proportionate Share of Aggregate Employer Contributions	0.056%

Notes to schedule

Benefit Changes: None
Changes of Assumptions: None

* - The fiscal year ended June 30, 2015 was the first year of implementation of GASB 68. As such ten years have not been presented.

SAN DEIGO LOCAL AGENCY FORMATION COMMISSION

Schedule of the Plan Contributions

Last Ten Fiscal Years *

		Fiscal Year 2014-15
Actuarially Determined Contribution	$	142,703
Contributions in Relation to the Actuarially Determined Contribution		142,703
Contribution Deficiency (Excess)	$	-
Covered-Employee Payroll	$	392,029
Contributions as a Percentage of Covered-Employee Payroll		36.401%

Notes to Schedule:

Benefit Changes: None
Changes of Assumptions: None

* - The fiscal year ended June 30, 2015 was the first year of implementation of GASB 68. As such ten years have not been presented.

(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.

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, 2015
(With comparative information for the prior year)

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Assessments	$ 1,395,035	1,395,035	1,395,035	-	1,397,440
Filing fees	91,530	91,530	37,852	(53,678)	42,245
Charges for services	151,086	151,086	101,706	(49,380)	179,893
Investment income	2,000	2,000	12,338	10,338	5,534
Total revenues	1,639,651	1,639,651	1,546,931	(92,720)	1,625,112
Expenditures:					
General government:					
Salaries and benefits	884,371	884,371	666,826	217,545	727,723
Service and supplies	838,750	838,750	938,332	(99,582)	697,667
Debt service:					
Principal	-	-	37,131	(37,131)	30,000
Interest	-	-	15,315	(15,315)	18,695
Total expenditures	1,723,121	1,723,121	1,657,604	65,517	1,474,085
Excess (deficiency) of revenues over (under) expenditures	(83,470)	(83,470)	(110,673)	(27,203)	151,027
Net change in fund balances	(83,470)	(83,470)	(110,673)	(27,203)	151,027
Fund balances at beginning of year	1,463,397	1,463,397	1,463,397	-	1,312,370
Fund balances at end of year	$ 1,379,927	1,379,927	1,352,724	(27,203)	1,463,397