LAFCO
San Diego Local Agency Formation Commission
9335 Hazard Way • Suite 200 • San Diego, CA 92123
(858) 614-7755 • FAX (858) 614-7766
Website: www.sdlafco.org

8

March 2, 2015

TO: Local Agency Formation Commission

FROM: Executive Officer

SUBJECT: FY 2013-14 LAFCO Audit

Executive Summary

LAFCO's outside Auditor (Mayer Hoffman McCann - MHM P.C), completed the San Diego LAFCO's audit of the Commission's general financial statements and leave balance system in early 2015. The audit did not identify any changes necessary to internal controls nor were any deficiencies in internal controls identified. The audit was performed after conducting field work in LAFCO's headquarters for about one week involving interviews, internal control testing, and financial statement review. All of LAFCO's significant transactions were recognized appropriately in the financial statements and no difficulties were encountered during the audit. The Commission's assets exceeded liabilities by $1,062,805 in FY 2013-14, and revenues exceeded expenses by $189,000 during the same time period. It was not necessary to convene an Audit Committee for the 2013-14 Audit; therefore, the audit has been referred directly to the Commission for review and acceptance. MHM P.C. partner, Jennifer Farr, CPA will present the audit findings at the March 2nd LAFCO meeting.

Audit Summary

As with previous audits, your auditor found that the financial statements fairly present the financial position of the governmental activities and each major fund of the Commission. No changes were identified as being necessary to the Commission's internal controls nor were any deficiencies identified that are considered to be material weaknesses. The Commission's adoption of capital assets, depreciation, and purchasing polices, plus development of cash reconciliation processes for journal entries in cash accounts are now standard internal accounting practices subject to audit review; no issues were identified with respect to those items. Lastly, no new Commission policies or procedures were recommended as part of the FY 2013-14 Audit.

Leave Balance Review Summary

Since the last audit, LAFCO staff obtained authorization to be integrated into the County of San Diego's leave accounting system. This necessitated the development of a special software modification and the system is now fully operational. LAFCO staff will, however, still maintain a parallel accounting system to review the accuracy of County's system. MHM reviewed LAFCO's leave balance system and determined that balances were appropriately reported by LAFCO staff.

Conclusion

In conclusion, we are pleased to present MHM's audit findings to the Commission. The Commission's assets consistently exceed liabilities, and so do revenues with respect to expenditures. The audit disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. The audit also evaluated LAFCO's internal controls and accuracy of its leave system – no exceptions, miscalculations, and/or violations of Commission policies were identified. The overall audit experience was a good one and MHM's performance and advice provided throughout the year continues to be outstanding. LAFCO's auditor, Jennifer Farr, CPA from MHM, P.C., will present the audit findings at the March 2nd meeting. Therefore, it is

RECOMMENDED: That your Commission

(1) Receive a presentation from LAFCO staff and Jennifer Farr of MHM, P.C., and
(2) Receive and file LAFCO's FY 2013-14 Audit and leave balance review prepared by Mayer Hoffman McCann, P.C., and
(3) Receive and accept the Audit Committee Report.

Respectfully Submitted,

MICHAEL D. OTT
Executive Officer

MDO:ra

Attachments

(1) Statement of Significant Audit Findings –SAS 114 letter
(2) Report on Internal Controls – SAS 115 Letter
(3) Leave System Review
(4) FY 2013-14 Audit of LAFCO's Basic Financial Statements

cc: Jennifer Farr, CPA
Grant Farrell

MHM

Mayer Hoffman McCann P.C.
An Independent CPA Firm

2301 Dupont Drive, Suite 200
Irvine, California 92612
949-474-2020 ph
949-263-5520 fx
www.mhm-pc.com

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, 2014. 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 January 6, 2014. Professional standards also require that we communicate to you the following information related to our audit.

<u>Significant Audit Findings</u>

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 fiscal year 2013-14. 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 4, 2015.

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 the Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual, and Management's Discussion and Analysis, 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.

Mayer Hoffman McCann P.C.

Irvine, California
February 4, 2015

Mayer Hoffman McCann P.C.
An Independent CPA Firm

2301 Dupont Drive, Suite 200
Irvine, California 92612
949-474-2020 ph
949-263-5520 fx
www.mhm-pc.com

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, 2014, 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 4, 2015.

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.

Mayer Hoffman McCann P.C.

Irvine, California
February 4, 2015

MHM
Mayer Hoffman McCann P.C.
An Independent CPA Firm

2301 Dupont Drive, Suite 200
Irvine, California 92612
949-474-2020 ph
949-263-5520 fx
www.mhm-pc.com

San Diego Local Agency Formation Commission
9335 Hazard Way
San Diego, California 92123

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, 2014. 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, 2013 to June 30, 2014 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, 2013 to June 30, 2014. 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.

Mayer Hoffman McCann P.C.

Irvine, California
February 4, 2015

SAN DIEGO LOCAL AGENCY FORMATION COMMISSION

Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

(With Independent Auditors' Report Thereon)

SAN DIEGO LOCAL AGENCY FORMATION COMMISSION

Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

TABLE OF CONTENTS

MHM

Mayer Hoffman McCann P.C.
An Independent CPA Firm

2301 Dupont Drive, Suite 200
Irvine, California 92612
949-474-2020 ph
949-263-5520 fx
www.mhm-pc.com

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, 2014, 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, 2014, 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.

Report on Summarized Comparative Information

We have previously audited the LAFCO's 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 16, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis* and *budgetary comparison information* 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 4, 2015 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.

Mayer Hoffman McCann P.C.

Irvine, California
February 4, 2015

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 analysis of the Commission's financial performance during the year ended June 30, 2014, and other significant conditions and events. This section should be read in conjunction with the financial statements, which follow.

Financial Highlights

- The Commission's assets exceeded liabilities in fiscal year 2013-14 by $1,062,805.

- For the year ended June 30, 2014, revenues exceeded expenses by $189,000.

Overview of Required Financial Statements

The 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 from beginning of year to end of year.

- 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.

- The Notes to Financial Statements provide explanations of the Commission's significant accounting policies and procedures which support the financial statements.

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

Condensed Statement of Net Position
June 30, 2014

	2014	2013	2013 to 2014 Change
ASSETS			
Cash Investments	$1,540,231	$1,336,879	$203,352
Interest Receivable	438	-	438
Capital Assets	16,594	5,596	10,998
Total Assets	1,557,263	1,342,475	214,788

LIABILITIES AND NET POSITION

Liabilities:	2014	2013	2013 to 2014 Change
Total Liabilities	494,458	468,670	25,788
Net Position:			
Net Investment Capital assets	16,594	5,596	10,998
Unrestricted	1,046,211	868,209	178,002
Total Net Position	$1,062,805	$873,805	$189,000

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

Condensed Statement of Revenues, Expenses and Changes in Net Assets
For the Years Ended June 30, 2013 and 2014

	2014	2013	2013 to 2014 Change
Total Operating Revenues	$1,625,112	$1,589,547	$35,565
Total Operating Expenses	1,474,085	1,243,777	230,308

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

Current Assets

The Commission's assets consist of cash, accounts receivable and interest receivable.

Other than office equipment valued at $33,320, 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, 2014, the Commission had a total fund balance of $1,463,397. Of this total, $175,000 was designated as "committed" for fire district reorganizations and other priority jurisdictional projects; $95,000 was designated as committed for a records management project; $22,075 was designated as "assigned" in association with the Montecito Ranch development in Ramona, and the remainder of the fund balance in the amount of $1,171,322 was classified as unassigned.

Long-Term Debt and Liabilities

LAFCO debt responsibilities are related to payments on County of San Diego Pension Obligation Bonds. The balance due for the year ended on June 30, 2014 was $282,740, compared to $312,740 due on June 30, 2013. The amount due within one year as of June 30, 2014 was $14,761. The balance due associated with Compensated Absences as of June 30, 2014 was $134,446, compared to $131,421 in 2013. The amount due within one year as of June 30, 2014 was $37,618.

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 is not involved with, nor a party to any litigation. The value of the Commission's governmental funds held in trust by the County of San Diego Treasury continued to grow; however, the fair market value of the funds reported by the County of San Diego versus the actual amount identified by the Commission's auditor in 2013-14 was $9,329 less, compared to $10,785 less in 2012-13. This variance is reflected as a correction in the 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 you have any questions about this report or need additional financial information you may reach the LAFCO Executive Officer at (858) 614-7755.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

SAN DIEGO LOCAL AGENCY FORMATION COMMISSION

Statement of Net Position

June 30, 2014

(With comparative information for the prior year)

	Governmental Activities	
	2014	2013
Assets:		
Cash and investments (note 2)	$ 1,540,231	1,336,879
Interest receivable	438	-
Capital assets, net (note 3)	16,594	5,596
Total assets	1,557,263	1,342,475
Liabilities:		
Accounts payable	26,694	15,382
Accrued liabilities	50,578	9,127
Long-term liabilities (note 4):		
Due within one year:		
Pension obligation bonds	14,761	11,391
Compensated absences	37,618	36,772
Due beyond one year:		
Pension obligation bonds	267,979	301,349
Compensated absences	96,828	94,649
Total liabilities	494,458	468,670
Net position:		
Net investment in capital assets	16,594	5,596
Unrestricted	1,046,211	868,209
Total net position	$ 1,062,805	873,805

See accompanying notes to the basic financial statements

SAN DIEGO LOCAL AGENCY FORMATION COMMISSION

Statement of Activities

For the Fiscal Year Ended June 30, 2014

(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: 2014	Net (Expense) Revenue and Changes in Net Assets - Governmental Activities: 2013
Governmental activities:						
General government	$ 1,436,112	222,138	-	-	(1,213,974)	(1,046,477)
Total governmental activities	$ 1,436,112	222,138	-	-	(1,213,974)	(1,046,477)
General revenues:						
Assessments					1,397,440	1,404,232
Investment income (loss)					5,534	(8,323)
Total general revenues					1,402,974	1,395,909
Change in net position					189,000	349,432
Net position, beginning of year					873,805	524,373
Net position, end of year					$ 1,062,805	873,805

See accompanying notes to the basic financial statements

FUND FINANCIAL STATEMENTS

SAN DIEGO LOCAL AGENCY FORMATION COMMISSION

Governmental Funds

Balance Sheet

June 30, 2014

(With comparative information for the prior year)

	General Fund 2014	General Fund 2013
Assets		
Cash and investments (note 2)	$ 1,540,231	1,336,879
Interest receivable	438	-
Total assets	$ 1,540,669	1,336,879
Liabilities and Fund Balance		
Liabilities:		
Accounts payable	$ 26,694	15,382
Accrued liabilities	50,578	9,127
Total liabilities	77,272	24,509
Fund balance:		
Committed:		
Fire protection district reorganizations	175,000	175,000
Records management project	95,000	-
Assigned:		
Montecito ranch development	22,075	22,075
Unassigned	1,171,322	1,115,295
Total fund balance	1,463,397	1,312,370
Total liabilities and fund balance	$ 1,540,669	1,336,879

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, 2014

Fund balances of governmental funds	$ 1,463,397
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	33,320
Accumulated depreciation	(16,726)
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.	
Pension obligation bonds payable	(282,740)
Compensated absences	(134,446)
Net position of governmental activities	$ 1,062,805

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, 2014

(With comparative information for the prior year)

	General Fund	
	2014	2013
Revenues:		
Assessments	$ 1,397,440	1,404,232
Filing fees	42,245	19,063
Charges for services	179,893	174,575
Investment income (loss)	5,534	(8,323)
Total revenues	1,625,112	1,589,547
Expenditures:		
General government:		
Salaries and benefits	727,723	719,167
Service and supplies	697,667	491,624
Debt service:		
Principal	30,000	13,455
Interest	18,695	19,531
Total expenditures	1,474,085	1,243,777
Excess (deficiency) of revenues over (under) expenditures	151,027	345,770
Net change in fund balances	151,027	345,770
Fund balances at beginning of year	1,312,370	966,600
Fund balances at end of year	$ 1,463,397	1,312,370

See accompanying notes to the basic 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

Year Ended June 30, 2014

Net changes in fund balances - total governmental funds	$ 151,027
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	14,130
Depreciation expense	(3,132)
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.	
Payments on pension obligation bonds	30,000
Compensated absences	(3,025)
Change in net position of governmental activities	$ 189,000

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

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

(1) Summary of Significant Accounting Policies (Continued)

b. Basis of Accounting and Measurement Focus (Continued)

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.

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.

(1) Summary of Significant Accounting Policies (Continued)

b. Basis of Accounting and Measurement Focus (Continued)

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.

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.

(1) Summary of Significant Accounting Policies (Continued)

b. Basis of Accounting and Measurement Focus (Continued)

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.

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.

(1) Summary of Significant Accounting Policies (Continued)

b. Basis of Accounting and Measurement Focus (Continued)

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.

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.

(1) Summary of Significant Accounting Policies (Continued)

c. Cash and Investments (Continued)

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.

f. 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 government did not report any items that qualified for reporting in this category.

(1) Summary of Significant Accounting Policies (Continued)

f. Deferred Outflows/Inflows of Resources (Continued)

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 government did not report any items that qualified for reporting in this category.

g. 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.

h. 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, 2014, consist of the following:

Demand deposits	$ 43,472
Cash held by the County of San Diego	1,496,759
Total Cash and Investments	$ 1,540,231

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.

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.

(2) Cash and Investments (Continued)

d. Custodial Credit Risk (Continued)

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, 2013	Additions	Deletions	Balance at June 30, 2014
Capital assets:				
Equipment	$ 19,190	14,130	-	33,320
Accumulated depreciation:				
Equipment	(13,594)	(3,132)	-	(16,726)
Total	$ 5,596	10,998	-	16,594

(4) Long Term Liabilities

The following is a summary of changes in long-term liabilities for the year ended June 30, 2014:

	Balance at July 1, 2013	Additions	Deletions	Balance at June 30, 2014	Due within one year
Pension obligation bonds	$ 312,740	-	(30,000)	282,740	14,761
Compensated absences	131,421	36,167	(33,142)	134,446	37,618
Total	$ 444,161	36,167	(63,142)	417,186	52,379

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
2015	$ 14,761	16,664	31,425
2016	12,643	18,782	31,425
2017	17,115	14,282	31,397
2018	18,140	13,285	31,425
2019	19,207	12,218	31,425
2020-2024	114,850	42,243	157,093
2025-2027	86,024	7,227	93,251
Total	$ 282,740	124,701	407,441

(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, 2014 is $134,446.

(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

a. Plan Description

San Diego LAFCO employees are provided with service retirement, disability, death, and survivor benefits through the SDCERA. The County of San Diego established SDCERA as a public employee retirement system in 1939 under provisions of the County Employees Retirement Law of 1937 (Government Code § 31450 et seq.). SDCERA became an independent entity, separate and distinct from the County of San Diego, in 1989. A nine-member Board of Retirement oversees a cost sharing, multiple-employer defined benefit plan for five employers—the County of San Diego, the San Diego County Superior Court, the San Dieguito River Valley Joint Power Authority, the San Diego County Office of Education, and the San Diego LAFCO. While the County Board of Supervisors does not govern SDCERA, Supervisors appoint four of the nine board members and the County Treasurer is a permanent member.

SDCERA issues a publicly available financial report that includes financial statements and required supplementary information regarding the San Diego LAFCO. The SDCERA financial report may be obtained by writing to SDCERA: 227 Rio Bonito Way, Suite 2000, San Diego, California 92108.

(6) Retirement Plan (Continued)

b. Funding

The SDCERA funding policy provides for periodic contributions which, together with investment earnings reduced for SDCERA administration costs, are designed to accumulate sufficient assets to fund member benefits when due. The actuarial liability of SDCERA on June 30, 2014, was $12.1 billion. The value of SDCERA assets on the same date was $9.8 billion resulting in an unfunded actuarial accrued liability of $2.3 billion. The resulting funded ratio of accrued liability to value of assets on June 30, 2014, was 80.92 percent.

Every participating employer shares proportionally in all risks and costs. On June 30, 2014, the San Diego LAFCO membership, which includes active, retired, and deferred members, represented 0.03 percent of the SDCERA system. SDCERA contribution rates are expressed as a percentage of covered payroll. A single actuarial valuation of SDCERA establishes contribution rates that apply to every participating entity. The contribution rates in effect on June 30, 2014, were:

Member Classification	Employee Rate	Employer Rate
General Member	7.92% to 10.09%	30.85%

c. Benefits

The San Diego LAFCO employees who work in a permanent position for at least 20 hours each week are members of SDCERA. Membership begins with the first payroll period in the month following employment and members are vested after five years of service. All eligible San Diego LAFCO employees are considered General members and as such are covered by Social Security. The San Diego LAFCO's payroll for covered employees for the year ended June 30, 2014 was $509,054.

The SDCERA membership structure was revised on March 8, 2002. An existing Tier I category of membership was closed to new members. Tier II was eliminated and a new Tier A implemented. All active LAFCO members were transferred to Tier A. Tier A General members are eligible to retire at age 50 with 10 years of service credit, or age 70 regardless of service credit. Members may also retire regardless of age after 30 years of service credit.

(6) Retirement Plan (Continued)

c. Benefits (Continued)

Annual retirement benefit ranges from 2 percent of average final compensation for each year of credited service at age 50 to 3 percent at age 60. The San Diego LAFCO members who had retired or entered into a deferred status before March 8, 2002 are eligible for benefits under Tier I and accordingly have entitlement to a health insurance allowance as *Other Post Employment Benefits* (OPEB). As of June 30, 2014, 13 San Diego LAFCO members were enrolled in SDCERA including active members, retired members or their beneficiaries, deferred members, and terminated non-vested members.

d. Contributions

The San Diego LAFCO, as a member employer, is required by statute to contribute a percentage of covered salary to SDCERA (Gov't Code § 31453.5 and 31454). Members are also required by statute to contribute a percentage of covered compensation to SDCERA (Gov't Code § 31621, 31621.2, 31639.25 and 31676.17). The San Diego LAFCO pays the employer's contribution and a portion of each member's contribution, which is determined for each individual according to age at entry and time of service. Member contributions are deducted from member's salary and treated as pre-tax contributions under Section 414(h) of the Internal Revenue Code. The total amount of SDCERA contributions paid by the San Diego LAFCO for the year ended June 30, 2014 was $142,615. This amount represented 100 percent of the employer's contribution rate.

The San Diego LAFCO's employer contributions to SDCERA for the three years ended June 30, 2014, which equaled the required contributions, were the following:

Fiscal Year Ended June 30	Annual Required Contribution (ARC)	Contributions Made	Percentage of ARC Contributed
2014	$ 142,615	142,615	100%
2013	147,636	147,636	100%
2012	140,403	140,403	100%

(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).

The San Diego LAFCO's employer contributions to the SDCERA-RHP for the three years ended June 30, 2014, which equaled the required contributions, were the following:

Fiscal Year Ended June 30	Annual Required Contribution (ARC)	Contributions Made	Percentage of ARC Contributed
2014	$ 8,550	8,550	100%
2013	8,524	8,524	100%
2012	8,655	8,655	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, 2014 were $85,889.

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
2015	$ 71,926
2016	73,724
2017	18,544
	$ 164,194

REQUIRED SUPPLEMENTARY INFORMATION

(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, 2014

(With comparative information for the prior year)

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Assessments	$ 1,397,440	1,397,440	1,397,440	-	1,404,232
Filing fees	95,000	95,000	42,245	(52,755)	19,063
Charges for services	91,530	91,530	179,893	88,363	174,575
Investment income (loss)	2,200	2,200	5,534	3,334	(8,323)
Total revenues	1,586,170	1,586,170	1,625,112	38,942	1,589,547
Expenditures:					
General government:					
Salaries and benefits	770,939	770,939	727,723	43,216	719,167
Service and supplies	1,011,410	1,011,410	697,667	313,743	491,624
Debt service:					
Principal	-	-	30,000	(30,000)	13,455
Interest	-	-	18,695	(18,695)	19,531
Total expenditures	1,782,349	1,782,349	1,474,085	308,264	1,243,777
Excess (deficiency) of revenues over (under) expenditures	(196,179)	(196,179)	151,027	347,206	345,770
Net change in fund balances	(196,179)	(196,179)	151,027	347,206	345,770
Fund balances at beginning of year	1,312,370	1,312,370	1,312,370	-	966,600
Fund balances at end of year	$ 1,116,191	1,116,191	1,463,397	347,206	1,312,370