San Diego County
Local Agency Formation Commission
Regional Service Planning | Subdivision of the State of California

14

AGENDA REPORT
Business | Action

February 4, 2019

TO: Commissioners

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

SUBJECT: **Outside Audit Report for 2017-2018**

SUMMARY

The San Diego Local Agency Formation Commission (LAFCO) will receive an outside audit report prepared by Davis Farr LLP (Irvine) for the financial statements issued for 2017-2018. The report concludes all tested transactions were accompanied by sufficient documentation and no material weaknesses were identified, and as such the financial statements accurately reflect LAFCO's financial position ending on June 30, 2018. The overall fund balance finished with a net increase of $137,787 or 9.9% from $1.469 million in 2016-2017 to $1.607 million in 2017-2018. The report is being presented to the Commission to formally receive and accept and provide direction on related matters going forward.

BACKGROUND

Accounting Procedures

San Diego LAFCO's financial transactions are managed by the Executive Officer and divided between maintaining accounts with the County of San Diego and San Diego County Credit Union. Accounts with the County serve as the primary depository for the fund balance and used for most receivable/payable transactions. LAFCO maintains these accounts through a County issued PeopleSoft license via the Auditor-Controller's Office. An account with the San Diego County Credit Union is used to cover relatively small and/or time sensitive transactions and provides LAFCO access to its own credit line. Transactions

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Chair Jo MacKenzie, Vista Irrigation
Vice Chair Ed Sprague, Olivenhain Municipal Water
Judy Hanson, Alternate, Leucadia Wastewater
Andy Vanderlaan, General Public
Harry Mathis, Alternate, General Public

within this account are maintained through QuickBooks. Management of all accounts was recently augmented in September 2018 with Leaf and Cole LLP (San Diego) now under contract to provide monthly bookkeeping and compilation services.

Audit Policies

San Diego LAFCO amended its fiscal policies in March 2009 to establish an annual outside audit process that culminates with a report being presented to the Commission. The first outside audit was prepared under contract by Mayer, Hoffman, and McCann for 2008-2009. This firm – which subsequently was renamed as Davis Farr LLP – has prepared audits for LAFCO each year thereafter and is under contract to continue through 2017-2018.[1]

DISCUSSION

This item is for San Diego LAFCO to formally receive and accept the outside auditor report prepared by Davis Farr LLP on the financial statements for 2017-2018. The report is part of the adopted workplan and accompanied by a management letter addressed to the Commission summarizing Davis Farr LLP's findings with respect to compliance and internal controls. A summary of key items drawn from the 2017-2018 audit follow.

- LAFCO finished 2017-2018 with a total fund balance of $1,607,486; an improvement over the prior fiscal year of $137,787 or 9.9% and the result of a net surplus.

- LAFCO finished 2017-2018 with an unassigned portion of the total fund balance of $1,357,486. This amount represents the monies readily available to the Commission and equals 8.5 months of current budgeted operating costs.

- LAFCO's net position at the end of 2017-2018 – which includes all pension liabilities consistent with Government Accounting Standard Board Guidelines No. 67 and 68 – totaled $234,342. This amount represents an increase of $218,899 or fourteen-fold over the prior fiscal year and attributed to the net surplus and significant decrease in compensated absences with the retirement of the prior Executive Officer.

- No significant adjustments were necessitated as a result of the audit process.

ANALYSIS

The audit report and accompanying management letter from Davis Farr LLP affirm the 2017-2018 financial statements produced by San Diego LAFCO accurately reflect its healthy and solvent financial standing as of June 30, 2018. This includes affirming LAFCO maintains effective levels of internal controls in managing its financial records and transactions, and helps to ensure maximum accountability in the agency's use of public funds. Receipt and acceptance of these documents will complete the audit process per the adopted workplan.

[1] State law was amended in 2013 and specifies a local agency can contract for outside auditing services with the same lead partners for a maximum duration of six years (Government Code 12410.6).

RECOMMENDATION

It is recommended San Diego LAFCO proceed to formally receive and accept the outside audit report for 2017-2018 and provide any direction to staff going forward. This recommendation is provided as Alternative One in the proceeding section.

ALTERNATIVES FOR ACTION

The following alternatives are available to San Diego LAFCO through a single motion:

Alternative One (recommended):
Receive and accept the audit report for 2017-2018, and provide direction on related matters to staff going forward.

Alternative Two:
Continue the item to the next regular meeting and provide direction to staff for additional information as needed.

PROCEDURES

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

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

On behalf of staff,



Keene Simonds
Executive Officer

Attachments:

1) Audit Management Letter
2) Audit Report for 2017-2018

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CERTIFIED PUBLIC ACCOUNTANTS

Davis Farr LLP
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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, 2018, and the related notes to the financial statements, which collectively comprise the LAFCO's basic financial statements, and have issued our report thereon dated January 4, 2019.

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
January 4, 2019

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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 major fund of the San Diego Local Agency Formation Commission (LAFCO) for the year ended June 30, 2018. 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 October 25, 2018. 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. During the year ended June 30, 2018, the LAFCO implemented Governmental Accounting Standards Board Statement No. 75 which related to the accounting for other post-employment benefits (OPEB). The cumulative effect of the accounting change related to GASB No. 75, as of the beginning of the year is reported in the Basic Financial Statements. 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. 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.
>
> Management's estimate of transactions related to net pension and OPEB liabilities 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 amounts by the actuary and determined 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
Footnote 7: Other Post-Employment Benefits

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. LAFCO's beginning net position was adjusted to correct the deferred outflows related to pension for contributions made subsequent to the measurement date. Also, there was an uncorrected misstatement to reduce expenses and increase prepaid expenses. Management has determined that the effect is immaterial, both individually and in the aggregate, to the 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 January 4, 2019.

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 LAFCO 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 LAFCO'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, Schedule of the Plan's Proportionate Share of the Net Pension Liability and the Related Ratios, Schedule of Plan Contributions, Schedule of the Plan's Proportionate Share of the Net OPEB Liability and Related Ratios, Schedule of OPEB Contributions, and Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual - General Fund* which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

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

Davis Farr LLP

Irvine, California
January 4, 2019

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SAN DIEGO LOCAL AGENCY FORMATION COMMISSION

Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

(With Independent Auditors' Report Thereon)

SAN DIEGO LOCAL AGENCY FORMATION COMMISSION

Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

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

Independent Auditors' Report

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the San Diego Local Agency Formation Commission (the LAFCO), as of and for the year ended June 30, 2018, 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 an opinion on the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the '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 San Diego Local Agency Formation Commission as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described further in note 9 to the financial statements, during the year ended June 30, 2018, LAFCO implemented Governmental Accounting Standards Board (GASB) Statement No. 75. LAFCO reported two prior period adjustments, one related to the implementation of GASB No. 75 and one to correct the deferred outflows related to pension for actual contributions made during 2017. Our opinion is not modified with respect to this matter.

Other Matters

Prior Year Comparative Financial Statements

We have previously audited the LAFCO's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 25, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 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*, *Schedule of the Plan's Proportional Share of the Net Pension Liability and the Related Ratios, Schedule of Plan Contributions, Schedule of the Plan's Proportional Share of the Net OPEB Liability and Related Ratios, Schedule of OPEB Contributions, and Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual* be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 4, 2019 on our consideration of the LAFCO's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering LAFCO's internal control over financial reporting and compliance.

Davis Farr LLP

Irvine, California
January 4, 2019

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 ("LAFCO") annual financial report presents Management's Discussion and Analysis of the financial performance during the year ended June 30, 2018, plus other significant conditions and events. This section should be read in conjunction with the financial statements, which follow.

Financial Highlights

- LAFCO finished FY 2017-18 with an operating net of $137,787; an improvement over the prior fiscal year total of $61,004. The change is attributed to increases in all three revenue units – agency apportionments, proposal fees, and interest income – at a combined rate of 6.4% over FY 2016-17. This contrasts with the combined increase in expenses of 2.0%.

- Government Accounting Standards Board (GASB) guidelines (Nos. 67 and 68) necessitate that net pension liabilities be reported on the balance sheet to provide a clearer picture of financial obligations. Accordingly, and based on these pension liability requirements, LAFCO's net position at the end of FY 2017-18 totaled $234,342. This total marks an increase in net position of $218,899 or fourteen-fold compared to the prior fiscal year. The improvement in net position is attributed to the operating net coupled with a sizeable decease in long-term liabilities and specifically involving compensated absences.

- LAFCO finished FY 2017-18 with a total fund balance of $1,607,486; an improvement over the prior fiscal year of $137,787 or 9.9% and tied to the operating net. The unassigned portion of the fund balance totaled $1,357,486. Additional details follow.

    - The committed portion of the fund balance totaled $175,000 to cover costs to process fire protection district proposals with approved fee waivers or reductions, including – but not limited to – the "CSA No. 115 Reorganization."

    - The assigned portion of the fund balance totaled $75,000 to cover litigation costs.

Overview of Required Financial Statements

LAFCO's financial records are managed by the agency in combination with maintaining accounts with the County of San Diego, Wells Fargo, and San Diego County Credit Union.

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

- The Condensed Statement of Revenues, Expenditures and Changes in Net Position summarizes LAFCO's revenues, expenditures, and change in fund balance.

- The Supplemental Schedules of Revenues, Expenditures, Changes in Fund Balance, and Budget and Actual contained in the audit provides detailed information regarding (a) budgeted revenues and expenses compared to (b) actual revenues and expenses.

Condensed Statement of Net Position
June 30, 2017 and 2018

	2017	2018	Change
Assets			
Current	$ 1,516,012	1,659,845	143,833
Non-Current	7,427	4,759	(2,668)
Total Assets	1,523,439	1,664,604	141,165
Liabilities			
Current	208,385	73,132	(135,253)
Non-Current	1,903,257	1,748,764	(154,493)
Total Liabilities	2,111,642	1,821,896	(289,746)
Net Position			
Investment in Capital Assets	7,427	4,759	(2,668)
Unrestricted	8,016	229,583	221,567
Net Position	**$ 15,443**	**234,342**	**218,899**

Condensed Statement of Activities
June 30, 2017 and 2018

	2017	2018	Change
Revenues			
Apportionment	$ 1,577,636	1,635,099	57,463
Investment income	5,100	12,069	6,969
Total General Revenues	1,582,736	1,647,168	64,432
Expenditures			
General government	1,604,705	1,384,644	(220,061)
Interest	15,688	11,743	(3,945)
Total Governmental Expenditures	1,620,393	1,396,387	(224,006)
Change in Net Position	(37,657)	250,781	(288,438)
Net Position, beginning of year, as restated	53,100	(16,439)	(69,539)
Net Position, end of year	**$ 15,443**	**$ 234,342**	**218,899**

Agency Assets

LAFCO's assets at the end of FY 2017-18 totaled $1,664,604. This amount marks an increase over the prior fiscal year of $141,165 or 9.2%. Assets classified as current with the expectation they could be readily liquidated represent over 99% of the total amount and tied to cash and investments. Assets classified as non-current make up the remainder and tied to capital assets and specifically office equipment.

Agency Liabilities

LAFCO's liabilities at the end of FY 2016-17 totaled $1,821,896. This amount marks a decrease over the prior fiscal year of ($289,746) or 13.7%. Liabilities classified as current representing obligations owed in the near-term equal 2.9% of the total amount and largely attributed to covering accounts payable. Liabilities classified as non-current make up the remainder and bulk of the total and predominately tied to LAFCO's pension obligations.

Conditions Affecting Current Financial Position

LAFCO's economic condition as it appears on the balance sheet reflects financial stability. The Commission and its Executive Officer will continue to maintain a watchful eye over expenditures and remain committed to sound and transparent fiscal management practices to deliver the highest quality service to the people of San Diego County. There are no known conditions adversely effecting the Commission's current financial condition.

Request for Information

This financial report is designed to provide citizens, taxpayers, and the local agencies that financially support LAFCO with a general overview of the agency's finances and accountability therein. If there are any questions or a need for additional financial information, the LAFCO 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, 2018
(With comparative information for the prior year)

	Governmental Activities	
	2018	2017
Assets:		
Current assets		
Cash and investments (note 2)	$ 1,658,139	1,513,144
Interest receivable	1,706	2,868
Total current assets	1,659,845	1,516,012
Noncurrent assets		
Capital assets, net (note 3)	4,759	7,427
Total assets	1,664,604	1,523,439
Deferred outflow of resources:		
Deferred outflow of resources - pension related (note 6)	557,171	775,873
Deferred outflow of resources - OPEB related (note 7)	7,414	-
Total deferred outflow of resources	564,585	775,873
Liabilities:		
Current liabilities:		
Accounts payable	39,321	32,713
Accrued liabilities	13,038	13,600
Long-term liabilities (note 4 and 6):		
Due within one year:		
Pension obligation bonds (note 4)	16,918	17,908
Compensated absences (note 4)	3,855	144,164
Total current liabilities	73,132	208,385
Noncurrent liabilities:		
Pension obligation bonds (note 4)	172,980	238,120
Compensated absences (note 4)	10,971	3,753
Net pension liability (note 6)	1,501,659	1,661,384
Net OPEB liability (note 7)	63,154	-
Total noncurrent liabilities	1,748,764	1,903,257
Total liabilities	1,821,896	2,111,642
Deferred inflow of resources:		
Deferred inflow of resources - pension related (note 6)	172,951	172,227
Net position:		
Investment in capital assets	4,759	7,427
Unrestricted	229,583	8,016
Total net position	$ 234,342	15,443

See accompanying notes to the basic financial statements

SAN DIEGO LOCAL AGENCY FORMATION COMMISSION
Statement of Activities
For the Fiscal Year Ended June 30, 2018
(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 Position - Governmental Activities: 2018	Net (Expense) Revenue and Changes in Net Position - Governmental Activities: 2017
Governmental activities:						
General government	$ 1,555,549	170,905	-	-	(1,384,644)	(1,604,705)
Interest	11,743	-	-	-	(11,743)	(15,688)
Total governmental activities	$ 1,567,292	170,905	-	-	(1,396,387)	(1,620,393)
General revenues:						
Apportionment					1,635,099	1,577,636
Investment income					12,069	5,100
Total general revenues					1,647,168	1,582,736
Change in net position					250,781	(37,657)
Net position, beginning of year, as restated (note 9)					(16,439)	53,100
Net position, end of year					$ 234,342	15,443

See accompanying notes to the basic financial statements

FUND FINANCIAL STATEMENTS

SAN DIEGO LOCAL AGENCY FORMATION COMMISSION
Governmental Funds
Balance Sheet
June 30, 2018
(With comparative information for the prior year)

	General Fund	
	2018	2017
Assets		
Cash and investments (note 2)	$ 1,658,139	1,513,144
Interest receivable	1,706	2,868
Total assets	$ 1,659,845	1,516,012
Liabilities and Fund Balance		
Liabilities:		
Accounts payable	$ 39,321	32,713
Accrued liabilities	13,038	13,600
Total liabilities	52,359	46,313
Fund balance:		
Committed:		
Fire protection district reorganizations	125,000	-
CSA No.115 Reorganization	50,000	-
Assigned:		
Contingency	75,000	75,000
Unassigned	1,357,486	1,394,699
Total fund balance	1,607,486	1,469,699
Total liabilities and fund balance	$ 1,659,845	1,516,012

See accompanying notes to the basic financial statements

SAN DIEGO LOCAL AGENCY FORMATION COMMISSION
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
June 30, 2018

Fund balances of governmental funds	$ 1,607,486
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	(27,191)
Long-Term Liability 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 liability	(1,501,659)
Pension obligation bonds payable	(189,898)
Net OPEB liability	(63,154)
Compensated absences	(14,826)
Deferred Outflows and Inflows of Resources	
Certain deferred outflows and inflows of resources are not due and payable in the current period and are not current assets or financial resources, therefore these items are not reported in the governmental funds.	
Deferred outflows - pension related	557,171
Deferred outflows - OPEB related	7,414
Deferred inflows - pension related	(172,951)
Net position of governmental activities	$ 234,342

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, 2018
(With comparative information for the prior year)

	General Fund	
	2018	2017
Revenues:		
Apportionment	$ 1,635,099	1,577,636
Proposal fees	170,905	126,016
Investment income	12,069	5,100
Total revenues	1,818,073	1,708,752
Expenditures:		
General government:		
Salaries and benefits	860,407	863,784
Service and supplies	742,006	749,536
Debt service:		
Principal	66,130	18,740
Interest	11,743	15,688
Total expenditures	1,680,286	1,647,748
Excess (deficiency) of revenues over (under) expenditures	137,787	61,004
Fund balance at beginning of year	1,469,699	1,408,695
Fund balance at end of year	$ 1,607,486	1,469,699

See accompanying notes to the financial statements

SAN DIEGO LOCAL AGENCY FORMATION COMMISSION
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
to the Statement of Activities
For the Fiscal Year Ended June 30, 2018

Net changes in fund balances - total governmental funds	$	137,787

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

Capital Related Items

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

Depreciation expense	(2,668)

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 liability	(91,848)
Net change in pension obligation bonds	66,130
Net change in net OPEB liability	8,289
Net change in compensated absences	133,091
Change in net position of governmental activities	$ 250,781

See accompanying notes to the basic financial statements.

(1) Summary of Significant Accounting Policies

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

a. Description of the Reporting Entity

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

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

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

b. Basis of Accounting and Measurement Focus

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

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

Government-wide Financial Statements

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

(1) Summary of Significant Accounting Policies (Continued)

b. Basis of Accounting and Measurement Focus (Continued)

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

Government-wide financial statements are presented using the *economic resources measurement focus* and the *accrual basis of accounting*. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the reporting government are reported in the government-wide financial statements. *Basis of accounting* refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Under the *accrual basis of accounting*, revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB Statement No. 33.

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

Fund Financial Statements

In the fund financial statements, governmental funds are presented using the *modified accrual basis of accounting*. Revenues are recognized when they become *measurable* and *available* as net current assets. *Measurable* means that the amounts can be estimated or otherwise determined. *Available* means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. The San Diego LAFCO uses an availability period of 60 days for all revenues.

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

(1) Summary of Significant Accounting Policies (Continued)

b. Basis of Accounting and Measurement Focus (Continued)

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

Due to the nature of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by noncurrent liabilities. Since they do not affect net current position, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

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

Governmental Fund Balances

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

Nonspendable Fund Balance

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

Spendable Fund Balance

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

(1) Summary of Significant Accounting Policies (Continued)

b. Basis of Accounting and Measurement Focus (Continued)

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

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

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

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

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

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

(1) Summary of Significant Accounting Policies (Continued)

b. Basis of Accounting and Measurement Focus (Continued)

The San Diego LAFCO reports the following major governmental fund:

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

c. Cash and Investments

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

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

d. Fair Value Measurement

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

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

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

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

(1) Summary of Significant Accounting Policies (Continued)

d. Fair Value Measurement (Continued)

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

e. Capital Assets

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

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

f. Compensated Absences

Permanent San Diego LAFCO employees earn from 10 to 25 vacation days a year, depending upon their length of employment, and 13 sick days a year. Employees can carry forward up to twice their annual allotment in earned but unused vacation days. Upon termination or retirement, permanent employees are entitled to receive compensation at their current base salary for all unused vacation leave.

g. Pensions

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

(1) Summary of Significant Accounting Policies (Continued)

g. Pensions (Continued)

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

Valuation Date (VD)	June 30, 2016
Measurement Date (MD)	June 30, 2017
Measurement Period (MP)	July 1, 2016 to June 30, 2017

h. Other Postemployment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB 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 of 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.

Generally accepted accounting principles require that the reported results must pertain to liability and fiduciary net position information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date (VD)	June 30, 2017
Measurement Date (MD)	June 30, 2017
Measurement Period (MP)	July 1, 2016 to June 30, 2017

i. 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. LAFCO reports deferred outflows related to pensions and OPEB in this category. These are reported on the Statement of Net Position.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. LAFCO reports deferred inflows related to pensions in this category.

(1) Summary of Significant Accounting Policies (Continued)

j. 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.

k. 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, 2018, consist of the following:

Demand deposits	$	35,426
County of San Diego Investment Pool		1,622,713
Total cash and investments	$	1,658,139

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 Investment Pool

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.

(2) Cash and Investments (Continued)

c. Disclosure Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The San Diego County Investment Pool was rated AAA by Standards and Poor as of June 30, 2018.

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, 2017	Additions	Deletions	Balance at June 30, 2018
Capital assets:				
Equipment	$ 31,950	-	-	31,950
Accumulated depreciation:				
Equipment	(24,523)	(2,668)	-	(27,191)
Total	$ 7,427	(2,668)	-	4,759

(4) Long-Term Liabilities

The following is a summary of changes in long-term liabilities for the year ended June 30, 2018:

	Balance at July 1, 2017	Additions	Deletions	Balance at June 30, 2018	Due within one year
Pension obligation bonds	$ 256,028	-	(66,130)	189,898	16,918
Compensated absences	147,917	30,933	(164,024)	14,826	3,855
Total	$ 403,945	30,933	(230,154)	204,724	20,773

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 LAFCO's proportionate share of the County's total obligation is 0.034%. 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
2019	$ 16,918	10,762	27,680
2020	17,927	9,752	27,679
2021	19,011	8,669	27,680
2022	20,162	7,517	27,679
2023	21,364	6,289	27,653
2024-2027	94,516	11,347	105,863
Total	$ 189,898	54,336	244,234

(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, on June 30, 2018 is $14,826.

(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 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 employers 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 includes 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 on June 30, 2018, are summarized as follows:

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

(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. All members are required to make contributions to SDCERA regardless of the retirement plan in which they are included.

Actuarial Methods and Assumptions used to determine Total Pension Liability

For the measurement period ending June 30, 2017 (the measurement date), the total pension liability was remeasured by revaluing the total pension liability as of June 30, 2016 (before the roll forward) to include the following actuarial assumptions that the Retirement Board has adopted for use in the pension funding valuation as of June 30, 2017 and using this revalued total pension liability in rolling forward the results from June 30, 2016 to June 30, 2017:

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

Discount Rate

The discount rate used to measure the Total Pension Liability was 7.25% as of June 30, 2017. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rates and that employer contributions will be made at rates equal to the actuarially determined contribution rates. For this purpose, only employer contributions that are intended to fund benefits for current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the Plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments for current plan members.

(6) Retirement Plan, (Continued)

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 June 30, 2017.

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

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

(6) Retirement Plan, (Continued)

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: 6/30/2016	$ 5,627,860	3,966,476	1,661,384
Balance at: 6/30/2017	6,143,514	4,641,855	1,501,659
Net Changes during 2016-17	$ 515,654	675,379	(159,725)

The LAFCO's proportionate share of the net pension liability as of June 30, 2016 and 2017 was as follows:

Proportion – June 30, 2016	0.056%
Proportion – June 30, 2017	0.041%
Change – Increase (Decrease)	(0.015%)

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

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

(6) Retirement Plan, (Continued)

	Discount Rate – 1% (6.25%)	Current Discount Rate (7.25%)	Discount Rate + 1% (8.25%)
Plan's Net Pension Liability	$ 2,348,889	1,501,659	805,482

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 4.86 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 employees, nonactive and retired members.

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

For the measurement period ending June 30, 2017 (the measurement date), San Diego LAFCO recognized a pension expense of $252,001 for the Plan.

(6) Retirement Plan, (Continued)

As of the June 30, 2017 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 17/18 Contributions	$ 166,680	
Change of assumptions	208,317	
Differences between expected and actual experience	-	120,228
Net difference between projected and actual earnings on pension plan investments	55,961	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	126,213	52,723
Total	$ 557,171	172,951

$166,680 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, 2019.

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

Measurement period Ended June 30:	Deferred Outflows/Inflows of Resources
2018	$ 94,338
2019	121,949
2020	37,097
2021	(35,843)
2022	-
Thereafter	-

(7) Other Post-Employment Benefits

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 LAFCO 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. SDCERA issues a publicly available report that includes 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 Health Insurance Allowance benefits to eligible employees after retirement. All General and Safety Tier I and Tier II members are in the membership classifications eligible for the HIA. The HIA Plan is closed to members in the other Tiers.

Employees Covered

As of the June 30, 2017 measurement date, the following current and former employees were covered by the benefit terms under the HIA:

Active employees	6
Inactive employees or beneficiaries currently receiving benefits	2
Total	8

Contributions

The SDCERA RHP and its contribution requirements are established by Memoranda of Understanding with the applicable employee bargaining units and may be amended by agreements between the LAFCO and the bargaining units. The annual contribution is based on the actuarially determined contribution. For the fiscal year ended June 30, 2018, the LAFCO's cash contributions were $7,256.

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

At June 30, 2018, the Commission reported a liability of $63,154 for its proportionate share of the collective net OPEB liability.

(7) Other Post-Employment Benefits (Continued)

The collective net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the collective net OPEB liability was determined by an actuarial valuation as of June 30, 2017. The Commission's proportion of the collective net OPEB liability was based on a projection of the Commission's share of contributions to the OPEB plan relative to the project contributions of all participating employers, actuarially determined. At June 30, 2017, the Commission's proportion was 0.044% percent, which was more than its proportion measure as of December 31, 2016 (0.042% percent).

For the fiscal year ended June 30, 2018, LAFCO recognized OPEB expense of $7,997. As of fiscal year ended June 30, 2018, LAFCO reported deferred outflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB Contributions subsequent to measurement date	$ 7,256	-
Differences between projected and actual earnings on investments	158	-
Total	$ 7,414	-

$7,256 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, 2019.

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

Fiscal Year Ended June 30:	Deferred Outflows/(Inflows) of Resources
2019	$ 38
2020	38
2021	38
2022	44
Thereafter	-

Actuarial Methods and Assumptions

The Total OPEB Liability as of June 30, 2017 was determined by an actuarial valuation as of June 30, 2017.

(7) Other Post-Employment Benefits (Continued)

The actuarial assumptions used in the valuation were based on the results of an experience study for the period from July 1, 2012 through June 30, 2015. They are the same as the assumptions used in the June 30, 2017 funding actuarial valuations for SDCERA HIA. In particular, the following actuarial assumptions were applied to all periods included in the measurement:

Actuarial Cost Method:	Entry Age Level Percent of Pay Actuarial Cost Method
Actuarial Assumptions:	
Discount Rate	7.25%
Inflation	3.00%
Salary Increases	General: 4.50% to 9.75%, including inflation
Health Care Trend	6.50% graded to ultimate 4.50% over 8 years
HIA subsidy increases	0.00%

Discount Rate

The discount rate used to measure the total OPEB liability was 7.25 percent. The projection of cash flows used to determine the discount rate assumed that LAFCO contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation and subtracting expected investment expenses and a risk margin.

The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before deducting investment expenses, used in the derivation of the long-term expected investment rate of return assumption as of June 30, 2017 are summarized in the following table:

(7) Other Post-Employment Benefits (Continued)

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

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued SDCERS financial report.

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

The following presents the Net OPEB Liability of LAFCO if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate, for measurement period ended June 30, 2017:

	Discount Rate – 1% (6.25%)	**Current Discount Rate (7.25%)**	**Discount Rate + 1% (8.25%)**
Plan's Net OPEB Liability	$ 68,177	63,154	58,755

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the Net OPEB Liability of LAFCO if it were calculated using a healthcare trend rate that is one percentage point lower or one percentage point higher than the current rate, for measurement period ended June 30, 2017:

(7) Other Post-Employment Benefits (Continued)

	Healthcare Rate – 1% (6.25%)	Current Healthcare Rate (7.25%)	Healthcare Rate + 1% (8.25%)
Plan's Net OPEB Liability	$ 62,962	63,154	63,338

(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, 2018 were $77,931.

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
2019	$ 79,880
2020	81,877
2021	83,924
	$ 245,681

(9) Prior Period Adjustment

The accompanying financial statements reflect the implementation of GASB Statement No. 75. GASB 75 changes the accounting for OPEB liabilities and related balances. As a result of the implementation of GASB Statement No.75, the beginning net position of governmental activities was restated by a decrease of $64,029. Prior year information was not restated because the necessary actuarial information was not available.

The LAFCO adjusted beginning net position by $32,147 to correct the deferred outflows related to pension for actual contributions made during 2017.

Net position as of June 30, 2017, as previously reported	$ 15,443
Implementation of GASB 75	(64,029)
Increase in deferred outflows related to pension	32,147
Net position as of June 30, 2017	$ (16,439)

REQUIRED SUPPLEMENTARY INFORMATION

SAN DEIGO LOCAL AGENCY FORMATION COMMISSION

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

Last Ten Fiscal Years *

	Measurement Period			
	6/30/2017	6/30/2016	6/30/2015	6/30/2014
Plan's Proportion of the Net Pension Liability (Asset)	0.041%	0.056%	0.050%	0.056%
Plan's Proportionate Share of the Net Pension Liability (Asset)	$ 1,501,659	$ 1,661,384	$ 1,023,368	$ 893,715
Plan's Covered Payroll	$ 505,077	$ 462,897	$ 411,232	$ 444,346
Plan's Proportionate Share of the Net Pension Liability (Asset) as a percentage of its Covered Payroll	297.313%	358.910%	248.850%	201.130%
Plan's Proportion of the Fiduciary Net Position	76.090%	70.910%	78.320%	81.940%
Plan's Share of Risk Pool FNP	$ 4,641,855	$ 3,966,476	$ 5,606,190	$ 6,007,635
Plan's Proportionate Share of the Fiduciary Net Position as a percentage of the Plan's Total Pension Liability	75.557%	70.479%	84.564%	87.050%
Plan's Proportionate Share of Aggregate Employer Contributions	0.041%	0.056%	0.050%	0.056%

Notes to Schedule

Benefit Changes: None

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

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

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

SAN DEIGO LOCAL AGENCY FORMATION COMMISSION

Schedule of the Plan Contributions

Last Ten Fiscal Years *

	Fiscal Year 2017-18	Fiscal Year 2016-17	Fiscal Year 2015-16	Fiscal Year 2014-15
Actuarially Determined Contribution	$ 166,680	$ 180,945	$ 135,423	$ 142,703
Contributions in Relation to the Actuarially Determined Contribution	166,680	180,945	135,423	142,703
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -
Covered Payroll	$ 439,767	$ 505,077	$ 462,897	$ 411,232
Contributions as a Percentage of Covered Payroll	37.902%	35.825%	29.256%	34.701%

Notes to Schedule:

Fiscal Year End:	6/30/2018
Valuation Date:	6/30/2015

Methods and assumptions used to determine contribution rates:

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

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

SAN DEIGO LOCAL AGENCY FORMATION COMMISSION

Schedule of the Plan's Proportionate Share of the Changes in Net OPEB Liability and Related Ratios

Last Ten Fiscal Years*

		Measurement Period 6/30/2017
Plan's Proportion of the Net OPEB Liability (Asset)		0.044%
Plan's Proportionate Share of the Net OPEB Liability (Asset)	$	63,154
Plan's Covered Payroll	$	505,077
Plan's Proportionate Share of the Net OPEB Liability (Asset) as a percentage of its Covered Payroll		12.432%
Plan's Proportion of the Fiduciary Net Position		6.920%
Plan's Proportionate Share of the Fiduciary Net Position as a percentage of the Plan's Total OPEB Liability		6.920%
Plan's Proportionate Share of Aggregate Employer Contributions		0.044%

Notes to Schedule:

Changes in assumptions. None.

*Historical information is required only for measurement periods for which GASB 75 is applicable. Future years' information will be displayed up to 10 years as information becomes available.

SAN DEIGO LOCAL AGENCY FORMATION COMMISSION

Schedule of OPEB Contributions

Last Ten Fiscal Years *

Fiscal Year Ended June 30	2018
Actuarially Determined Contribution (ADC)	$ 7,256
Contributions in relation to the ADC	(7,256)
Contribution deficiency (excess)	$ -
Covered-employee payroll	$ 439,767
Contributions as a percentage of covered-employee payroll	1.65%

Notes to Schedule:
Actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2018 were from the June 30, 2017 actuarial valuation.

Methods and assumptions used to determine contributions:

Actuarial Cost Method	Entry Age Level Percent of Pay Actuarial Cost Method
Amortization Method	Separate declining 20-year bases starting June 30, 2007, amortized as level dollar amounts
Remaining Amortization Period	Various
Asset Valuation Method	Market value
Actuarial Assumptions:	
June 30, 2014 valuation is used as the basis for year ended 2017 ADC.	
The assumptions used in that valuation are as follows:	
Investment Rate of Return	7.75%, net of pension plan investment expense, including inflation
Inflation Rate	3.25%
Real Across-The-Board Salary Increases	0.75%
Projected Salary Increases	General: 4.75% to 10.00%
HIA Subsidy Increase	0.00%

*Historical information is required only for measurement periods for which GASB 75 is applicable.
Future years' information will be displayed up to 10 years as information becomes available.

SAN DIEGO LOCAL AGENCY FORMATION COMMISSION
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund
For the Fiscal Year Ended June 30, 2018
(With comparative information for the prior year)

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Assessments	$1,635,099	1,635,099	1,635,099	-	1,577,636
Proposal fees	346,300	346,300	170,905	(175,395)	126,016
Investment income	5,500	5,500	12,069	6,569	5,100
Total revenues	1,986,899	1,986,899	1,818,073	(168,826)	1,708,752
Expenditures:					
General government:					
Salaries and benefits	1,100,599	1,100,599	860,407	240,192	863,784
Service and supplies	886,300	886,300	742,006	144,294	749,536
Debt service:					
Principal	-	-	66,130	(66,130)	18,740
Interest	-	-	11,743	(11,743)	15,688
Total expenditures	1,986,899	1,986,899	1,680,286	306,613	1,647,748
Excess (deficiency) of revenues over (under) expenditures	-	-	137,787	137,787	61,004
Fund balances at beginning of year	1,469,699	1,469,699	1,469,699	-	1,408,695
Fund balances at end of year	$1,469,699	1,469,699	1,607,486	137,787	1,469,699

SAN DEIGO LOCAL AGENCY FORMATION COMMISSION

Notes to the Required Supplementary Information

For the Fiscal Year Ended June 30, 2018

(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.