March 4, 2013

TO:    Local Agency Formation Commission
FROM:  Executive Officer
Subject: FY 2011-12 LAFCO Audit

On February 4, 2013 Audit Committee members Vanderlaan, Ingalls, Mathis, and MacKenzie, Executive Officer Ott, and Assistant Executive Officer Anderson met with LAFCO’s Auditor Jennifer Farr (MHM) to discuss the FY 2011-12 audit. The audit was divided into two components covering LAFCO’s financial statements and leave balance system. The financial statement component covered both government-wide financial statements and fund financial statements. MHM was additionally requested to issue a “best practices management letter” including recommendations for improvements in internal controls. The leave balance review consisted of: (1) Recalculating employee leave accruals for the periods under review; (2) Recalculating and testing leave usage amounts based on employer attendance records; (3) Reviewing adjustments to leave balances and determining the appropriateness of such adjustment(s); and (4) Determining whether the ending leave balances reported by LAFCO were properly stated for the periods under review.

We are pleased to report that the audit was conducted in a very thorough and timely manner. The LAFCO Audit Committee wishes to commend MHM accountants Jennifer Farr, Jeff Ball, and Grant Farrell for providing exceptional service during the audit and follow-up meeting with the Committee on February 4th. A discussion of the audit and associated conclusions follow.

Journal Entries

MHM issued no recommendations regarding LAFCO’s journal entries. It is noteworthy to mention that LAFCO staff retained the services of SMA Accounting, Inc., in 2012 and has instituted a new bookkeeping system that has effectively: (1) identified capital assets and related depreciation; (2) recorded Pension Obligation Bonds as a liability on associated
financial statements; and (3) recorded accrued payroll that straddles fiscal years as an adjustment to financial statements. SMA’s bookkeeping entries for all LAFCO financial transactions have been entered in a QuickBooks program and are made available to MHM for auditing when requested. As a result of LAFCO’s accurate bookkeeping entries, the audit and field tests disclosed no instances of noncompliance or journal entry irregularities that are required to be reported under Government Auditing Standards.

County of San Diego Charges

MHM reviewed charges made to LAFCO’s accounts by the County of San Diego. As the Commission may be aware, the County of San Diego has access to LAFCO’s cash accounts and treats LAFCO as if it were a county department for purpose of processing payments. The County, for example, charges LAFCO certain internal service fees and other costs to recover operational overhead costs. The County charges these service fees without receiving individual authorization(s) from LAFCO, nor is LAFCO always provided support from the County for the charges it imposes. Beginning in the second quarter of FY 2011-12, LAFCO staff obtained authorization and training to review charges to LAFCO. Access to these charges has allowed LAFCO staff and LAFCO’s auditor to determine the reasonableness of the charges.

Monthly Reconciliation of Financial Statements

Beginning in the first quarter of FY 2011-12, LAFCO staff established a procedure to ensure that when fee revenue is received by LAFCO employees, it is logged-in on an internal receipt journal and then reconciled to compare and review cash receipts in relationship to financial statements. It is important to note that this new reconciliation procedure was instituted before the previous audit was approved by the Commission.

LAFCO Policies/Procedures

LAFCO utilizes many of the County’s purchasing, capitalization, and bidding policies. The County’s guidelines are designed for a large organization and are not necessarily appropriate for LAFCO’s specific needs. This matter was referred to the Audit Committee for development of purchasing, procurement, and capitalization procedures. On February 4, 2013, the full Commission approved the Audit Committee’s recommended purchasing and capitalization procedures. The procedures will be tested in the upcoming months by LAFCO staff and by MHM during the FY 2012-13 audit. Necessary revisions to the procedures will be analyzed and presented to the Commission for possible amendment.

Leave System Review

MHM reviewed the administration of LAFCO’s leave system and tested it for accuracy and compliance with LAFCO policy. MHM’s review validated LAFCO’s internal controls, mathematical accuracy, and overall compliance with adopted LAFCO policies and rules.
No exceptions, errors, noncompliance with LAFCO policies were identified. MHM noted that no LAFCO employee accrued vacation leave more than two times the annual limit.

Other

On February 4, 2013, the Audit Committee accepted the FY 2011-12 audit and discussed several items for future consideration. These items primarily pertain to matters not covered by the current audit. One item pertains to the rate of return LAFCO receives from its funds held within the County Treasury. These funds ($966,600) are part of the County of San Diego Pooled Money Fund and earned approximately .25% as of December 31, 2012. In comparison, the County of San Diego’s Local Agency Investment Fund (LAIF) earned about .35%. Some committee members questioned whether LAFCO should retain these funds with the County of San Diego or invest them elsewhere in order to receive a higher return on investment. The Commission should discuss this matter at the March 4th meeting and provide direction accordingly.

Another matter pertains to the need to establish a LAFCO Fund Allocation/Assignment Policy. This topic was added to the audit committee’s discussion agenda after the February 4th Commission meeting. As you will recall, on February 4th, the Executive Officer presented the Second Quarter Budget Update and indicated that a policy item would be scheduled for future consideration regarding fee reductions and other incentives that the Commission should consider to facilitate certain governmental reorganizations. The audit committee, LAFCO staff, and Auditor Farr believe that before any allocation of LAFCO funds be made, the Commission should adopt fund assignment policies per provision 54 issued by the Governmental Accounting Standards Board (GASB). It is accordingly recommended that the Commission provide direction as to the development of related GASB 54 policies/procedures. This matter will also be discussed in context of the upcoming budget for FY 2013-14.

Conclusion

In summary, we are pleased to present MHM’s audit findings to the Commission. The overall audit experience was a good one and we believe MHM’s performance was exceptional. 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, or violation of Commission policies were identified. Audit Committee members Vanderlaan, Ingalls, MacKenzie, and Mathis will be available to answer questions about the FY 2011-12 audit at the March 4, 2013 LAFCO meeting. Therefore, it is

RECOMMENDED: That your Commission

(1) Receive and file LAFCO’s FY 2011-12 audit prepared by Mayer Hoffman McCann P.C.
(2) Direct management to coordinate with the Audit Committee (Commissioners Vanderlaan, Ingalls, Mackenzie, and Mathis) to assist management with any investment and fund balance policy development matters that may be recommended at the March 4, 2013 LAFCO meeting.

Respectfully Submitted,

MICHAEL D. OTT
Executive Officer

MDO:ra

Attachments

(1) Significant Audit Findings Statement;
(2) Report on Compliance and Other Matters and Internal Controls;
(3) Leave Balance Review; and
(4) FY 2011-12 Audit of LAFCO’s Basic Financial Statements.
ATTACHMENTS

(1) Significant Audit Findings Statement;
(2) Report on Compliance and Other Matters and Internal Controls;
(3) Leave Balance Review; and
(4) FY 2011-12 Audit of LAFCO’s Basic Financial Statements.
Board of Commissioners  
San Diego Local Agency Formation Commission  
San Diego, California

We have audited the financial statements of the governmental activities, and each major fund, and of the San Diego Local Agency Formation Commission (LAFCO) for the year ended June 30, 2012. 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 to you on September 10, 2012. Professional standards also require that we communicate to you the following information related to our audit.

**Significant Audit Findings**

**Qualitative Aspects of Accounting Practices**

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by LAFCO are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit 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 actuarial reports. We evaluated the key factors and assumptions used to develop 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.
Board of Commissioners
Page 2

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. 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 January 18, 2013.

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.

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.

Very truly yours,

Mayer Hoffman McCann P.C.

Irvine, California
January 18, 2013
We have audited the governmental activities and each major fund of the San Diego Local Agency Formation Commission (LAFCO), as of and for the year ended June 30, 2012, which collectively comprise the LAFCO’s basic financial statements and have issued our report thereon dated January 18, 2013. 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.

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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the LAFCO’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the LAFCO’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the LAFCO’s internal control over financial reporting.

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 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.

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 over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance. We consider the following deficiencies in LAFCO’s internal control to conform to this definition:
(1) Review of County of San Diego Charges

The County of San Diego has access to LAFCO’s County cash accounts for the purpose of processing payments at LAFCO’s request. The County also charges certain internal service fees and other costs to these accounts. The County does not always receive LAFCO approval prior to taking funds out of the cash accounts and does not always provide support for the charges. Additionally, LAFCO management is not regularly reviewing the County charges.

Recommendation

We recommend that the LAFCO develop and implement procedures to review all costs charged to LAFCO’s County cash accounts, request support for all transactions, and ensure reasonableness of the charges.

Management’s Comments Regarding Corrective Actions Planned

LAFCO management will develop and implement procedures to review all charges made by the County of San Diego. Management will also request support from the County Auditor’s Office for all County transactions charged to LAFCO’s County cash accounts to ensure reasonableness of County charges.

During the course of our audit testing, we noted the following matters that provide an opportunity for the LAFCO to enhance its existing internal controls. These matters are not considered to be significant deficiencies or material weaknesses in internal control, but are being communicated for management’s consideration:

(2) Monthly Reconciliation of Bank Statement to Cash Receipts Log

When checks are received by employees at LAFCO’s office the receipt is logged on an internal worksheet. However, there is no reconciliation of the receipt to the monthly bank statement to ensure all receipts were deposited.

Recommendation

We recommend that the LAFCO perform a regular reconciliation of the cash receipts log to the monthly bank statements. This reconciliation should be performed by an individual who does not have physical access to cash receipts.

Management’s Comments Regarding Corrective Actions Planned

LAFCO management will develop and implement a new office procedure to perform regular reconciliation of cash receipts log to the monthly bank statements. An internal separation of staff responsibilities will be established to ensure that the person performing reconciliation is not the same person that has physical access to cash receipts. The new procedure will be included in LAFCO’s Administrative Handbook.

(3) Adoption of LAFCO Policies

LAFCO utilizes many of the County of San Diego’s policies (purchasing policy, capitalization policy, etc.); however, the County’s guidelines may not be appropriate for LAFCO’s specific needs.

Recommendation

We recommend that LAFCO utilize the County’s policies and tailor them to address LAFCO’s specific needs. LAFCO’s management may suggest different/lower thresholds for requiring bidding or capitalizing assets in comparison to the needs of the County.
Management’s Comments Regarding Corrective Actions Planned

LAFCO management will obtain copies of applicable County purchasing, capitalization, procurement, and bidding polices and tailor such policies/procedures, as appropriate, to LAFCO’s specific needs. LAFCO’s budget/audit committee will assist management with this task.

LAFCO’s written responses to issues noted in this report have not been subjected to the audit procedures applied in the audit of financial statements and, accordingly, we express no opinion on them.

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

Irvine, California
January 18, 2013
San Diego Local Agency Formation Commission
9335 Hazard Way

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, 2012. This engagement to apply agreed-upon procedures was performed in accordance with 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, 2011 to June 30, 2012 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, 2011 to June 30, 2012. 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 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
January 18, 2013
SAN DIEGO LOCAL AGENCY FORMATION COMMISSION

Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

(With Independent Auditors’ Report Thereon)
SAN DIEGO LOCAL AGENCY FORMATION COMMISSION

Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

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<td>Statement of Activities</td>
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<td></td>
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<tr>
<td>Budget and Actual:</td>
<td></td>
</tr>
<tr>
<td>General Fund</td>
<td>28</td>
</tr>
</tbody>
</table>
Independent Auditors’ Report

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, 2012, which collectively comprise LAFCO’s basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the management of LAFCO. Our responsibility is to express opinions on these financial statements based on our audit. The prior year partial comparative information has been derived from the financial statements of LAFCO for the year ended June 30, 2011 and, in our report dated June 4, 2012, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, California, as of June 30, 2012, and the respective changes in financial position of the LAFCO for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The LAFCO has not presented management’s discussion and analysis required by accounting principles generally accepted in the United States of America which is necessary to supplement, although not required to be a part of, the basic financial statements.
Accounting principles generally accepted in the United States of America require that 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 the 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 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 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.

In accordance with Government Auditing Standards, we have also issued our report dated January 18, 2013, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Mayr Hoffman McCann P.C.

Irvine, California
January 18, 2013
BASIC FINANCIAL STATEMENTS
GOVERNMENT-WIDE FINANCIAL STATEMENTS
SAN DIEGO LOCAL AGENCY FORMATION COMMISSION

Statement of Net Assets

June 30, 2012

(With comparative information for the prior year)

<table>
<thead>
<tr>
<th>Governmental Activities</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and investments (note 2)</td>
<td>$1,005,755</td>
<td>969,960</td>
</tr>
<tr>
<td>Due from County of San Diego</td>
<td>-</td>
<td>3,184</td>
</tr>
<tr>
<td>Interest receivable</td>
<td>665</td>
<td>979</td>
</tr>
<tr>
<td>Capital assets, net (note 3):</td>
<td>7,215</td>
<td>8,834</td>
</tr>
<tr>
<td>Total assets</td>
<td>1,013,635</td>
<td>982,957</td>
</tr>
<tr>
<td>Liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>32,257</td>
<td>17,091</td>
</tr>
<tr>
<td>Accrued liabilities</td>
<td>7,563</td>
<td>8,291</td>
</tr>
<tr>
<td>Long-term liabilities (note 4):</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Due within one year:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pension Obligation Bonds</td>
<td>13,216</td>
<td>13,286</td>
</tr>
<tr>
<td>Compensated Absences</td>
<td>66,547</td>
<td>54,800</td>
</tr>
<tr>
<td>Due beyond one year:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pension Obligation Bonds</td>
<td>312,979</td>
<td>336,107</td>
</tr>
<tr>
<td>Compensated Absences</td>
<td>56,700</td>
<td>73,695</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>489,262</td>
<td>503,270</td>
</tr>
<tr>
<td>Net assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Invested in capital assets</td>
<td>7,215</td>
<td>8,834</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>517,158</td>
<td>470,853</td>
</tr>
<tr>
<td>Total net assets</td>
<td>$524,373</td>
<td>479,687</td>
</tr>
</tbody>
</table>

See accompanying notes to the basic financial statements
### SAN DIEGO LOCAL AGENCY FORMATION COMMISSION

**Statement of Activities**

For the Fiscal Year Ended June 30, 2012

(With comparative information for the prior year)

<table>
<thead>
<tr>
<th>Functions/Programs</th>
<th>Program Revenues</th>
<th>Operating Charges for Services</th>
<th>Net (Expense) Revenue and Capital Contributions and Grants</th>
<th>Net assets, end of year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Expenses</td>
<td></td>
<td>2012</td>
<td>2011</td>
</tr>
<tr>
<td><strong>Governmental activities:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General government</td>
<td>$1,210,361</td>
<td>56,695</td>
<td>(1,153,666)</td>
<td>(1,073,033)</td>
</tr>
<tr>
<td>Total governmental activities</td>
<td>$1,210,361</td>
<td>56,695</td>
<td>(1,153,666)</td>
<td>(1,073,033)</td>
</tr>
</tbody>
</table>

**General revenues:**

- Assessments: 1,193,660
- Investment income: 4,692

**Total general revenues**: 1,198,352

**Change in net assets**: 44,686

**Net assets, beginning of year**: 479,687

**Net assets, end of year**: $524,373

See accompanying notes to the basic financial statements
FUND FINANCIAL STATEMENTS
<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and investments (note 2)</td>
<td>$1,005,755</td>
<td>969,960</td>
</tr>
<tr>
<td>Due from County of San Deigo</td>
<td>-</td>
<td>3,184</td>
</tr>
<tr>
<td>Interest receivable</td>
<td>665</td>
<td>979</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$1,006,420</td>
<td>974,123</td>
</tr>
<tr>
<td><strong>Liabilities and Fund Balance</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>$32,257</td>
<td>17,091</td>
</tr>
<tr>
<td>Accrued liabilities</td>
<td>7,563</td>
<td>8,291</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>39,820</td>
<td>25,382</td>
</tr>
<tr>
<td>Fund balance:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Spendable:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unassigned</td>
<td>966,600</td>
<td>948,741</td>
</tr>
<tr>
<td><strong>Total fund balance</strong></td>
<td>966,600</td>
<td>948,741</td>
</tr>
<tr>
<td><strong>Total liabilities and fund balance</strong></td>
<td>$1,006,420</td>
<td>974,123</td>
</tr>
</tbody>
</table>

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 Assets
June 30, 2012

Fund balances of governmental funds $ 966,600

Amounts reported for governmental activities in the Statement of Net Assets 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 Assets includes those capital assets among the assets of San Diego LAFCO as a whole.

- Capital Assets 19,190
- Accumulated Depreciation (11,975)

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 Assets.

- Pension obligation bonds payable (326,195)
- Compensated absences (123,247)

Net assets of governmental activities $ 524,373

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, 2012  
(With comparative information for the prior year)  

<table>
<thead>
<tr>
<th>General Fund</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assessments</td>
<td>$1,193,660</td>
<td>1,196,768</td>
</tr>
<tr>
<td>Filing fees</td>
<td>6,710</td>
<td>11,395</td>
</tr>
<tr>
<td>Investment income</td>
<td>4,692</td>
<td>4,714</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>49,985</td>
<td>32,229</td>
</tr>
<tr>
<td>Total revenues</td>
<td>1,255,047</td>
<td>1,245,106</td>
</tr>
<tr>
<td>Expenditures:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>General government:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries and benefits</td>
<td>717,561</td>
<td>711,253</td>
</tr>
<tr>
<td>Service and supplies</td>
<td>486,740</td>
<td>403,840</td>
</tr>
<tr>
<td>Debt service:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Principal</td>
<td>23,198</td>
<td>13,798</td>
</tr>
<tr>
<td>Interest</td>
<td>9,689</td>
<td>20,010</td>
</tr>
<tr>
<td>Total expenditures</td>
<td>1,237,188</td>
<td>1,148,901</td>
</tr>
<tr>
<td>Excess (deficiency) of revenues over (under) expenditures</td>
<td>17,859</td>
<td>96,205</td>
</tr>
<tr>
<td>Net change in fund balances</td>
<td>17,859</td>
<td>96,205</td>
</tr>
<tr>
<td>Fund balances at beginning of year</td>
<td>948,741</td>
<td>852,536</td>
</tr>
<tr>
<td>Fund balances at end of year</td>
<td>$966,600</td>
<td>948,741</td>
</tr>
</tbody>
</table>

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, 2012

Net changes in fund balances - total governmental funds $ 17,859

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
- Depreciation expense (1,619)

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 Assets and do not result in an
expense in the Statement of Activities.

- Payments on Pension Obligation Bonds 23,198
- Compensated Absences 5,248
- Change in net assets of governmental activities $ 44,686

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
b. Basis of Accounting and Measurement Focus (Continued)

Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets 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 assets, 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.
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 SD LAFCO considers a resolution, to constitute a formal action of 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.
b. Basis of Accounting and Measurement Focus (Continued)

It is the SD LAFCO’s policy that restricted resources will be applied first, followed by (in order of application) committed, assigned, and unassigned resources, in the absence of a formal policy adopted by the Commission.

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.

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: 3-5 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. **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.

g. **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, 2012, consist of the following:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demand deposits</td>
<td>$19,331</td>
</tr>
<tr>
<td>Cash held by the County of San Diego</td>
<td>$986,424</td>
</tr>
<tr>
<td><strong>Total Cash and Investments</strong></td>
<td><strong>$1,005,755</strong></td>
</tr>
</tbody>
</table>

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

The San Diego LAFCO's investment policy authorizes investments in the undermentioned 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.

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 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. LAFCO has uncollateralized deposits of $19,331 at June 30, 2012.

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:

<table>
<thead>
<tr>
<th></th>
<th>Balance at July 1, 2011</th>
<th>Additions</th>
<th>Deletions</th>
<th>Balance at June 30, 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equipment</td>
<td>$19,190</td>
<td>-</td>
<td>-</td>
<td>19,190</td>
</tr>
<tr>
<td>Accumulated Depreciation:</td>
<td></td>
<td>(10,356)</td>
<td>(1,619)</td>
<td>(11,975)</td>
</tr>
<tr>
<td>Equipment</td>
<td></td>
<td></td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>$8,834</td>
<td>(1,619)</td>
<td>-</td>
<td>7,215</td>
</tr>
</tbody>
</table>
(4) Long Term Liabilities

The following is a summary of changes in long-term liabilities for the year ended June 30, 2012:

<table>
<thead>
<tr>
<th></th>
<th>Balance at</th>
<th>Additions</th>
<th>Deletions</th>
<th>Balance at</th>
<th>Due within</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>July 1, 2011</td>
<td></td>
<td></td>
<td>June 30, 2012</td>
<td>one year</td>
</tr>
<tr>
<td>Pension Obligation Bonds</td>
<td>$349,393</td>
<td></td>
<td>(23,198)</td>
<td>326,195</td>
<td>13,216</td>
</tr>
<tr>
<td>Compensated Absences</td>
<td>128,495</td>
<td>42,173</td>
<td>(47,421)</td>
<td>123,247</td>
<td>66,547</td>
</tr>
<tr>
<td>Total</td>
<td>$477,888</td>
<td>42,173</td>
<td>(70,619)</td>
<td>449,442</td>
<td>79,763</td>
</tr>
</tbody>
</table>

a. Pension Obligation Bonds

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:

<table>
<thead>
<tr>
<th>Year Ending</th>
<th>Principal</th>
<th>Interest</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 30</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>$13,217</td>
<td>19,348</td>
<td>32,565</td>
</tr>
<tr>
<td>2014</td>
<td>15,296</td>
<td>17,269</td>
<td>32,565</td>
</tr>
<tr>
<td>2015</td>
<td>13,102</td>
<td>19,464</td>
<td>32,566</td>
</tr>
<tr>
<td>2016</td>
<td>17,736</td>
<td>14,799</td>
<td>32,535</td>
</tr>
<tr>
<td>2017</td>
<td>18,798</td>
<td>13,767</td>
<td>32,565</td>
</tr>
<tr>
<td>2018-2022</td>
<td>105,878</td>
<td>56,943</td>
<td>162,821</td>
</tr>
<tr>
<td>2023-2027</td>
<td>142,168</td>
<td>37,561</td>
<td>179,729</td>
</tr>
<tr>
<td>Total</td>
<td>$326,195</td>
<td>179,151</td>
<td>505,346</td>
</tr>
</tbody>
</table>
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, 2012 is $123,247.

(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 San Diego County Employees Retirement Association (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, 2012, was $10.9 billion. The value of SDCERA assets on the same date was $8.6 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, 2012, was 78.7 percent.

Every participating employer shares proportionally in all risks and costs. On June 30, 2012, the San Diego LAFCO membership, which includes active, retired, and deferred members, represented 0.04 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, 2012, were:

<table>
<thead>
<tr>
<th>Member Classification</th>
<th>Employee Rate</th>
<th>Employer Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Member</td>
<td>8.08% to 10.3%</td>
<td>24.10%</td>
</tr>
</tbody>
</table>

c. Benefits

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, 2012 was $480,748.

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. 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, 2012, 14 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 SDCERS contributions paid by the San Diego LAFCO for year ended June 30, 2012 was $140,403. This amount represented 100 percent of the employer’s contribution rate.

The San Diego LAFCO’s employer contributions to the SDCERA for the three years ended June 30, 2012, which equaled the required contributions, were the following:

<table>
<thead>
<tr>
<th>Fiscal Year Ended June 30</th>
<th>Annual Required Contribution (ARC)</th>
<th>Contributions Made</th>
<th>Percentage of ARC Contributed</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>$140,403</td>
<td>140,403</td>
<td>100%</td>
</tr>
<tr>
<td>2011</td>
<td>145,303</td>
<td>145,303</td>
<td>100%</td>
</tr>
<tr>
<td>2010</td>
<td>125,883</td>
<td>125,883</td>
<td>100%</td>
</tr>
</tbody>
</table>
(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, 2012, which equaled the required contributions, were the following:

<table>
<thead>
<tr>
<th>Fiscal Year Ended June 30</th>
<th>Annual Required Contribution (ARC)</th>
<th>Contributions Made</th>
<th>Percentage of ARC Contributed</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>$8,655</td>
<td>8,655</td>
<td>100%</td>
</tr>
<tr>
<td>2011</td>
<td>8,484</td>
<td>8,484</td>
<td>100%</td>
</tr>
<tr>
<td>2010</td>
<td>8,736</td>
<td>8,736</td>
<td>100%</td>
</tr>
</tbody>
</table>
(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.
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 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, 2012  
(With comparative information for the prior year)  

<table>
<thead>
<tr>
<th></th>
<th>Original Budget</th>
<th>Final Budget</th>
<th>Actual</th>
<th>Variance with Final Budget</th>
<th>Prior Year Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assessments</td>
<td>$ 1,197,211</td>
<td>1,197,211</td>
<td>1,193,660</td>
<td>(3,551)</td>
<td>1,196,768</td>
</tr>
<tr>
<td>Filing fees</td>
<td>95,320</td>
<td>95,320</td>
<td>6,710</td>
<td>(88,610)</td>
<td>11,395</td>
</tr>
<tr>
<td>Investment income</td>
<td>-</td>
<td>-</td>
<td>4,692</td>
<td>4,692</td>
<td>4,714</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>90,877</td>
<td>90,877</td>
<td>49,985</td>
<td>(40,892)</td>
<td>32,229</td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td>1,383,408</td>
<td>1,383,408</td>
<td>1,255,047</td>
<td>(128,361)</td>
<td>1,245,106</td>
</tr>
</tbody>
</table>

| **Expenditures:**      |                 |              |        |                           |                  |
| General government:    |                 |              |        |                           |                  |
| Salaries and benefits  | 920,907         | 920,907      | 717,561 | 203,346                   | 711,253          |
| Service and supplies   | 462,501         | 462,501      | 486,740 | (24,239)                  | 403,840          |
| Debt service:          |                 |              |        |                           |                  |
| Principal              | -               | -            | 23,198  | (23,198)                  | 13,798           |
| Interest               | -               | -            | 9,689   | (9,689)                   | 20,010           |
| **Total expenditures** | 1,383,408       | 1,383,408    | 1,237,188 | 146,220 | 1,148,901 |

Excess (deficiency) of revenues over (under)
expenditures: - 17,859 17,859 96,205

Net change in fund balances: - 17,859 17,859 96,205

Fund balances at beginning of year: 948,741 948,741 948,741 - 852,536

Fund balances at end of year: $ 948,741 948,741 966,600 17,859 948,741