LSL
CERTIFIED PUBLIC ACCOUNTANTS

LOCAL AGENCY FORMATION COMMISSION

FOR SAN BERNARDINO COUNTY

FINANCIAL STATEMENTS

JUNE 30, 2011

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LOCAL AGENCY FORMATION COMMISSION

FOR SAN BERNARDINO COUNTY

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SAN BERNARDINO COUNTY

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CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Members of the Commission
Local Agency Formation Commission for San Bernardino County
San Bernardino, California

We have audited the accompanying financial statements of the governmental activities of the Local Agency Formation Commission for San Bernardino County (the Commission), as of and for the year ended June 30, 2011, which collectively comprise the Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 the 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 opinion.

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 Commission, as of June 30, 2011, and the respective changes in financial position, thereof, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2011, on our consideration of the Commission'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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents 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.

Lance, Soll & Lunghard, LLP

Brea, California
November 22, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the financial performance of the Local Agency Formation Commission for San Bernardino County (Commission) provides an overview of the Commission's financial activities for the fiscal year ended June 30, 2011. Please read it in conjunction with the financial statements as outlined in the table of contents.

Using the Accompanying Financial Statements

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Commission as a whole and present a longer view of the Commission's finances. Also included in the accompanying report are fund financial statements. For governmental activities, the fund financial statements tell how the services were financed in the short-term as well as what remains for future spending.

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual report consists of two parts - management's discussion and analysis (this section), and the basic financial statements. The basic financial statements provide both long-term and short-term information about the Commission's overall financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The basic financial statements also include additional budgetary information.

Reporting the Commission as a Whole

The accompanying Government-wide financial statements include two statements that present financial data for the Commission as a whole. An important question to be asked about the Commission's finances is, "Is the Commission as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Commission as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the time of related cash flows.

The statements report the Commission's net assets and changes in them. You can think of the Commission's net assets – the difference between assets and liabilities - as one way to measure the Commission's financial health or financial position. Over time, increases and decreases in the Commission's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other factors, such as changes in the Commission's revenues, to assess the overall health of the Commission.

Reporting the Commission's Fund Activity

The fund financial statements provide detailed information about the Commission's governmental fund as it operates under a single-program government fund. All of the Commission's basic services are reported in its General Fund. The fund is reported using the current financial resources measurement focus and the modified accrual basis of accounting. We describe the relationship or differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) in the reconciliation following the fund financial statements.

The following table provides the Statement of Net Assets for the past two fiscal years:

TABLE 1
NET ASETS – GOVERNMENTAL ACTIVITIES

	2010-11	2009-10	Difference
Assets:			
Cash and investments	$ 305,056	$ 202,719	$ 102,337
Capital assets, net of depreciation	8,192	0	8,192
Prepaid costs	0	8,640	(8,640)
Accounts receivable	0	0	0
Due from other governments	0	0	0
Total Assets	**313,248**	**211,359**	**101,889**
Liabilities:			
Accounts payable	5,915	23,556	(17,641)
Salaries and benefits payable	23,674	25,657	(1,983)
Unearned revenue	15,642	26,861	(11,219)
Deposits payable	16,647	27,926	(11,279)
Compensated absences	57,675	69,884	(12,209)
Total Liabilities	**119,553**	**173,884**	**(54,331)**
Net Assets:			
Invested in capital assets	8,192	0	8,192
Unrestricted	185,503	37,475	148,028
Total Net Assets	**$ 193,695**	**$ 37,475**	**$ 156,220**

The following table provides the Statement of Activities for the past two fiscal years:

TABLE 2
CHANGE IN NET ASETS – GOVERNMENTAL ACTIVITIES

	2010-11	2009-10	Difference
Revenues			
Charges for services	$ 92,509	$ 150,061	($ 57,552)
Operating contributions	1,033,911	1,001,415	32,496
Interest	6,569	9,356	(2,787)
Total Revenues	**1,132,989**	**1,160,832**	**(27,843)**
Expenses	**976,769**	**1,128,695**	**(151,926)**
Change in Net Assets	**156,220**	**32,137**	**124,083**
Net Assets Beginning	37,475	5,338	32,137
Net Assets Ending	**$ 193,695**	**$ 37,475**	**$ 156,220**

The following table provides a summary of the Long Term Liabilities for the past two fiscal years:

TABLE 3
LONG-TERM LIABILITIES

	2010-11	2009-10	Difference
Compensated Absences	$ 57,675	$ 69,884	($ 12,209)

Compensated Absences is comprised of the year-end balances for administrative, holiday, vacation, and sick leaves. For sick-leave calculations, LAFCO's Benefits Plan Section 108 (E) – Retirement Medical Trust – states that those employees with more than five years of service shall receive 75% of their accumulated sick leave, up to a max of 1,400 hours, paid into the Trust at their current rate of pay upon leaving the employ of the Commission. The calculation within the financial statements of compensated absences accommodates this Benefit Plan determination. During Fiscal Year 2010-11 compensated absences decreased by $12,209, calculated as follows:

- Additions of $54,717 comprised of natural balance accruals for four employees and one employee becoming vested for accumulated sick leave.

- Deletions of $66,926 comprised of leave taken during the fiscal year for four employees and the mandatory payment due to the separation of the Executive Officer as a regular employee.

The tables presented above show an overall reduction in the receipt of revenues, as well as reductions in expenditures for both personnel and operations. Some of the more significant reasons for the changes in the revenues and expenses of the Commission's governmental activities are outlined as follows:

- Table 1 -- As noted above, the separation of the Executive Officer as a regular employee reduced the liability for compensated absences. As well, the return of the Executive Officer as a contract employee reduced overall salaries and benefits.

- Table 2 -- Revenues related to proposal activity were significantly reduced ($57,552 less than prior year or 38%) due to the economic climate within the region which translates into a corresponding reduction in proposal activity, while apportionment contributions were increased by $32,496 during the period.

- Table 2 -- Overall, total expenditures decreased by $151,926 over the prior year. Therefore, Net Assets Ending continues to show movement in a positive direction.

Contacting the Commission's Financial Management:

This financial report is designed to provide our citizen's, taxpayers, customers, and creditors with a general overview of the Commission's finances and to show the Commission's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Executive Officer at 215 North D Street, Suite 204, San Bernardino, CA 92415-0490.

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

STATEMENT OF NET ASSETS
JUNE 30, 2011

	Governmental Activities
Assets:	
Cash and investments	$ 305,056
Capital assets, net of depreciation	8,192
Total Assets	**313,248**
Liabilities:	
Accounts payable	5,915
Accrued liabilities	23,674
Unearned revenue	15,642
Deposits payable	16,647
Noncurrent liabilities:	
Due within one year	57,675
Total Liabilities	**119,553**
Net Assets:	
Invested in capital assets	8,192
Unrestricted	185,503
Total Net Assets	**$ 193,695**

See Notes to Financial Statements

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011

		Program Revenues			Net (Expenses) Revenues and Changes in Net Assets
					Primary Government
	Expenses	Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants	Governmental Activities
Functions/Programs					
Primary Government:					
Governmental Activities:					
General government	$ 976,769	$ 92,509	$ 1,033,911	$ -	$ 149,651
Total Governmental Activities	**$ 976,769**	**$ 92,509**	**$ 1,033,911**	**$ -**	**149,651**
	General Revenues:				
	Use of money and property				6,569
	Total General Revenues				**6,569**
	Change in Net Assets				156,220
	Net Assets at Beginning of Year				37,475
	Net Assets at End of Year				**$ 193,695**

See Notes to Financial Statements

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011

	General Fund
Assets:	
Cash and investments	$ 305,056
Total Assets	**$ 305,056**
Liabilities and Fund Balances:	
Liabilities:	
Accounts payable	$ 5,915
Salaries and benefits payable	23,674
Unearned revenues	15,642
Deposits payable	16,647
Total Liabilities	**61,878**
Fund Balances:	
Unassigned	243,178
Total Fund Balances	**243,178**
Total Liabilities and Fund Balances	**$ 305,056**

See Notes to Financial Statements

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2011

Fund balances of governmental funds	$	243,178
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets net of depreciation have not been included as financial resources in governmental fund activity		8,192
Compensated absences liability has not been included in governmental fund activities		(57,675)
Net assets of governmental activities	**$**	**193,695**

See Notes to Financial Statements

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2011

	General Fund
Revenues:	
Intergovernmental	$ 1,033,911
Charges for services	92,509
Use of money and property	6,569
Total Revenues	**1,132,989**
Expenditures:	
Current:	
General government	988,978
Capital outlay	8,192
Total Expenditures	**997,170**
Excess (Deficiency) of Revenues Over (Under) Expenditures	135,819
Net Change in Fund Balances	135,819
Fund Balances:	
Beginning of year	107,359
End of year	**$ 243,178**

See Notes to Financial Statements

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011

Net change in fund balances - total governmental funds	$	135,819
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period		8,192
Compensated absences expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds		12,209
Change in net assets of governmental activities	**$**	**156,220**

See Notes to Financial Statements

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

BUDGETARY COMPARISON STATEMENT
GENERAL FUND
YEAR ENDED JUNE 30, 2011

	Budget Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
Budgetary Fund Balance, July 1	$ 107,359	$ 107,359	$ 107,359	$ -
Resources (Inflows):				
Intergovernmental	1,033,911	1,033,911	1,033,911	-
Charges for services	208,898	258,843	92,509	(166,334)
Use of money and property	10,000	10,000	6,569	(3,431)
Amounts Available for Appropriation	**1,360,168**	**1,410,113**	**1,240,348**	**(169,765)**
Charges to Appropriation (Outflow):				
General government				
Salaries and benefits	707,672	707,672	672,982	34,690
Services and supplies	396,029	435,777	315,996	119,781
Contingency and reserves	149,108	159,305	-	159,305
Capital outlay	-	-	8,192	(8,192)
Total Charges to Appropriations	**1,252,809**	**1,302,754**	**997,170**	**305,584**
Budgetary Fund Balance, June 30	**$ 107,359**	**$ 107,359**	**$ 243,178**	**$ 135,819**

See Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies

The accounting policies of the Local Agency Formation Commission for San Bernardino County (Commission) conform to generally accepted accounting principles as applicable to governments. The following is a summary of the significant policies.

a. Description of the Reporting Entity

Following the end of World War II, California entered a new era of demographic growth and diversity, and economic development. With this growth came the need for housing, jobs and public services. To provide for these services, California experienced a wave of newly formed cities and special districts, but with little forethought as to how the new agencies should plan for services. The lack of coordination and adequate planning for future governance led to a multitude of overlapping, inefficient jurisdictional and service boundaries.

In 1963, the State Legislature created Local Agency Formation Commissions (Commissions) to help direct and coordinate California's growth in a logical, efficient, and orderly manner. Each county within California is required to have a Commission. The Commissions are charged with the responsibility of making difficult decisions on proposals for new cities and special districts, spheres of influence, consolidations, and annexations.

The Commission's governing board consists of seven appointed board members. Two members are selected by the Board of Supervisors of the County of San Bernardino from their own membership, two are selected by the cities in the County, two are selected from special districts by the independent special district selection committee and one member is selected to represent the general public, who is appointed by the other members of the Commission.

b. Government-wide and Fund 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 Commission.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment.

Program revenues include charges for services that are restricted to meeting the operational or capital requirements of particular function or segment. Use of money and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for the governmental fund. The Commission operates under a single-program governmental fund.

Note 1: Summary of Significant Accounting Policies (Continued)

c. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the time of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences are not recognized until paid.

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. All other revenue items are considered to be measurable and available only when cash is received by the government.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include charges to members. Internally dedicated resources are reported as general revenues rather than as program revenues.

When both restricted and unrestricted resources are available for use, it is the Commission's policy to use restricted resources first, and then unrestricted resources as they are needed.

d. Cash and Cash Equivalents

Cash and cash equivalents are defined as cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Cash and cash equivalents include the cash balances of substantially all funds, which are pooled and invested by the County Treasurer to increase interest earnings through investment activities. Investment activities are governed by the California Government Code Sections 53601, 53635, and 53638 and the County's Investment Policy.

Interest income, and realized gains and losses earned on pooled investments are deposited quarterly to the Commission's accounts based upon the Commission's average daily deposit balances during the quarter. Unrealized gains and losses of the pooled investments are distributed to the Commission annually. Cash and cash equivalents are shown at fair value.

Note 1: Summary of Significant Accounting Policies (Continued)

e. Capital Assets

Capital assets are reported as governmental activities in the government-wide financial statements. Capital assets are defined by the Commission as assets with an initial, individual cost of more than $5,000 and have an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Equipment of the Commission is depreciated using the straight-line method over a 5 to 7 year estimated useful life.

The cost of normal maintenance and repairs that does not add to the value of the asset or materially extend asset life is not capitalized.

f. Employee Compensated Absences

Liabilities for vacation, holidays, sick pay and compensatory time are accrued when incurred in the government-wide financial statements. Upon retirement or termination, an employee is compensated for 100% of unused accrued vacation and holiday time. Those with more than five years of LAFCO service receive 75% of their accumulated sick leave up to a maximum of fourteen hundred (1,400) hours. A liability for accrued leave is reported in the governmental fund financial statements only if it has matured. A matured liability may result from employees who terminate prior to year-end and are paid for their leave subsequent to year-end.

g. Fund Equity

Unassigned include the residual amounts that have not been restricted, committed, or assigned to specific purposes.

Note 2: Stewardship, Compliance and Accountability

General Budget Policies

In accordance with provisions of Section 56381 of the Government Code of the State of California, commonly known as the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (CKH), the Commission shall adopt a proposed budget by May 1 and a final budget by June 15 of each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. After adoption of a final budget, the County of San Bernardino Auditor shall apportion one-third of net operating expenses of the Commission to each of the following: the county, cities, and independent special districts. The legal level of budgetary control is the individual fund level.

Amendments and transfers of appropriations between funds or departments must be approved by the Commission. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

Note 3: Cash and Cash Equivalents

Cash and cash equivalents as of June 30, 2011, consist of the following:

Petty Cash	$	250
Demand Deposits		304,806
Total Cash and Cash Equivalents	$	305,056

Investments Authorized by the Commission's Investment Policy

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

- County of San Bernardino Investment Pool
- Bankers' Acceptances
- Commercial Papers
- Medium Term Notes
- Mutual Funds
- Repurchase Agreements
- Reverse Repurchase Agreements

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 the fair value to changes in market interest rates.

As of June 30, 2011, the Commission had all its cash and investments pooled with the County of San Bernardino Treasurer and therefore was not exposed to any interest rate risk as described above.

Disclosures 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 money pooled with the County of San Bernardino is not subject to a credit rating.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government 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, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Commission's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging

Note 3: Cash and Cash Equivalents (Continued)

securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental 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 Authority 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 credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as the money invested by the Commission in the County of San Bernardino Investment Pool).

Note 4: Capital Assets

Capital asset activity for the year ended June 30, 2011, was as follows:

Government Activities	Balance at July 1, 2010	Additions	Deletions	Balance at June 30, 2011
Capital assets being depreciated:				
Equipment	$ 20,593	$ 8,192	$ 20,593	$ 8,192
Less accumulated depreciation for:				
Equipment	20,593	-	20,593	-
Total net capital assets	$ -	$ 8,192	$ -	$ 8,192

Note 5: Unearned Revenue

At June 30, 2011, the Commission deferred recognition of $15,642 from service fees and other revenue that had been received but not yet earned.

Note 6: Compensated Absences

Changes in compensated absences at June 30, 2011, was as follows:

	Balance at July 1, 2010	Additions	Deletions	Balance at June 30, 2011	Due Within One Year
Compensated absences	$ 69,884	$ 54,717	$ (66,926)	$ 57,675	$ 57,675

Note 7: Operating Lease

The Commission entered into a three-year lease agreement in July 2006 for the rental of office space. The lease was amended on May 1, 2008, and extended to June 30, 2013. Future minimum lease payments under this operating lease are as follows:

Fiscal Year	Amount
2012	$ 4,585
2013	4,722

Note 8: Insurance

The Commission is a member of the Special District Risk Management Authority, an intergovernmental risk sharing joint powers authority. The schedule of insurance coverage is as follows:

Coverage	Limit of Insurance	
Personal Injury and Property Damage Liability- General	$ 2,500,000	Per occurrence/aggregate where applicable. $500 deductible per occurrence
Personal Injury and Property Damage Liability-Auto	2,500,000	Per accident. $1,000 deductible per occurrence
Public Officials and Employees Errors and Omissions Liability	2,500,000	Per wrongful act/annual member aggregate
Employment Practices Liability	2,500,000	Per wrongful employment practice/ aggregate limits per member
Employee Benefits Liability	2,500,000	Per wrongful act/annual member aggregate
Employee Dishonesty Coverage	400,000	Per loss
Public Officials Personal Liability	500,000	Per occurrence/annual aggregate Board Member
Property Coverage	1,000,000,000	Per occurrence. $2,000 deductible per occurrence
Workers' Compensation	300,000,000	Per occurrence
Employers' Liability	5,000,000	Per occurrence
Boiler and Machinery	100,000,000	Per occurrence. $1,000 deductible per occurrence
Uninsured/Underinsured Motorists	750,000	Per occurrence

The Commission is self-insured for unemployment insurance.

Note 9: Retirement Plan

Plan Description

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost- sharing multiple-employer defined benefit pension plan (Plan) operating under the California County Employees Retirement Act of 1937 (1937 Act). The Plan provides retirement, death, and disability benefits to members. Although legally established as a single employer plan for the County of San Bernardino, the Commission was transitioned to a non-County special district status within the SBCERA.

The Commission and others covered under the Plan are collectively referred to as the "Participating Members". The Plan is governed by the San Bernardino Board of Retirement under the 1937 Act. The Board acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W. Hospitality Lane, 3rd Floor, San Bernardino, California 92415-0014.

Funding Policy

Participating members are required by statute (Sections 31621, 31621.2, and 31639.25 of the California Government Code) to contribute a percentage of covered salary based on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% to 13.46% of their annual covered salary, of which the Commission pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll, and all non-County special district employers are required to contribute 19.97% of current year covered payroll. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

Contributions

For fiscal year 2010-2011, the Commission’s annual pension cost of $102,932 for SBCERA was equal to the Commission’s required and actual contributions. The required contribution was determined as part of the June 30, 2010, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8.00% investment rate of return (net of administrative expenses), (b) projected annual salary increase that vary by duration of service and (c) cost-of-living adjustments are contingent upon CPI increases with a 2% maximum. Both (a) and (b) included an inflation component of 3.75%.

The Asset Valuation Method of SBCERA employs market value of assets less unrecognized market value gains and losses from each of the last five years. Market value gains and losses are equal to the differences between the actual market return and the expected return on the market value, and are recognized over a five-year period. Effective with the June 30, 2004, valuation, the remaining June 30, 2003, unrecognized returns will be combined and recognized over a five-year period starting with the 2004/2005 Plan Year. The actuarial value of assets is reduced by the value of the non-valuation reserves.

Note 9: Retirement Plan (Continued)

SBCERA unfunded actuarial accrued liability (UAAL) is being amortized as a level percentage of future active member payroll (including payroll for new members) assuming a constant number of active members. The June 30, 2002, UAAL is being recognized over a 20-year declining period effective June 30, 2002. Any new UAAL after June 30, 2002, that arises at each valuation is amortized over its own 20-year declining period.

Three- year Trend Information

Fiscal Year	Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2009	$ 115,197	100%	
June 30, 2010	106,861	100%	
June 30, 2011	102,932	100%	

LSL
CERTIFIED PUBLIC ACCOUNTANTS

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  A Professional Corporation
- Donald G. Slater, CPA
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- Susan F. Matz, CPA
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- Bryan S. Gruber, CPA

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*

To the Members of the Commission
Local Commission Formation Commission for San Bernardino County
San Bernardino, California

We have audited the financial statements of the governmental activities of the Local Agency Formation Commission for San Bernardino County (the Commission) as of and for the year ended June 30, 2011, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated November 22, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Commission'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 Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission'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 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 Commission's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission'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*.

To the Members of the Commission
Local Agency Formation Commission for San Bernardino County
San Bernardino, California

This report is intended solely for the information and use of management, the audit committee and the Commission, and is not intended to be and should not be used by anyone other than these specified parties.

Lance, Soll & Lunghard, LLP

Brea, California
November 22, 2011

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November 22, 2011

To the Members of the Commission
Local Agency Formation Commission for San Bernardino County
San Bernardino, California

We have audited the financial statements of the governmental activities of the Local Agency Formation Commission for San Bernardino County (the Commission) for the year ended June 30, 2011, and have issued our report thereon dated November 22, 2011. Professional standards require that we provide you with the following information related to our audit.

Our Responsibilities under U.S. Generally Accepted Auditing Standards and *Government Auditing Standards*

Our responsibility, as described by professional standards, is to express opinions about whether the financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Significant deficiencies in such controls, if any, have been communicated to you by a separate letter.

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the Commission's compliance with those requirements. Again, instances of non-compliance with provisions of laws, regulations, contracts and grants noted by us, if any, have been communicated to you by a separate letter.

Planned Scope and Timing of the Audit

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Accordingly, a material misstatement may remain undetected. Also, an audit is not designed to detect error or fraud that is immaterial to the financial statements.

During the audit, we obtained an understanding of the entity and its environment, including its internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. An audit is not designed to provide assurance on internal control or to identify significant deficiencies. Significant deficiencies in such controls, if any, have been communicated to you by a separate letter.

Our audit consisted of a year-end contact which occurred after the fiscal year-end.

Had we noted any significant matters related to the financial statement audit that were, in our professional judgment, relevant to the responsibilities of those charged with governance in overseeing the financial reporting process, we would have communicated those in a separate letter. We did not note any such matters. Generally accepted auditing standards do not require us to design procedures for the purpose of identifying other matters to communicate with those charged with governance.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Commission are described in the notes to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2011. We noted no transactions entered into by the Commission 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

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. Where applicable, the Commission utilized accounting estimates for depreciation on Commission assets, amortization of bond related issuance costs, premiums/discounts and gains/losses on bond defeasance and for reporting incurred but not reported amounts relating to the liability for claims and judgments. The methodology used during this audit is consistent with that of prior years. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Financial Statements Disclosure

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The disclosures in the financial statements 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 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 the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as 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 November 22, 2011.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Communications

The Commission implemented, when applicable, the following new Governmental Accounting Standards Board (GASB) pronouncements, which were effective for fiscal year 2010-2011 audits:

GASB Statement No. 54*, Fund Balance Reporting and Governmental Fund Type Definitions*

This information is intended solely for the use of the members of the Commission or individual(s) charged with governance and management, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Lance, Soll & Lunghard, LLP

Brea, California

Audit Difference Evaluation Form

Name of Governmental Unit: Local Commission Formation Commission for San Bernardino County

Date of Combined Balance Sheet: June, 2011

Opinion Unit, Fund Type or Fund: General Fund

Instructions

This form should be used to accumulate known audit differences by opinion unit, fund type or fund detected by non-sampling substantive tests (including differences in accounting estimates) and projected audit differences from substantive tests that used sampling. The current year effect of prior year uncorrected audit differences should also be summarized at the bottom of the form. This form should not include normal closing entries. At the end of the audit, the auditor should evaluate all uncorrected audit differences individually and in the aggregate, in the context of individual opinion and conclude whether they materially misstate the financial statement of an opinion unit. Thus, a separate Audit Difference Evaluation Form should be maintained for each opinion unit, fund type or fund.

Description (Nature) of Audit Difference	Cause	Workpaper Ref.	Amount
Cash and investments market value adjustment	GASB 31	D.2	$ 1,497
Total			1,497
Less Audit Adjustments Subsequently Booked			-
Net Unadjusted Audit Differences - this year			1,497
Effect of Net Unadjusted Audit Difference - prior year			-
Net Audit Differences			$ 1,497