LOCAL AGENCY FORMATION COMMISSION
FOR SAN BERNARDINO COUNTY

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DATE: **JANUARY 5, 2015**

FROM: **MICHAEL TUERPE, Project Manager**

TO: **LOCAL AGENCY FORMATION COMMISSION**

SUBJECT: **Agenda Item #4: Review and Accept Audit Report for Fiscal Year Ended June 30, 2014**

RECOMMENDATION:

Staff recommends that the Commission receive and file the materials submitted by White Nelson Diehl Evans LLP related to the Commission's audit for Fiscal Year 2013-14.

BACKGROUND:

The public accounting firm of White Nelson Diehl Evans LLP has conducted the annual audit for the period of July 1, 2013 through June 30, 2014 (copy attached to this staff report). The auditor has independently verified the financial statements prepared by LAFCO staff, outlined its professional responsibilities and findings, and disclosed its compliance with current *Government Auditing Standards*. During the audit process, the auditor did not identify any deficiencies in internal controls that it considered to be material weaknesses.

The financial statements consist of two parts – management's discussion and analysis, and the basic financial statements. The basic financial statements provide both short-term and long-term information about the Commission's overall financial status, include additional budgetary information, and include notes that explain some of the information presented.

Some of the more significant reasons for the changes in the revenues and expenses of the Commission's governmental activities are outlined as follows:

- The addition of a salaried position increased overall salaries and benefits.
- The majority of the costs related to the Fiscal Indicators project occurred.
- Revenues related to proposal activity increased by $55,750 from the prior year, or 118%, due to an increase in the number of proposal received.
- Apportionment contributions decreased by $38,179 during the period due to the Commission's determination to reduce overall costs.
- Overall Net Position Ending continues to show movement in a positive direction.

Starting with the FY 2014-15 audit, information regarding the Commission's net pension liability will be included in the Statement of Net Position per GASB 68. However, for the FY 2013-14 audit, the San Bernardino County Employees' Retirement Association's ("SBCERA") actuary has estimated the Commission's proportionate share of the net pension liability as of the June 30, 2013 measurement date to be approximately $583,000, which is expected to be the opening net pension obligation upon implementation of GASB 68. This preliminary information can be found in Note 9 on page 25 of the financial statements.

The Finance and Administrative Committee has met with and reviewed the audit with the independent auditors. Neither LAFCO staff nor the Committee has issues or concerns with the financial statements or audit letters provided by the auditors. Therefore, an auditor representative was not requested to be present at the hearing. Should you have any questions, LAFCO staff and/or the Committee would be glad to answer them prior to or at the hearing.

MT/

Attachment

WHITE NELSON DIEHL EVANS LLP
Certified Public Accountants & Consultants

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JAN 05 2015
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San Bernardino County

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

We have audited the financial statements of the governmental activities and the general fund of the Local Agency Formation Commission for San Bernardino County (the "Commission") for the year ended June 30, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter dated July 11, 2014. 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 the Commission 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 2014. 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 estimates affecting the Commission's financial statements were:

> Management's estimate regarding the annual required contribution to the retirement plans since these estimates are based on actuarial valuations. We evaluated the key factors and assumptions used to develop the annual required contribution 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:

> The disclosure of the retirement plans in Note 9 to the financial statements, since there are significant estimates involved in these disclosures.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has determined that the effects of passed adjustments are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. 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 December 18, 2014.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

We applied certain limited procedures to management's discussion and analysis, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

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

Very truly yours,

White Nelson Diehl Evans LLP

Irvine, California
December 18, 2014

WHITE NELSON DIEHL EVANS LLP
Certified Public Accountants & Consultants

INDEPENDENT AUDITORS' 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

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JAN 05 2015
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San Bernardino County

The Commission Members
Local Agency Formation Commission
for San Bernardino County
San Bernardino, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the General Fund of Local Agency Formation Commission for San Bernardino County (the "Commission"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated December 18, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

White Nelson Diehl Evans LLP

Irvine, California
December 18, 2014

LOCAL AGENCY FORMATION COMMISSION
FOR SAN BERNARDINO COUNTY

FINANCIAL STATEMENTS

WITH REPORT ON AUDIT
BY INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

FOR THE YEAR ENDED JUNE 30, 2014

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

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WHITE NELSON DIEHL EVANS LLP
Certified Public Accountants & Consultants

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and General Fund of the Local Agency Formation Commission for San Bernardino County (the Commission) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these basic 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 basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Commission's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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Offices located in Orange and San Diego Counties

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 the General Fund of the Commission, as of June 30, 2014, and the respective changes in financial position thereof, and the budgetary comparison of the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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 management's discussion and analysis 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 the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2014, 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* in considering the Commission's internal control over financial reporting and compliance.

White Nelson Diehl Evans LLP

Irvine, California
December 18, 2014

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, 2014. 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 Position 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 – Net Position

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 Position 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 position and changes in them. You can think of the Commission's net position – 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 position 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.

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

TABLE 1
NET POSITION – GOVERNMENTAL ACTIVITIES

	2013-14	2012-13	Difference
Assets:			
Cash and investments	$ 729,919	$ 621,605	$ 108,314
Capital assets, net of depreciation	4,681	5,851	(1,170)
Prepaid expenses	1,567	0	1,567
Due from other governments	4,311	1,794	2,517
Total Assets	**740,478**	**629,250**	**111,228**
Liabilities:			
Accounts payable	7,129	5,052	2,077
Salaries and benefits payable	27,225	14,019	13,206
Unearned revenue	57,646	17,107	40,539
Compensated absences	73,012	68,772	4,240
Total Liabilities	**165,012**	**104,950**	**60,062**
Net Position:			
Invested in capital assets	4,681	5,851	(1,170)
Unrestricted	570,785	518,449	52,336
Total Net Position	**$ 575,466**	**$ 524,300**	**$ 51,166**

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

TABLE 2
CHANGE IN NET POSITION – GOVERNMENTAL ACTIVITIES

	2013-14	2012-13	Difference
Revenues			
Charges for services	$ 102,816	$ 47,066	$ 55,750
Operating contributions	864,821	903,000	(38,179)
Interest	3,066	4,009	(943)
Total Revenues	**970,703**	**954,075**	**16,628**
Expenses	**919,537**	**805,835**	**113,702**
Change in Net Position	**51,166**	**148,240**	**(97,074)**
Net Position Beginning	524,300	376,060	148,240
Net Position Ending	**$ 575,466**	**$ 524,300**	**$ 51,166**

Explanation of Change in Net Position

The tables presented above show an overall increase in the receipt of revenues, as well as increase 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 2 – The addition of a salaried position increased overall salaries and benefits.
- Table 2 – The majority of the costs related the Fiscal Indicators project occurred.
- Table 2 -- Revenues related to proposal activity were increased by $55,750 from the prior year, or 118%, due to an increase in the number of proposal received.
- Table 2 - Apportionment contributions decreased by $38,179 during the period due to the Commission's determination to reduce overall costs.
- Table 2 – Overall Net Position Ending continues to show movement in a positive direction.

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 Position and the Statement of Activities) in the reconciliation following the fund financial statements.

The following table provides a summary of the Fund Balance for the past two fiscal years. The Fund Balance total increased from $587,221 in FY 2012-13 to $643,797 in FY 2013-14.

TABLE 3
FUND BALANCE

	2013-14	**2012-13**
Nonspendable	$ 1,567	$ 0
Committed:		
COWCAP Reserve	46,780	$ 46,780
Compensated Absences Reserve	66,620	66,620
Assigned:		
Ongoing approved projects	16,510	7,578
Contingency	0	84,730
Litigation Reserve	250,000	200,000
Unassigned	262,320	181,513
Total	**$ 643,797**	**$ 587,221**

Per GASB 54, funds designated as Contingencies are now classified as Unassigned. For FY 2013-14, funds classified as Unassigned include $99,872 designated for Contingencies.

Long-Term Liabilities

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

TABLE 4
LONG-TERM LIABILITIES

	2013-14	2012-13	Difference
Compensated Absences	$ 73,012	$ 68,772	$ 4,240

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 2013-14 compensated absences increased by $4,240, calculated as follows:

- Additions of $60,316 comprised of natural balance accruals for five employees.
- Deletions of $56,076 comprised of leave taken during the fiscal year for four employees.

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 POSITION

June 30, 2014

	Governmental Activities
ASSETS:	
Cash and investments	$ 729,919
Prepaid expenses	1,567
Due from other governments	4,311
Capital assets, net of accumulated depreciation	4,681
TOTAL ASSETS	740,478
LIABILITIES:	
Accounts payable	7,129
Other accrued liabilities	27,225
Unearned revenues	57,646
Compensated absences:	
Due within one year	22,149
Due in more than one year	50,863
TOTAL LIABILITIES	165,012
NET POSITION:	
Net investment in capital assets	4,681
Unrestricted	570,785
TOTAL NET POSITION	$ 575,466

See independent auditors' report and notes to basic financial statements.

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

STATEMENT OF ACTIVITIES

For the year ended June 30, 2014

Functions/programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Governmental Activities
Governmental activities:					
General government	$ 919,537	$ 102,816	$ 864,821	$ -	$ 48,100
Total governmental activities	$ 919,537	$ 102,816	$ 864,821	$ -	48,100
General revenues:					
Investment income					3,066
Change in net position					51,166
Net Position - Beginning of Year					524,300
Net Position - End of Year					$ 575,466

See independent auditors' report and notes to basic financial statements.

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

BALANCE SHEET
GOVERNMENTAL FUND

June 30, 2014

	General Fund
ASSETS	
Cash and investments	$ 729,919
Prepaid expenses	1,567
Due from other governments	4,311
TOTAL ASSETS	$ 735,797
LIABILITIES AND FUND BALANCE	
LIABILITIES:	
Accounts payable	$ 7,129
Salaries and benefits payable	27,225
Unearned revenues	57,646
TOTAL LIABILITIES	92,000
FUND BALANCE:	
Nonspendable	1,567
Committed for:	
Compensated absences	66,620
COWCAP reserve	46,780
Assigned for:	
Litigation reserve	250,000
Ongoing projects	16,510
Unassigned	262,320
TOTAL FUND BALANCE	643,797
TOTAL LIABILITIES AND FUND BALANCE	$ 735,797

See independent auditors' report and notes to basic financial statements.

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION

June 30, 2014

Fund balance for the governmental fund		$ 643,797
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets and accumulated depreciation, have not been included as financial resources in governmental fund activity:		
Capital assets	$ 8,192	
Accumulated depreciation	(3,511)	
		4,681
Accrued compensated absences that have not been included in the governmental fund activity.		(73,012)
Net position of governmental activities		$ 575,466

See independent auditors' report and notes to basic financial statements.

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND

For the year ended June 30, 2014

	General Fund
REVENUES:	
Intergovernmental	$ 864,821
Charges for services	102,816
Investment income	3,066
TOTAL REVENUES	970,703
EXPENDITURES:	
Current:	
General government	914,127
NET CHANGE IN FUND BALANCE	56,576
FUND BALANCE - BEGINNING OF YEAR	587,221
FUND BALANCE - END OF YEAR	$ 643,797

See independent auditors' report and notes to basic financial statements.

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES

For the year ended June 30, 2014

Net change in fund balance - total governmental fund		$ 56,576
Amounts reported for governmental activities in the Statement of Activities are different because:		
The governmental fund reports capital outlay as expenditures. However in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period:		
Capital outlay	$ -	
Depreciation expense	(1,170)	
		(1,170)
Accrued 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 the governmental fund.		(4,240)
Change in net position of governmental activities		$ 51,166

See independent auditors' report and notes to basic financial statements.

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

BUDGETARY COMPARISON STATEMENT
GENERAL FUND

For the year ended June 30, 2014

	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual	(Negative)
Fund balance, July 1	$ 587,221	$ 587,221	$ 587,221	$ -
Resources (inflows):				
Intergovernmental	864,821	864,821	864,821	-
Charges for services	33,975	33,975	102,816	68,841
Investment income	3,750	3,750	3,066	(684)
Amounts Available for Appropriation	902,546	902,546	970,703	68,157
Charges to appropriations (outflows):				
General government:				
Salaries and benefits	667,844	667,844	621,622	46,222
Services and supplies	319,684	364,071	292,505	71,566
Total charges to appropriations (outflows)	987,528	1,031,915	914,127	117,788
Excess of resources over (under) charges to appropriations	(84,982)	(129,369)	56,576	185,945
Fund balance, June 30	$ 502,239	$ 457,852	$ 643,797	$ 185,945

See independent auditors' report and notes to basic financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

a. 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 Financial Statements:

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

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.

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

Amounts reported as program revenues include charges for services and operating contributions from members.

d. New Accounting Pronouncements:

Current Year Standards:

The following statements from the Governmental Accounting Standards Board (GASB) became effective during the current year:

- GASB 66 - "*Technical Corrections, an amendment of GASB Statement No. 10 and Statement No. 62",* required to be implemented in the current fiscal year did not impact the Commission.

- GASB 70 - "*Accounting and Financial Reporting for Nonexchange Financial Guarantees"*, required to be implemented in the current fiscal year did not impact the Commission.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

d. New Accounting Pronouncements (Continued):

Pending Accounting Standards:

GASB has issued the following statements which may impact the Commission's financial reporting requirements in the future:

- GASB 68 - "*Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27"*, effective for the fiscal years beginning after June 15, 2014.

- GASB 69 - *"Government Combinations and Disposals of Government Operations"*, effective for periods beginning after December 15, 2013.

- GASB 71 - "*Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement No. 68"*, effective for the periods beginning after June 15, 2014.

e. Deferred Outflows/Inflows of Resources:

In addition to assets, the statement of net position and the governmental fund balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Commission does not have any deferred outflows of resources to report.

In addition to liabilities, the statement of net position and the governmental fund balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. The Commission does not have any deferred inflows of resources to report.

f. 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

f. Cash and Cash Equivalents (Continued):

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.

g. 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.

h. 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

i. Fund Balance:

Committed fund balance includes amounts that can be used only for the specific purposes determined by a formal action of the Commission's highest level of decision-making authority. The governing board is the highest level of decision-making authority that can commit fund balances. Once adopted, the limitation imposed by the commitment remains in place until a similar action is taken to remove or revise the limitation.

Assigned fund balance includes amounts to be used by the Commission for specific purposes but do not meet the criteria to be classified as restricted or committed.

Unassigned fund balance includes the residual amounts that have not been committed or assigned to specific purposes.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available, the Commission's policy is to apply restricted fund balance first.

When an expenditure is incurred for purposes for which committed, assigned, or unassigned fund balances are available, the Commission's policy is to apply committed fund balance first, then assigned fund balance, and finally unassigned fund balance.

j. Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

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.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED):

General Budget Policies (Continued):

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 fund level.

Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balance as provided for in the County Budget Act.

3. CASH AND INVESTMENTS:

Cash and Investments:

Cash and investments as of June 30, 2014, consist of the following:

Petty cash	$ 250
Investment in County of San Bernardino Investment Pool	729,669
Total Cash and Investments	$ 729,919

Investments Authorized by the Commission's Investment Policy:

The Commission's investment policy authorizes investments only in the County of San Bernardino Investment Pool.

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, 2014, the Commission’s cash was voluntarily invested in the County of San Bernardino Investment Pool, and therefore was not exposed to any interest rate risk as described above.

3. CASH AND INVESTMENTS (CONTINUED):

Interest Rate Risk (Continued):

The County of San Bernardino Investment Pool is a pooled investment fund program governed by the San Bernardino County Board of Supervisors, and is administered by the County Treasurer. Investments in the pool are highly liquid as deposits and withdrawal can be made at any time without penalty. The Commission's fair value of its share in the pool is the same value of the pool shares, which amounted to $729,669. Information on the pool's use of derivative securities in its investment portfolio and the Commission's exposure to credit, market, or legal risk is not available.

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 Investment Pool 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 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 Commission 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).

4. CAPITAL ASSETS:

Capital asset activity for the year ended June 30, 2014 was as follows:

	Balance at July 1, 2013	Additions	Deletions	Balance at June 30, 2014
Capital assets:				
Office equipment	$ 8,192	$ -	$ -	$ 8,192
Less accumulated depreciation for:				
Office equipment	(2,341)	(1,170)	-	(3,511)
Total capital assets, net	$ 5,851	$ (1,170)	$ -	$ 4,681

5. UNEARNED REVENUES:

At June 30, 2014, the Commission deferred recognition of $57,646 from fee revenues and deposits that had been received but not yet earned.

6. COMPENSATED ABSENCES:

Changes in unpaid compensated absences at June 30, 2014, were as follows:

Accrued compensated absences at July 1, 2013	$ 68,772
Compensated absences earned	60,316
Compensated absences used	(56,076)
Accrued compensated absences at June 30, 2014	$ 73,012

There is no fixed payment schedule for earned but unpaid compensated absences. Accrued compensated absences expected to be paid within one year is $22,149 at June 30, 2014.

7. 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	Statutory	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	1,000,000	Per occurrence

The Commission is self-insured for unemployment insurance.

See independent auditors' report.

8. OPERATING LEASE:

The Commission entered into non-cancelable operating lease agreements for the rental of office space and office equipment, expiring in various years through 2017. Future minimum lease payments under these operating leases are as follows:

Year Ending June 30	Amount
2015	$ 53,708
2016	52,241
2017	53,808
Total	$ 159,757

Total rent expense for the year ended June 30, 2014 amounted to $52,202.

9. RETIREMENT PLAN:

Benefit Plan Groups:

For the purpose of this retirement plan and the salary savings plans, as described in Note 10, employees shall be divided into the following groups:

a. Group A Executive Officer

b. Group B All Commission Employees not in Groups A or C

c. Group C Deputy Clerk to the Commission and LAFCO Secretary

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.

9. RETIREMENT PLAN (CONTINUED):

Plan Description (Continued):

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.

The California Public Employees' Pension Reform Act (PEPRA) was effective as of January 1, 2013, and caused changes in the plans available to future employees of the Commission. Under PEPRA, employees hired after January 1, 2013 will join the 2.5% at 67 plan. As of June 30, 2014, there were no active members of the 2.5% at 67 plan.

Funding Policy:

Participating members are required by statute (Sections 31621.6 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). Employees are required to contribute 9.43% to 12.67% of their annual covered salary, of which the Commission pays a portion. The Commission has agreed to contribute on behalf of each employee in employee Group B, $148 per bi-weekly pay period. As of June 30, 2014, there were no covered employees under Groups A or C or under the 2.5% at 67 plan. All non-County special district employers are required to contribute 27.69% 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 2013-2014, the Commission's annual pension cost of $85,828 for SBCERA was equal to the Commission's required and actual contributions. There have been no contributions to the 2.5% at 67 plan since there are no active members. The required contribution was determined as part of the June 30, 2012 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% 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 3.50%. The Commission made contributions for the employees' share of contributions during the year totaling $17,682.

9. RETIREMENT PLAN (CONTINUED):

Contributions (Continued):

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. The actuarial value of assets is reduced by the value of the non-valuation reserves.

SBCERA's 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 changes in UAAL after June 30, 2002, are amortized over a 20-year closed period effective with each valuation. Effective June 30, 2011, any changes in UAAL due to actuarial gains or losses or due to changes in actuarial assumptions or methods are amortized over a 20-year closed period effective with each valuation. Any change in UAAL that arises due to plan amendments is amortized over its own declining 15-year period (with the exception of a change due to retirement incentives, which is amortized over a declining period of 5 years).

The Commission's contributions to the Plan for the past three years, which were equal to the required contribution each year, were as follows:

	General Risk Pool	
	Tier 1	Tier 2
Fiscal Year	2% at 50	2.5% at 67
June 30, 2012	$ 73,575	$ -
June 30, 2013	86,130	-
June 30, 2014	85,828	-

Net Pension Liability:

With the adoption of GASB 68, the Commission will be required to include its proportionate share of the net pension liability, deferred outflows and inflows of resources and pension expense in the financial statements for fiscal years beginning after June 15, 2014. Upon implementation, the Commission will use a measurement date and actuarial valuation date of one-year prior to the reporting date, as allowed by GASB 68. SBCERA's actuary has estimated the Commission's proportionate share of the net pension liability as of the June 30, 2013 measurement date to be approximately $583,000, which is expected to be the opening net pension obligation upon implementation of GASB 68.

10. SALARY SAVINGS PLANS:

401(k) Plan:

Bi-weekly contributions of Commission employees to the County's 401(k) Defined Contribution Plan will be matched by a Commission contribution on the basis of two times the employee's contribution. The bi-weekly contributions of employees in Groups A and B of up to four percent of bi-weekly base salary will be matched by a Commission contribution of two times the employee's contribution, not to exceed eight percent of an employee's bi-weekly base salary.

The bi-weekly contributions of employees in Group C to the County's 401(k) Defined Contribution Plan of up to three percent of bi-weekly base salary will be matched by a Commission contribution of two times the employee's contribution. The Commission's contribution shall not exceed six percent of an employee's bi-weekly base salary.

The Commission contributed $23,213 to this plan for the fiscal year ended June 30, 2014.

457 Deferred Compensation Plan:

Bi-weekly contributions of Commission Group A employees to the County's Section 457 Deferred Compensation Plan up to one percent (1%) of an employee's bi-weekly base salary will be matched by a Commission contribution on the basis of one (1) times the employee's contribution. The Commission contribution shall not exceed one percent of the employee's bi-weekly salary. The contribution shall be deposited in the County's 401(a) Plan.

Bi-weekly contributions of Commission Group B and C employees to the County's Section 457 Deferred Compensation Plan up to one percent (1%) of an employee's bi-weekly base salary will be matched by a Commission contribution of one-half (1/2) times the employee's contribution. The Commission's contribution shall not exceed one-half percent (1/2%) of the employee's bi-weekly salary. The contribution shall be deposited in the County's 401(a) Plan.

The Commission contributed $1,468 to this plan for the fiscal year ended June 30, 2014.

11. SUBSEQUENT EVENTS:

Events occurring after June 30, 2014 have been evaluated for possible adjustments to the financial statements or disclosure as of December 18, 2014, which is the date these financial statements were available to be issued.

WHITE NELSON DIEHL EVANS LLP
Certified Public Accountants & Consultants

INDEPENDENT AUDITORS' 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

The Commission Members
Local Agency Formation Commission
for San Bernardino County
San Bernardino, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the General Fund of Local Agency Formation Commission for San Bernardino County (the "Commission"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated December 18, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Offices located in Orange and San Diego Counties

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

White Nelson Diehl Evans LLP

Irvine, California
December 18, 2014

WHITE NELSON DIEHL EVANS LLP
Certified Public Accountants & Consultants

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

We have audited the financial statements of the governmental activities and the general fund of the Local Agency Formation Commission for San Bernardino County (the "Commission") for the year ended June 30, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter dated July 11, 2014. 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 the Commission 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 2014. 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 estimates affecting the Commission's financial statements were:

> Management's estimate regarding the annual required contribution to the retirement plans since these estimates are based on actuarial valuations. We evaluated the key factors and assumptions used to develop the annual required contribution 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:

> The disclosure of the retirement plans in Note 9 to the financial statements, since there are significant estimates involved in these disclosures.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has determined that the effects of passed adjustments are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. 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 December 18, 2014.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

We applied certain limited procedures to management's discussion and analysis, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

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

Very truly yours,

White Nelson Diehl Evans LLP

Irvine, California
December 18, 2014