

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

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DATE: JANUARY 20, 2016
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, 2015

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 2014-15.

BACKGROUND:

The public accounting firm of White Nelson Diehl Evans LLP has conducted the annual audit for the period of July 1, 2014 through June 30, 2015 (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.

GASB 68 and GASB 71

The financial statements typically consist of two parts – management's discussion and analysis, and the basic financial statements. Absent from this year's audit is the Management Discussion and Analysis (MD&A) prepared by LAFCO staff. This is the first year for implementation of GASB 68 (Accounting and Financial Reporting for Pensions) and GASB 71 (Pension Transition for Contributions Made Subsequent to the Measurement Date). Being so, the statements include new information and are in a different format. Therefore, the purpose of the MD&A, comparison to the prior year, cannot be shown. Upon the recommendation of the auditors, the MD&A is not provided for this audit but will resume in subsequent audits.

Information regarding the Commission's net pension liability is included in the Statement of Net Position per GASB 68. 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, 2014 measurement date to be \$584,731. This preliminary information can be found in Note 9 on page 25 of the financial statements.

Due to the implementation of GASB 68 and GASB 71 (which now includes Net Pension Liability and associated items called Deferred Outflows and Deferred Inflows), reporting of the net pension liability is in the financial statements and is applied retroactively by restating the net position as of the beginning of the fiscal year. The implementation of GASB 68 and GASB 71 resulted in reducing net position in the statement of activities (page 5) by \$495,275 as of July 1, 2014. The reduction is calculated as follows:

| | |
|--|------------------|
| Prior Year Net Pension Liability | (\$581,103) |
| <u>Contributions made to the pension during FY 2013-14</u> | <u>\$ 85,828</u> |
| Reduction of Net Position as of July 1, 2014 | (\$495,275) |

2014-15 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. The auditor did not identify any deficiencies in internal controls. The financial statements show positive changes in net position of \$14,763 and fund balance of \$33,613. Some of the significant reasons for the changes in the revenues and expenses of the Commission's governmental activities are outlined as follows:

- Revenues
 - Proposal activity and related charges were essentially the same as prior year.
 - Apportionment contributions remained steady during the period due to the Commission's determination to maintain overall costs.
 - Unassigned Carryover from the prior year was roughly \$26,600 more than received in FY 2013-14.
- Expenditures
 - Salaries and Benefits experienced increased expenditures due to increased retirement contributions, one-time incentive bonus, and scheduled step increases.
 - Services and Supplies experienced increased expenditures due to:
 - Increased County Information Services Department charges, and
 - The relocation of the County's Workforce Development Department from 215 North "D" Street and the need to retain communications at the current level.
- Overall, Net Position Ending continues to show movement in a positive direction.

LAFCO staff does not have 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 would be glad to answer them prior to or at the hearing.

MT/

Attachment

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, 2015, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated January 6, 2016.

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 Dick Evans LLP

Irvine, California
January 6, 2016

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 Local Agency Formation Commission for the County of San Bernardino (the Commission) for the year ended June 30, 2015, and have issued our report thereon dated January 6, 2016. 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 to you dated August 4, 2015. 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. As discussed in Notes 1d and 11 to the basic financial statements, the Commission adopted Governmental Accounting Standards Board's Statement No. 68 - "*Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*", and Statement No. 71 - "*Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement No. 68*". These Statements establish standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit pension plans, these Statements identify the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. The adoption of these standards required retrospective application resulting in a \$495,275 reduction of previously reported net position. 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 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:

- a. Management's estimate of the fair market value of investments which is based on market values provided by outside sources.
- b. The estimated useful lives of capital assets for depreciation purposes which are based on industry standards.
- c. The annual required contribution for the Pension Plan was prepared by an outside consultant.
- d. The calculation of net pension liability and related deferred outflows of resources and deferred inflows of resources are based on an actuarial valuation provided by SBCERA.

We evaluated the key factors and assumptions used to develop these estimates in determining that they were 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 disclosure affecting the financial statements was reported in Note 9 to the financial statements regarding the actuarial liability for the Commission's Pension Plan, and Note 11 regarding the restatement of prior year financial statements due to the implementation of GASB Numbers 68 and 71.

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, the attached "adjusting journal entries report" summarizes misstatements of the financial statements that have been corrected by management.

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 auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated January 6, 2016.

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 Commission'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 Commission'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 Matter

We applied certain limited procedures to management's discussion and analysis, the schedule of proportionate share of the net pension liability, and the schedule of contributions - defined benefit pension plans, which are required supplementary information (RSI) that supplements the 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 Reed Evans LLP

Irvine, California
January 6, 2016

**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, 2015

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

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For the year ended June 30, 2015

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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, 2015, 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 an opinion 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 opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of the Commission, as of June 30, 2015, 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.

Emphasis of Matter

As discussed in Notes 1d and 11 to the financial statements, the Commission implemented Governmental Accounting Standards Board's Statement No. 68 - "*Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*", and Statement No. 71 - "*Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement No. 68*". The adoption of these standards required retrospective application resulting in a \$495,275 reduction of previously reported net position. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the schedule of proportionate share of the net pension liability and the schedule of contributions - defined benefit pension plan, identified as required supplementary information (RSI) in the accompanying 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 RSI 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 RSI because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 6, 2016, 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 Dick Evans LLP

Irvine, California
January 6, 2016

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

STATEMENT OF NET POSITION

June 30, 2015

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| ASSETS: | |
| Cash and investments | \$ 759,008 |
| Due from other governments | 9,615 |
| Capital assets, net of accumulated depreciation | <u>3,511</u> |
| TOTAL ASSETS | <u>772,134</u> |
| DEFERRED OUTFLOWS OF RESOURCES: | |
| Deferred amounts from pension plan | <u>370,080</u> |
| LIABILITIES: | |
| Accounts payable | 11,439 |
| Other accrued liabilities | 26,051 |
| Unearned revenues | 53,723 |
| Compensated absences: | |
| Due within one year | 24,246 |
| Due in more than one year | 56,575 |
| Net pension liability | <u>584,731</u> |
| TOTAL LIABILITIES | <u>756,765</u> |
| DEFERRED INFLOWS OF RESOURCES: | |
| Deferred amounts from pension plan | <u>290,495</u> |
| NET POSITION: | |
| Net investment in capital assets | 3,511 |
| Unrestricted | <u>91,443</u> |
| TOTAL NET POSITION | <u><u>\$ 94,954</u></u> |

See accompanying notes to basic financial statements.

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

STATEMENT OF ACTIVITIES

For the year ended June 30, 2015

| Functions/programs | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position |
|-------------------------------|-------------------|----------------------|------------------------------------|---|---|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | |
| Governmental activities: | | | | | |
| General government | \$ 993,822 | \$ 139,477 | \$ 864,821 | \$ - | \$ 10,476 |
| Total governmental activities | <u>\$ 993,822</u> | <u>\$ 139,477</u> | <u>\$ 864,821</u> | <u>\$ -</u> | 10,476 |
| | | General revenues: | | | |
| | | | | Investment income | <u>4,287</u> |
| | | | | Change in net position | 14,763 |
| | | | | Net Position - Beginning of Year, as Restated | <u>80,191</u> |
| | | | | Net Position - End of Year | <u>\$ 94,954</u> |

See accompanying notes to basic financial statements.

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

BALANCE SHEET
GOVERNMENTAL FUND

June 30, 2015

| | <u>General Fund</u> |
|---|--------------------------|
| ASSETS | |
| Cash and investments | \$ 759,008 |
| Due from other governments | <u>9,615</u> |
| TOTAL ASSETS | <u>\$ 768,623</u> |
| LIABILITIES AND FUND BALANCE | |
| LIABILITIES: | |
| Accounts payable | \$ 11,439 |
| Salaries and benefits payable | 26,051 |
| Unearned revenues | <u>53,723</u> |
| TOTAL LIABILITIES | <u>91,213</u> |
| FUND BALANCE: | |
| Committed for: | |
| Compensated absences | 72,897 |
| Net pension liability reserve | 56,432 |
| Assigned for: | |
| Litigation reserve | 300,000 |
| Unassigned | <u>248,081</u> |
| TOTAL FUND BALANCE | <u>677,410</u> |
| TOTAL LIABILITIES AND FUND BALANCE | <u>\$ 768,623</u> |

See accompanying 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, 2015

Fund balance for the governmental fund \$ 677,410

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 | <u>(4,681)</u> | 3,511 |

Pension related deferred outflows of resources, net of accumulated amortization,
have not been reported in the governmental funds:

| | | |
|--|----------------|---------|
| Employer contributions subsequent to the measurement date | \$ 122,480 | |
| Changes in actuarial assumptions | 94,939 | |
| Changes in proportion and differences between employer contributions and the proportionate share of contributions | <u>152,661</u> | 370,080 |

Long-term liabilities are not available to pay for current-period expenditures and,
therefore, are not reported in the governmental funds. Long-term liabilities
consist of the following:

| | | |
|-----------------------|--|-----------|
| Net pension liability | | (584,731) |
|-----------------------|--|-----------|

Pension related deferred inflows of resources, net of accumulated amortization, have
not been reported in the governmental funds:

| | | |
|--|------------------|-----------|
| Differences in expected and actual experience | \$ (111,404) | |
| Difference in projected and actual earnings on investments | <u>(179,091)</u> | (290,495) |

Accrued compensated absences that have not been included
in the governmental fund activity.

| | | |
|--|--|-----------------|
| | | <u>(80,821)</u> |
|--|--|-----------------|

| | | |
|---|--|------------------|
| Net position of governmental activities | | <u>\$ 94,954</u> |
|---|--|------------------|

See accompanying 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, 2015

| | <u>General Fund</u> |
|--------------------------------------|------------------------------|
| REVENUES: | |
| Intergovernmental | \$ 864,821 |
| Charges for services | 139,477 |
| Investment income | <u>4,287</u> |
| TOTAL REVENUES | 1,008,585 |
| EXPENDITURES: | |
| Current: | |
| General government | <u>974,972</u> |
| NET CHANGE IN FUND BALANCE | 33,613 |
| FUND BALANCE - BEGINNING OF YEAR | <u>643,797</u> |
| FUND BALANCE - END OF YEAR | <u><u>\$ 677,410</u></u> |

See accompanying 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, 2015

Net change in fund balance - total governmental fund \$ 33,613

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) |

Pension expense reported in the governmental fund includes the actual
contributions made in the fiscal year. Pension expense reported in the
Statement of Activities includes the changes in the net pension liability and
pension related deferred outflows/inflows of resources.

| | | |
|--|------------|---------|
| Change in net pension liability | \$ (3,628) | |
| Change in deferred outflows of resources related to pensions | 284,252 | |
| Change in deferred inflows of resources related to pension | (290,495) | |
| | | (9,871) |

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.

| | | |
|---|----|---------|
| | | (7,809) |
| Change in net position of governmental activities | \$ | 14,763 |

See accompanying notes to basic financial statements.

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

BUDGETARY COMPARISON STATEMENT
GENERAL FUND

For the year ended June 30, 2015

| | Budgeted Amounts | | Actual | Variance with |
|---|------------------|------------|------------|------------------------|
| | Original | Final | | Final Budget |
| | | | | Positive (Negative) |
| Fund balance, July 1 | \$ 643,797 | \$ 643,797 | \$ 643,797 | \$ - |
| Resources (inflows): | | | | |
| Intergovernmental | 864,821 | 864,821 | 864,821 | - |
| Charges for services | 57,975 | 57,975 | 139,477 | 81,502 |
| Investment income | 4,000 | 4,000 | 4,287 | 287 |
| Amounts Available for Appropriation | 926,796 | 926,796 | 1,008,585 | 81,789 |
| Charges to appropriations (outflows): | | | | |
| General government: | | | | |
| Salaries and benefits | 689,235 | 689,235 | 678,685 | 10,550 |
| Services and supplies | 365,884 | 376,884 | 296,287 | 80,597 |
| Total charges to appropriations (outflows) | 1,055,119 | 1,066,119 | 974,972 | 91,147 |
| Excess of resources over (under) charges to appropriations | (128,323) | (139,323) | 33,613 | 172,936 |
| Fund balance, June 30 | \$ 515,474 | \$ 504,474 | \$ 677,410 | \$ 172,936 |

See accompanying notes to basic financial statements.

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2015

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 is composed of seven voting members, with four alternate members who vote only in the absence or abstention of a voting member. The seven members and their alternates represent all levels of local government. Two members are elected county supervisors and are selected by the Board of Supervisors. Two members are elected city council members and are selected by the mayors of the cities within San Bernardino County. Two members are elected members of a special district board of directors and are selected by the presidents of the independent special districts in San Bernardino County. These six elected officials select a "public" member who is not affiliated with county, city, or special district governments. Alternate members for the county, city, special district, and public categories are selected in the same manner. Each commissioner and alternate serves a four-year term.

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.

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

b. Government-wide Financial Statements (Continued):

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.

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.

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

d. New Accounting Pronouncements:

Current Year Standards:

In fiscal year 2014-2015, the Commission implemented Governmental Accounting Standards Board (GASB) Statement No. 68 - "*Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27*" and GASB Statement No. 71 - "*Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement No. 68*". These Statements establish standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. For defined benefit pension plans, these Statements identify the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

Accounting changes adopted to conform to the provisions of these statements should be applied retroactively. The result of the implementation of these standards decreased the net position at July 1, 2014 by \$495,275.

GASB Statement No. 69 - "*Government Combinations and Disposals of Government Operations*" was required to be implemented in the current fiscal year and did not impact the Commission.

Pending Accounting Standards:

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

- GASB 72 - "*Fair Value Measurement and Application*", effective for periods beginning after June 15, 2015.
- GASB 73 - "*Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*", effective for periods beginning after June 15, 2015 - except for those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for periods beginning after June 15, 2016.
- GASB 74 - "*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*", effective for periods beginning after June 15, 2016.

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

d. New Accounting Pronouncements (Continued):

Pending Accounting Standards (Continued):

- GASB 75 - “*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*”, effective for periods beginning after June 15, 2017.
- GASB 76 - “*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*”, effective for periods beginning after June 15, 2015.

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 that time. The Commission has three items that qualify for reporting in this category for the fiscal year ended June 30, 2015. The first item is a deferred outflow related to pensions. This amount is equal to employer contributions made after the measurement date of the net pension liability. The second item is a deferred outflow related to pensions resulting from a change in actuarial assumptions, and the third item is a deferred outflow related to pensions for the changes in proportion and differences between employer contributions and the proportionate share of contributions. These amounts are amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the Plan determined as of June 30, 2013 (the beginning of the measurement period ended June 30, 2014), which is 6.23 years.

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 has two items that qualify for reporting in this category for the fiscal year ended June 30, 2015. The first item is a deferred inflow related to pensions resulting from differences between expected and actual experience. This amount is amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the Plan determined as of June 30, 2013 (the beginning of the measurement period ended June 30, 2014), which is 6.23 years. The second item is a deferred inflow related to pensions for the net difference between projected and actual earnings on plan investments. This amount is amortized over a closed period 5-year period.

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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.

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.

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

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. Pensions:

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Commission's San Bernardino County Employees' Retirement Association (SBCERA) plan (Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by SBCERA. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

k. Use of Estimates:

The preparation of financial statements in accordance 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.

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

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 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, 2015, consist of the following:

| | |
|--|-------------------|
| Petty cash | \$ 250 |
| Investment in County of San Bernardino Investment Pool | <u>758,758</u> |
| Total Cash and Investments | <u>\$ 759,008</u> |

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, 2015, 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.

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

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 \$758,758. 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).

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

4. CAPITAL ASSETS:

Capital asset activity for the year ended June 30, 2015 was as follows:

| | <u>Balance at July 1, 2014</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance at June 30, 2015</u> |
|------------------------------------|------------------------------------|-------------------|------------------|-------------------------------------|
| Capital assets: | | | | |
| Office equipment | \$ 8,192 | \$ - | \$ - | \$ 8,192 |
| Less accumulated depreciation for: | | | | |
| Office equipment | <u>(3,511)</u> | <u>(1,170)</u> | <u>-</u> | <u>(4,681)</u> |
| Total capital assets, net | <u>\$ 4,681</u> | <u>\$ (1,170)</u> | <u>\$ -</u> | <u>\$ 3,511</u> |

5. UNEARNED REVENUES:

At June 30, 2015, the Commission deferred recognition of \$53,723 from fee revenues and deposits that had been received but not yet earned.

6. COMPENSATED ABSENCES:

Changes in unpaid compensated absences at June 30, 2015, were as follows:

| | |
|---|------------------|
| Accrued compensated absences at July 1, 2014 | \$ 73,012 |
| Compensated absences earned | 64,246 |
| Compensated absences used | <u>(56,437)</u> |
| Accrued compensated absences at June 30, 2015 | <u>\$ 80,821</u> |

There is no fixed payment schedule for earned but unpaid compensated absences. Accrued compensated absences expected to be paid within one year is \$24,246 at June 30, 2015.

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

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:

| <u>Coverage</u> | <u>Limit of Insurance</u> | <u>Limit of Insurance</u> |
|--|---------------------------|--|
| 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.

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

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:

| <u>Year Ending June 30</u> | <u>Amount</u> |
|----------------------------|-------------------|
| 2016 | \$ 52,241 |
| 2017 | <u>53,808</u> |
| Total | <u>\$ 106,049</u> |

Total rent expense for the year ended June 30, 2015 amounted to \$56,131.

9. PENSION PLAN:

a. General Information about the Pension Plan:

Plan Description:

The San Bernardino County Employees' Retirement Association (SBCERA) administers the SBCERA pension plan - a cost-sharing multiple-employer defined benefit pension plan (the Plan). SBCERA provides retirement, disability, death and survivor benefits to its members, who are employed by 17 active participating employers (including SBCERA) and 3 withdrawn employers. SBCERA publishes its own Comprehensive Annual Financial Report (CAFR) which is available on SBCERA's website at www.SBCERA.org.

Benefits Provided:

SBCERA provides service retirement, disability, death and survivor benefits to eligible employees. Generally, any employee of the County of San Bernardino or participating employers who is appointed to a regular position whose service is greater than fifty percent of the full standard of hours required by a participating SBCERA employer (e.g. 20 hours per week or more) must become a member of SBCERA effective on the first day of employment. The retirement benefit the member will receive is based upon age at retirement, final average compensation, years of retirement service credit and retirement plan and tier.

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

9. PENSION PLAN (CONTINUED):

a. General Information about the Pension Plan (Continued):

Benefits Provided (Continued):

The Plan's provisions and benefits in effect at June 30, 2015, are summarized as follows:

| | General | |
|--|-----------------------------|--------------------------------|
| | Prior to January 1, 2013 | On or After January 1, 2013 |
| Hire date | | |
| Benefit formula | 2%@55 | 2.5%@67 |
| Benefit vesting schedule | 5 years of service | 5 years of service |
| Benefit payments | monthly for life | monthly for life |
| Retirement age | 50 - 65 | 52 - 67 |
| Monthly benefits, as a % of eligible compensation | 1.49% - 3.13% | 1.0% - 2.5% |
| Required employee contribution rates | 11.06% | 9.29% |
| Required employer contribution rates | 33.31% | 29.77% |

Contributions:

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Commission is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

As of June 30, 2015, the Commission reported net pension liability for its proportionate share of the net pension liability of the Plan of \$584,731

The Commission's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2014, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. The Commission's proportionate share of the net pension liability was based on a projection of the Commission's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

9. PENSION PLAN (CONTINUED):

b. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions:

The Commission's proportionate share of the net pension liability for the Plan as of June 30, 2013 and 2014 was as follows:

| | <u>General</u> |
|------------------------------|----------------|
| Proportion - June 30, 2013 | 0.029% |
| Proportion - June 30, 2014 | 0.034% |
| Change - Increase (Decrease) | 0.005% |

For the year ended June 30, 2015, the Commission recognized pension expense of \$132,351. At June 30, 2015, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Pension contributions subsequent to measurement date | \$ 122,480 | \$ - |
| Differences between actual and expected experience | - | (111,404) |
| Change in assumptions | 94,939 | - |
| Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions | 152,661 | - |
| Net differences between projected and actual earnings on plan investments | - | (179,091) |
| Total | <u>\$ 370,080</u> | <u>\$ (290,495)</u> |

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

9. PENSION PLAN (CONTINUED):

b. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued):

The deferred outflows of resources related to contributions subsequent to the measurement date of \$122,480 will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

| Year Ending June 30, | Amount |
|----------------------------|--------------------|
| 2016 | \$ (24,856) |
| 2017 | (24,856) |
| 2018 | (24,856) |
| 2019 | 4,945 |
| 2020 | 22,247 |
| Thereafter | 4,481 |
| | <u>\$ (42,895)</u> |

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

9. PENSION PLAN (CONTINUED):

b. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued):

Actuarial Assumptions:

The total pension liabilities in the June 30, 2013 actuarial valuations were determined using the following actuarial assumptions:

| | <u>General</u> |
|---------------------------|------------------------------------|
| Valuation Date | June 30, 2013 |
| Measurement Date | June 30, 2014 |
| Actuarial Cost Method | Entry-Age Actuarial Cost Method |
| Actuarial Assumptions: | |
| Discount Rate | 7.50% |
| Inflation | 3.25% |
| Payroll Growth | 3.25% |
| Projected Salary Increase | 4.60% - 13.75% (1) |
| Investment Rate of Return | 7.50% (2) |
| Mortality | (3) |

(1) Depending on age, service and type of employment

(2) Net of pension plan investment expenses, including inflation

(3) The probabilities of mortality are derived using SBCERA's membership data for all funds. The mortality table used was developed based on SBCERA's specific data. The table includes 20 years of mortality improvements using Projection Scale BB. For more details on this table, please refer to the 2014 experience study report.

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2013 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the SBCERA website.

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

9. PENSION PLAN (CONTINUED):

b. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued):

Discount Rate:

The discount rates used to measure the Total Pension Liability were 7.50% and 7.75% as of June 30, 2014 and June 30, 2013, respectively. The projection of cash flows used to determine the discount rate assumed employer and member contributions will be made at rates equal to the actuarially determined contribution rates. For this purpose, only employee and employer contributions that are intended to fund benefits for current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the Pension Plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on pension plan investments of 7.50% and 7.75% were applied to all periods of projected benefit payments to determine the Total Pension Liability as of both June 30, 2014 and June 30, 2013, respectively.

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

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

9. PENSION PLAN (CONTINUED):

b. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued):

Discount Rate (Continued):

The June 30, 2014 and June 30, 2013 target allocations (approved by the Board) and projected arithmetic real rates of return for each major asset class, after deducting inflation but before deducting investment expenses, used in the derivation of the long-term expected investment rate of return assumption are summarized in the following tables:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|--------------------------------|------------------------------|---|
| Large Cap U.S. Equity | 5.00% | 5.94% |
| Small Cap U.S. Equity | 2.00% | 6.50% |
| Developed International Equity | 6.00% | 6.87% |
| Emerging Market Equity | 6.00% | 8.06% |
| U.S. Core Fixed Income | 2.00% | 0.69% |
| High Yield/Credit Strategies | 13.00% | 3.10% |
| Global Core Fixed Income | 1.00% | 0.30% |
| Emerging Market Debt | 6.00% | 4.16% |
| Real Estate | 9.00% | 4.96% |
| Cash & Equivalents | 2.00% | -0.03% |
| International Credit | 10.00% | 6.76% |
| Absolute Return | 13.00% | 2.88% |
| Real Assets | 6.00% | 6.85% |
| Long/Short Equity | 3.00% | 4.86% |
| Private Equity | 16.00% | 9.64% |
| Total | <u>100.00%</u> | |

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

9. PENSION PLAN (CONTINUED):

b. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued):

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate:

The following presents the Commission's proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what the Commission's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

| | |
|-----------------------|----------------|
| | <u>General</u> |
| 1% Decrease | 6.50% |
| Net Pension Liability | \$ 1,033,356 |
| Current Discount Rate | 7.50% |
| Net Pension Liability | \$ 584,731 |
| 1% Increase | 8.50% |
| Net Pension Liability | \$ 213,194 |

Pension Plan Fiduciary Net Position:

Detailed information about each pension plan's fiduciary net position is available in the separately issued SBCERA financial reports.

c. Payable to the Pension Plan:

At June 30, 2015, the Commission had no outstanding amount of contributions to the pension plan required for the year ended June 30, 2015.

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

10. SALARY SAVINGS PLANS:

Benefit Plan Groups:

For the purpose of the salary savings plans, employees shall be divided into the following groups:

- a. Group A Executive Officer
- b. Group B All Commission Employees not in Group A or C
- c. Group C Deputy Clerk to the Commission and LAFCO Secretary

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 \$26,131 to this plan for the fiscal year ended June 30, 2015.

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 \$1,631 to this plan for the fiscal year ended June 30, 2015.

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

11. RESTATEMENT OF PRIOR YEAR FINANCIAL STATEMENTS:

The implementation of GASB Statement Numbers 68 and 71 requires reporting the net pension liability of the Commission's defined benefit pension plans in the financial statements and is applied retroactively by restating the net position as of the beginning of the fiscal year. The implementation of GASB Numbers 68 and 71 resulted in reducing net position by \$495,275 as of July 1, 2014.

12. SUBSEQUENT EVENTS:

Events occurring after June 30, 2015 have been evaluated for possible adjustments to the financial statements or disclosure as of January 6, 2016, which is the date these financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

LOCAL AGENCY FORMATION COMMISSION
FOR SAN BERNARDINO COUNTY

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Last Ten Fiscal Years*

| | <u>2015</u> |
|---|--------------|
| Plan's proportion of the net pension liability | 0.034% |
| Plan's proportionate share of the net pension liability | \$ 584,731 |
| Plan's covered - employee payroll | \$ 289,935 |
| Plan's proportionate share of the net pension liability as a percentage of covered - employee payroll | 201.68% |
| Plan's fiduciary net position | \$ 2,750,378 |
| Plan fiduciary net position as a percentage of the total pension liability | 82.47% |

Notes to Schedule:

Benefit Changes:

There were no changes in benefits.

Changes in Assumptions:

There were no changes in assumptions.

* - Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

LOCAL AGENCY FORMATION COMMISSION
FOR SAN BERNARDINO COUNTY

SCHEDULE OF CONTRIBUTIONS

Last Ten Fiscal Years*

| | 2015 |
|---|------------|
| Contractually required contribution (actuarially determined) | \$ 122,480 |
| Contributions in relation to the actuarially determined contributions | (122,480) |
| Contribution deficiency (excess) | \$ - |
| Covered - employee payroll | \$ 289,935 |
| Contributions as a percentage of covered - employee payroll | 42.24% |

Notes to Schedule:

Valuation Date 6/30/2013

Methods and Assumptions Used to Determine Contribution Rates:

| | |
|-------------------------------|--|
| Cost sharing employers | Entry Age Actuarial Cost Method |
| Amortization method | Level percentage of payroll, closed |
| Remaining amortization period | 20 years |
| Asset valuation method | 5-year smoothed market |
| Inflation | 3.25% |
| Salary increases | 4.60 to 13.75%, including inflation of 3.25% |
| Investment rate of return | 7.50%, net of pension plan investment expense, including inflation |
| Retirement age | 50-70 years (2%@50 and 2.5%@67) |
| Mortality | RP-2000 Combined Healthy Mortality Table |

* - Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

