

# **LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY**

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**DATE:** JANUARY 11, 2017   
**FROM:** MICHAEL TUERPE, Project Manager  
**TO:** LOCAL AGENCY FORMATION COMMISSION

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**SUBJECT:** Agenda Item #9: Review and Accept Audit Report for Fiscal Year Ended June 30, 2016

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## **RECOMMENDATION:**

Staff recommends that the Commission receive and file the materials submitted by Davis Farr LLP related to the Commission's audit for Fiscal Year 2015-16.

## **BACKGROUND:**

The public accounting firm of Davis Farr LLP has conducted the Commission's annual audit for the period of July 1, 2015 through June 30, 2016 (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.

## **Meeting with Audit/Budget Committee**

On December 19 the LAFCO Audit/Budget Committee (composed of Chair Cox, Vice-Chair Ramos, and Commissioner Curatalo), LAFCO management, and the auditors discussed the draft audit via a phone meeting. The auditor identified that it performed tests on internal controls of LAFCO and the County, which resulted in no material weaknesses or significant deficiencies being identified.

## **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 last year's audit was the Management Discussion and Analysis ("MD&A") prepared by LAFCO staff. The reason for this omission is that it was 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). As such, the statements included new information and were in a different format. Therefore, the purpose of the MD&A, comparison to the prior

year, could not be shown. Based upon the recommendation of the Commission's former auditor, the MD&A was not provided for last year's audit but resumes this year.

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 \$681,447, an increase of \$96,716. This information can be found in Note 9 on page 22 of the financial statements.

## **2015-16 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 \$147,842 and fund balance of \$154,256. Some of the significant reasons for the changes in the revenues and expenses of the Commission's governmental activities are outlined as follows:

- Revenues
  - Revenues related to proposal activity increased by \$271,667 from the prior year, or 208%, due to an increase in the number and complexity of proposals received (three fire reorganizations).
  - Apportionment contributions rose nominally during the period due to the Commission's determination to maintain overall costs.
- Expenditures
  - Salaries and Benefits were slightly less than the prior year due to the LAFCO Analyst position remaining unfilled for a few months due to the separation of the former employee.
  - Services and Supplies experienced increased expenditures due to:
    - County Workforce Development Department vacating the building where the LAFCO office is located, LAFCO was required to install its own dedicated communications and information technology line, at a cost of roughly \$20,000.
    - Significant unanticipated individual notice costs of roughly \$67,000 for the proposals related to annexations to County Fire that included the extension of a special tax (San Bernardino, Twentynine Palms, and Needles). Most of these costs were recovered from the proponents of the applications.
    - During this fiscal year the Commission approved a consulting contract with Robert Aldrich in September 2015 not to exceed \$75,000 to provide for supplemental staffing and to provide assistance due to the complexity of proposals submitted.
- 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. Additionally, the firm's partner, Jennifer Farr, will be a part of the audit presentation at the hearing. Should you have any questions, LAFCO staff would be glad to answer them prior to or at the hearing.

MT/

Attachment

**LOCAL AGENCY FORMATION COMMISSION  
FOR SAN BERNARDINO COUNTY**

**Financial Statements**

**For the Fiscal Year Ended June 30, 2016**

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

Financial Statements

For the Fiscal Year Ended June 30, 2016

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

### **INDEPENDENT AUDITORS' REPORT**

#### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities and Governmental Fund of the Local Agency Formation Commission for San Bernardino County (the Commission) as of and for the year ended June 30, 2016, 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity'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 Governmental Fund of the Commission, as of June 30, 2016, and the respective changes in financial position thereof 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 management's discussion and analysis, the budgetary comparison information, schedule of the plan's proportionate share of the net pension liability and the schedule of plan contributions, 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.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 4, 2017, 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.

*Davis Far up*

Irvine, California  
January 4, 2017

## 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, 2016. Please read it in conjunction with the financial statements as outlined in the table of contents.

Absent from last year's audit was the Management Discussion and Analysis (MD&A) prepared by LAFCO staff. Last year was 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). As such, the statements included new information and were in a different format. Therefore, the purpose of the MD&A, comparison to the prior year, could not be shown. Based upon the recommendation of the Commission's former auditor, the MD&A was not provided for last year's audit but resumes this year.

### 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**

	<b>2015-16</b>	<b>2014-15</b>	<b>Difference</b>
<b>Assets:</b>			
Cash and investments	\$ 946,441	\$ 759,008	\$ 187,433
Accounts receivable	2,396	-	2,396
Due from other governments	2,116	9,615	(7,499)
Prepaid items	4,484	-	4,484
Capital assets, net of depreciation	2,341	3,511	(1,170)
<b>Total Assets</b>	<b>957,778</b>	<b>772,134</b>	<b>185,644</b>
<b>Deferred outflow of resources:</b>			
Deferred outflows from pension plan	330,514	370,080	(39,566)
<b>Liabilities:</b>			
Accounts payable	24,195	11,439	12,756
Other accrued liabilities	37,464	26,051	11,413
Unearned revenues	62,112	53,723	8,389
Long-term liabilities:			
Compensated absences:			
Due within one year	26,129	24,246	1,883
Due beyond one year	60,968	56,575	4,393
Net pension liability	681,447	584,731	96,716
<b>Total Liabilities</b>	<b>892,315</b>	<b>756,765</b>	<b>135,550</b>
<b>Deferred inflow of resources:</b>			
Deferred inflows from pension plan	153,181	290,495	(137,314)
<b>Net Position:</b>			
Invested in capital assets	2,341	3,511	(1,170)
Unrestricted	240,455	91,443	149,012
<b>Total Net Position</b>	<b>\$ 242,796</b>	<b>\$ 94,954</b>	<b>\$ 147,842</b>

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

**TABLE 2**  
**CHANGE IN NET POSITION – GOVERNMENTAL ACTIVITIES**

	<b>2015-16</b>	<b>2014-15</b>	<b>Difference</b>
<b>Revenues:</b>			
Charges for services	\$ 398,381	\$ 139,477	\$ 258,904
Apportionment	882,117	864,821	17,296
Interest	11,645	4,287	7,358
<b>Total Revenues</b>	<b>1,292,143</b>	<b>1,008,585</b>	<b>283,558</b>
<b>Expenses</b>			
	<b>1,144,301</b>	<b>993,822</b>	<b>150,479</b>
<b>Change in Net Position</b>	<b>147,842</b>	<b>14,763</b>	<b>133,079</b>
Net Position Beginning	94,954	80,191	14,763
<b>Net Position Ending</b>	<b>\$ 242,796</b>	<b>\$ 94,954</b>	<b>\$ 147,842</b>

#### 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:

- Due to the County Workforce Development Department vacating the building where the LAFCO office is located, LAFCO was required to install its own dedicated communications and information technology line, at a cost of roughly \$20,000.
- Significant unanticipated individual notice costs of roughly \$67,000 for the proposals related to annexations to County Fire that included the extension of a special tax (San Bernardino, Twentynine Palms, and Needles). Most of these costs were recovered from the proponents of the applications.
- During this fiscal year the Commission approved a consulting contract with Robert Aldrich in September 2015 not to exceed \$75,000 to provide for supplemental staffing and to provide assistance due to the complexity of proposals submitted.
- Revenues related to proposal activity were increased by \$271,667 from the prior year, or 208%, due to an increase in the number and complexity of proposals received.
- 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 \$677,410 in FY 2014-15 to \$831,666 in FY 2015-16.

**TABLE 3  
FUND BALANCE**

	<b>2015-16</b>	<b>2014-15</b>	<b>Difference</b>
<b>Nonspendable:</b>			
Prepaid items	\$ 4,484	\$ -	\$ 4,484
<b>Committed:</b>			
Compensated absences reserve	76,607	72,897	3,710
Net pension liability reserve	82,750	56,432	26,318
<b>Assigned:</b>			
General/Litigation reserve	291,007	300,000	(8,993)
Contingency	155,501	87,356	68,145
<b>Unassigned</b>			
Total	<b>\$ 831,666</b>	<b>\$ 677,410</b>	<b>\$ 154,256</b>

#### 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**

	<b>2015-16</b>	<b>2014-15</b>	<b>Difference</b>
<b>Compensated Absences</b>	\$ 87,097	\$ 80,821	\$ 6,276

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 2015-16 compensated absences increased by \$6,276, calculated as follows:

- Additions of \$64,679 comprised of natural balance accruals for five employees.
- Deletions of:
  - \$54,040 comprised of leave taken during the fiscal year for four employees.
  - \$4,363 paid to a separated employee for accrued leave.

#### ***Contacting the Commission's Financial Management:***

This financial report is designed to provide our citizen's, taxpayers, governments, 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, 2016

	<u>Governmental Activities</u>
<b>Assets:</b>	
Cash and investments (note 3)	\$ 946,441
Accounts receivable	2,396
Due from other governments	2,116
Prepaid items	4,484
Capital assets, net (note 4)	<u>2,341</u>
Total assets	<u>957,778</u>
 <b>Deferred outflow of resources:</b>	
Deferred outflows from pension plan (note 9)	<u>330,514</u>
 <b>Liabilities:</b>	
Accounts payable	24,195
Other accrued liabilities	37,464
Unearned revenues (note 5)	62,112
<b>Long-term liabilities:</b>	
Compensated absences (note 6):	
Due within one year	26,129
Due beyond one year	60,968
Net pension liability (note 9)	<u>681,447</u>
Total liabilities	<u>892,315</u>
 <b>Deferred inflow of resources:</b>	
Deferred inflows from pension plan (note 9)	<u>153,181</u>
 <b>Net position (deficit):</b>	
Investment in capital assets	2,341
Unrestricted	<u>240,455</u>
 Total net position	<u>\$ 242,796</u>

See accompanying notes to the basic financial statements

**LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY**  
**Statement of Activities**  
For the Fiscal Year Ended June 30, 2016

<u>Functions/Programs</u>	<u>Program Revenues</u>				<u>Net (Expense) Revenue and Changes in Net Position</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Governmental activities:					
General government	<u>\$ 1,144,301</u>	<u>398,381</u>	<u>-</u>	<u>-</u>	<u>(745,920)</u>
Total governmental activities	<u>\$ 1,144,301</u>	<u>398,381</u>	<u>-</u>	<u>-</u>	<u>(745,920)</u>
General revenues:					
Apportionment					882,117
Investment income					11,645
Total general revenues					<u>893,762</u>
Change in net position					147,842
Net position, beginning of year					<u>94,954</u>
Net position, end of year					<u>\$ 242,796</u>

See accompanying notes to the basic financial statements

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY  
 Governmental Funds  
 Balance Sheet  
 June 30, 2016

	<u>General Fund</u>
<u>Assets</u>	
Cash and investments	\$ 946,441
Accounts receivable	2,396
Due from other governments	2,116
Prepaid items	4,484
Total assets	<u>\$ 955,437</u>
<u>Liabilities and Fund Balance</u>	
Liabilities:	
Accounts payable	\$ 24,195
Salaries and benefits payable	37,464
Unearned revenues	62,112
Total liabilities	<u>123,771</u>
Fund balance:	
Nonspendable:	
Prepaid items	4,484
Committed:	
Compensated absences	76,607
Net pension liability reserve	82,750
Assigned:	
Litigation reserve	291,007
Contingency	155,501
Unassigned	<u>221,317</u>
Total fund balance	<u>831,666</u>
Total liabilities and fund balance	<u>\$ 955,437</u>

See accompanying notes to the basic financial statements

**LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY**  
**Governmental Funds**  
**Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position**  
**June 30, 2016**

Fund balances of governmental funds		\$ 831,666
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>(5,851)</u>	2,341
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	120,963	
Changes in actuarial assumptions	78,292	
Changes in proportion and differences between employer contributions and the proportionate share of contributions	<u>131,259</u>	330,514
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	(681,447)	
Compensated absences	<u>(87,097)</u>	(768,544)
Pension related deferred inflows of resources, net of accumulated amortization, have not been reported in the governmental funds:		
Differences in expected and actual experience	(113,234)	
Differences in projected and actual earnings on investments	<u>(39,947)</u>	(153,181)
Accrued compensated absences that have not been included in the governmental fund activity		
Net position of governmental activities		\$ <u>242,796</u>

See accompanying notes to the basic financial statements

**LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY**  
**Governmental Funds**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the Fiscal Year Ended June 30, 2016**

	<b>General Fund</b>
Revenues:	
Apportionment	\$ 882,117
Charges for services	398,381
Investment income	<u>11,645</u>
Total revenues	<u>1,292,143</u>
Expenditures:	
General government:	
Salaries and employee benefits	680,134
Services and supplies	<u>457,753</u>
Total expenditures	<u>1,137,887</u>
Excess (deficiency) of revenues over (under) expenditures	<u>154,256</u>
Net change in fund balances	154,256
Fund balances at beginning of year	<u>677,410</u>
Fund balances at end of year	<u>\$ 831,666</u>

See accompanying notes to the basic financial statements

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY  
 Governmental Funds  
 Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances  
 to the Statement of Activities  
 For the Fiscal Year Ended June 30, 2016

Net changes in fund balances - total governmental funds	\$ 154,256
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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 and reported as depreciation expense. The following are the capital outlays and exceeded depreciation in the current period.

Capital expenditures	-
Depreciation expense	<u>(1,170)</u> (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	(96,716)
Change in deferred outflows of resources related to pensions	(39,566)
Change in deferred inflows of resources related to pensions	<u>137,314</u> 1,032

Accrued compensated absence 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 government fund.

(6,276)

Change in net position of governmental activities	<u>\$ 147,842</u>
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# LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

## Notes to the Basic Financial Statements

June 30, 2016

### 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.

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.

# LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

## Notes to the Basic Financial Statements (Continued)

June 30, 2016

### 1. Summary of Significant Accounting Policies (Continued):

#### b. 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.

#### c. 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, 2016. 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.

# LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

## Notes to the Basic Financial Statements (Continued)

June 30, 2016

### 1. Summary of Significant Accounting Policies (Continued):

#### c. Deferred Outflows/Inflows of Resources (Continued):

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 three items that qualify for reporting in this category for the fiscal year ended June 30, 2016. 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, 2015 (the beginning of the measurement period ended June 30, 2015). 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.

#### d. Cash and Investments:

Cash and investments 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 investments are shown at fair value.

#### e. Fair Value Measurements:

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

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

# LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

## Notes to the Basic Financial Statements (Continued)

June 30, 2016

### 1. Summary of Significant Accounting Policies (Continued):

#### e. Fair Value Measurements (Continued):

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

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

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

#### f. 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.

#### g. 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 the Basic Financial Statements (Continued)

June 30, 2016

### 1. Summary of Significant Accounting Policies (Continued):

#### h. Fund Balance:

Nonspendable fund balances includes amounts that cannot be spent because they are either not spendable in form (such as prepaid expenses) or legally or contractually required to be maintained intact.

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

Committed fund balance 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.

#### i. 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.

#### j. 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 the Basic Financial Statements (Continued)

June 30, 2016

### 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 cash 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 as of June 30, 2016, consist of the following:

Petty cash	\$ 250
Investment in County of San Bernardino Investment Pool	946,191
Total Cash and Investments	<u>\$ 946,441</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, 2016, 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.

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 \$946,191. 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.

# LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

## Notes to the Basic Financial Statements (Continued)

June 30, 2016

### 3. Cash and Investments (Continued):

#### 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).

#### Fair Value Measurement:

The Commission categorizes its fair value investments within the fair value hierarchy established by generally accepted accounting principles. The Commission has the following recurring fair value measurements as of June 30, 2016:

	Fair Value Hierarchy			
	Level 1	Level 2	Level 3	Total
County Investment Pool	\$ -	946,191	-	946,191
Total investments	\$ -	946,191	-	946,191

# LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

## Notes to the Basic Financial Statements (Continued)

June 30, 2016

### 3. Cash and Investments (Continued):

The Commission is a participant in the San Bernardino County Investment Pool (SBCIP). The SBCIP is an external investment pool, is not rated and is not registered with the Securities Exchange Commission (SEC). The County Treasury Oversight Committee and the County Board of Supervisors conduct SBCIP oversight. Cash on deposit in the SBCIP at June 30, 2016, is stated at fair value. The SBCIP values participant shares on an amortized cost basis during the year and adjusts to fair value at year-end. For further information regarding the SBCIP, refer to the County of San Bernardino Comprehensive Annual Financial Report.

### 4. Capital Assets:

Capital asset activity for the year ended June 30, 2016 was as follows:

	Balance at July 1, 2015	Additions	Deletions	Balance at June 30, 2016
Capital assets:				
Office equipment	\$ 8,192	-	-	8,192
Less accumulated depreciation for:				
Office equipment	<u>(4,681)</u>	<u>(1,170)</u>	<u>-</u>	<u>(5,851)</u>
Total capital assets, net	<u>\$ 3,511</u>	<u>(1,170)</u>	<u>-</u>	<u>2,341</u>

### 5. Unearned Revenues:

At June 30, 2016, the Commission deferred recognition of \$62,112 from fee revenues and deposits that have been received but not yet earned.

### 6. Compensated Absences:

Changes in unpaid compensated absences at June 30, 2016, were as follows:

Accrued compensated absences at July 1, 2015	\$ 80,821
Compensated absences earned	64,679
Compensated absences used	<u>(58,403)</u>
Accrued compensated absences at June 30, 2016	<u>\$ 87,097</u>

There is no fixed payment schedule for earned but unpaid compensated absences. Accrued compensated absences expected to be paid within one year is \$26,129 at June 30, 2016.

# LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

## Notes to the Basic Financial Statements (Continued)

June 30, 2016

### 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	Amount	Limit of Insurance
Personal Injury and Property		Per occurrence / aggregate where applicable. \$500 deductible per occurrence
Damage Liability- General	\$ 2,500,000	
Personal Injury and Property		Per accident. \$1,000 deductible per occurrence
Damage Liability-Auto	2,500,000	
Public Officials and Employees		Per wrongful act/annual member aggregate
Errors and Omissions Liability	2,500,000	Per wrongful employment practice / aggregate limits per member
Employment Practices Liability	2,500,000	
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
Uninsured/Underinsured		
Motorists	1,000,000	Per occurrence

The Commission is self-insured for unemployment insurance.

### 8. Operating Lease:

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

Year Ending June 30, 2017	\$53,808
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Total rent expense for the year ended June 30, 2016 amounted to \$52,641.

# LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

## Notes to the Basic Financial Statements (Continued)

June 30, 2016

### 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](http://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.

The Plan's provisions and benefits in effect at June 30, 2016, are summarized as follows:

	Prior to <u>January 1, 2014</u>	On or After <u>January 1, 2014</u>
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%

# LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

## Notes to the Basic Financial Statements (Continued)

June 30, 2016

### 9. Pension Plan (Continued):

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

##### 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.

##### Actuarial Assumptions:

The total pension liabilities in the June 30, 2014 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry-Age Actuarial Cost Method
Actuarial Assumptions:	
Discount Rate	7.50%
Inflation	3.25%
Payroll Growth	3.75%
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 morality improvements using Projection Scale BB. For more details on this table, please refer to the Actuarial Experience Study dated May 30, 2014.

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period June 30, 2010 through June 30, 2013. Further details of the Experience Study can found on the SBCERA website.

# LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

## Notes to the Basic Financial Statements (Continued)

June 30, 2016

### 9. Pension Plan (Continued):

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

##### Discount Rate:

The discount rates used to measure the Total Pension Liability were 7.50% as of June 30, 2015 and June 30, 2014. 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% were applied to all periods of projected benefit payments to determine the Total Pension Liability as of both June 30, 2015 and June 30, 2014.

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 the Basic Financial Statements (Continued)

June 30, 2016

### 9. Pension Plan (Continued):

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

##### Discount Rate (Continued):

The June 30, 2015 and June 30, 2014 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:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
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%</u>	

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

##### Allocation of Net Pension Liability:

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, 2015, 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, 2014 rolled forward to June 30, 2015 using standard update procedures.

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

Notes to the Basic Financial Statements  
(Continued)

June 30, 2016

**9. Pension Plan (Continued):**

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

Allocation of Net Pension Liability (Continued):

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. The following Table shows the Commission's proportionate share of net pension liability over measurement period:

Balance at June 30, 2015	\$ 584,731
Balance at June 30, 2016	<u>681,447</u>
Change - Increase (Decrease)	96,716

The Commission's proportionate share of the net pension liability for the Plan as of June 30, 2014 and 2015 was as follows:

Proportion - June 30, 2014	0.034%
Proportion - June 30, 2015	<u>0.035%</u>
Change - Increase (Decrease)	0.001%

For the year ended June 30, 2016, the Commission recognized pension expense of \$100,104. At June 30, 2016, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 120,963	-
Differences between actual and expected experience	-	(113,234)
Change in assumptions	78,292	-
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	131,259	-
Net differences between projected and actual earnings on plan investments	-	(39,947)
Total	<u>\$ 330,514</u>	<u>(153,181)</u>

# LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

## Notes to the Basic Financial Statements (Continued)

June 30, 2016

### 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 \$120,963 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
2017	\$ 2,274
2018	2,274
2019	2,275
2020	47,046
2021	3,404
Thereafter	<u>(903)</u>
	<u>\$ 56,370</u>

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:

1% Decrease	6.50%
Net Pension Liability	\$ 1,004,022
Current Discount Rate	7.50%
Net Pension Liability	\$ 681,447
1% Increase	8.50%
Net Pension Liability	\$ 414,505

Pension Plan Fiduciary Net Position:

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

# LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

## Notes to the Basic Financial Statements (Continued)

June 30, 2016

### 9. Pension Plan (Continued):

#### c. Payable to the Pension Plan:

At June 30, 2016, the Commission had no outstanding amount of contributions to the pension plan required for the year ended June 30, 2016.

### 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 Administrative Assistant

#### 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 \$25,292 to this plan for the fiscal year ended June 30, 2016.

#### 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.

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

Notes to the Basic Financial Statements  
(Continued)

June 30, 2016

**10. Salary Savings Plans (Continued):**

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 \$1,581 to this plan for the fiscal year ended June 30, 2016.

**11. Subsequent Events:**

On October 5, 2015, the LAFCO entered into an Operating Lease with the San Bernardino County Transportation Commission for office space. The term of the lease is 5 years beginning June 1, 2017 and ending March 31, 2022. Rent will start at \$3,337 per month and increase annually based on the Consumer Price Index, limited to 3%. The agreement includes leasehold improvements estimated to cost \$275,000 that will be repaid to the San Bernardino County Transportation Commission separately from rent in monthly payments of \$2,167 over five years.

**REQUIRED SUPPLEMENTARY INFORMATION**

**LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY**

**Schedule of the Plan's Proportionate Share of the Net Pension Liability**

**Last Ten Fiscal Years\***

	<u>Measurement Date</u>	
	6/30/2015	6/30/2014
Proportion of the Collective Net Pension Liability	0.035%	0.034%
Proportionate Share of the Collective Net Pension Liability	\$ 681,447	584,731
Covered-Employee Payroll	\$ 341,542	289,935
Proportionate Share of the Collective Net Pension Liability as percentage of covered-employee payroll	199.52%	201.68%
Plan's fiduciary net position	\$ 1,736,731	1,505,924
Plan's total pension liability	\$ 2,418,178	2,090,655
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	71.82%	72.03%

**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 two years are shown.

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

Schedule of Plan Contributions

Last Ten Fiscal Years\*

	Fiscal Year 2015-16	Fiscal Year 2014-15
Actuarially Determined Contribution	\$ 120,963	122,480
Contributions in Relation to the Actuarially Determined Contribution	<u>(120,963)</u>	<u>(122,480)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>-</u>
 Covered Payroll	 \$ 341,542	289,935
 Contributions as a Percentage of Covered-Employee Payroll	 27.27%	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 two years are shown.

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

General Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual  
For the Fiscal Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget
				Positive (Negative)
<b>Revenues:</b>				
Apportionment	\$ 882,117	882,117	882,117	-
Charges for services	56,970	102,834	398,381	295,547
Investment income	<u>4,000</u>	<u>4,000</u>	<u>11,645</u>	<u>7,645</u>
<b>Total revenues</b>	<b><u>943,087</u></b>	<b><u>988,951</u></b>	<b><u>1,292,143</u></b>	<b><u>303,192</u></b>
<b>Expenditures:</b>				
General government:				
Salaries and benefits	731,729	738,449	680,134	58,315
Service and supplies	<u>323,280</u>	<u>517,752</u>	<u>457,753</u>	<u>59,999</u>
<b>Total expenditures</b>	<b><u>1,055,009</u></b>	<b><u>1,256,201</u></b>	<b><u>1,137,887</u></b>	<b><u>118,314</u></b>
Excess (deficiency) of revenues over (under) expenditures	<u>(111,922)</u>	<u>(267,250)</u>	<u>154,256</u>	<u>421,506</u>
Net change in fund balances	(111,922)	(267,250)	154,256	421,506
Fund balances at beginning of year	<u>677,410</u>	<u>677,410</u>	<u>677,410</u>	<u>-</u>
<b>Fund balances at end of year</b>	<b><u>\$ 565,488</u></b>	<b><u>410,160</u></b>	<b><u>831,666</u></b>	<b><u>421,506</u></b>

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

Notes to Required Supplementary Information

For the Fiscal Year Ended June 30, 2016

1. Budgetary Reporting

The Commission established accounting control through formal adoption of an annual budget for the Governmental Fund. The budget is prepared on a basis consistent with generally accepted accounting principles. The adopted budget can be amended by the Commission to change both appropriations and estimated revenues as unforeseen circumstances come to management's attention. Increases and decreases in revenue and appropriations require Commission's approval. Expenditures may not exceed total appropriations at the individual fund level. It is the practice of the Commission's management to review the budget monthly and provide quarterly updates to the Commission.

To the Board of Commissioners  
Local Agency Formation Commission for San Bernardino County

We have audited the financial statements of the governmental activities, and each major fund of the Local Agency Formation Commission for San Bernardino County (“Commission”) for the year ended June 30, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated October 12, 2016. 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 Commission are described in Note 1 to the financial statements. We noted no transactions entered into by 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 estimate affecting the Commission’s financial statements was allocations of the net pension liability and related amounts. These amounts were calculated by an actuary and audited by another firm.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was Footnote 9: Pension Plan.

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. There were no misstatements detected as a result of audit procedures that were material, either individually or in the aggregate, to each opinion unit’s financial statements taken as a whole.

#### *Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the

financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated January 4, 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 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 the *Management's Discussion and Analysis*, the *Schedule of the Plan's Proportionate Share of the Net Pension Liability*, the *Schedule of Pension Plan Contributions*, and the *Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual* which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

This information is intended solely for the use of Board of Commissioners and management of the San Bernardino County Local Agency Formation Commission and is not intended to be, and should not be, used by anyone other than these specified parties.

*Davis Fan up*

Irvine, California  
January 4, 2017