LOCAL AGENCY FORMATION COMMISSION
FOR SAN BERNARDINO COUNTY

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DATE: **FEBRUARY 13, 2019**

FROM: **SAMUEL MARTINEZ, Executive Officer**
MICHAEL TUERPE, Project Manager

TO: **LOCAL AGENCY FORMATION COMMISSION**

SUBJECT: **Agenda Item #9: Review and Accept Audit Report for Fiscal Year Ended June 30, 2018**

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 2017-18.

BACKGROUND:

The public accounting firm of Davis Farr LLP has conducted the Commission's annual audit for the period July 1, 2017 through June 30, 2018 (copy enclosed with this staff report). The auditor has independently verified the financial documents prepared by LAFCO staff, outlined its professional responsibilities and findings, and disclosed its compliance with current *Government Auditing Standards*. As outlined in its letter, during the audit process, the auditor did not identify any deficiencies in internal controls.

Meeting with Audit/Budget Committee

On February 7 the LAFCO Administrative Committee (composed of Chair Lovingood, Vice-Chair Curatalo, and Commissioner Cox), LAFCO management, and the auditors discussed the draft audit. 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.

2017-18 Financial Statements Summary

Total cash payments made through June 30, 2018 for the LAFCO office improvement and move total $249,401 over two years, all budgeted activity. However, all transactions have been recorded for FY 2017-18. Additional annual payments of $33,792 are scheduled through June 2022. Due to the renovation, Capital Assets increased in kind to $307,661.

For the past three years, there has been exposure to litigation related to a number of individual items: review of activation of latent powers, declaration statement related to litigation, and subpoena issued to the Commission and staff. These legal charges were not directly related to a proposal; therefore, they were not recoverable.

As for Liabilities, Net Pension Liability continues to increase and the Note Payable for repayment of the office improvement remains until June 2022.

2017-18 Financial Statements Detail

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 following information outlines the major items that comprise Net Position (see page 4 of the financial statements). Additionally, staff has included descriptive information in italics regarding accounting measures that do not affect fund balance.

The financial statements show a Total Net Position of ($94,212) with a negative change of $200,522. At first glance, Total Assets of $797,933 are less than Total Liabilities of $1,018,419. However, recent audit standards take into account three pension-related items that do not affect the fund balance: deferred outflows (similar to an asset), net pension liability (an actual liability), and deferred inflows (similar to a liability). When all pension-related items are taken together, the net decrease for the year is $39,595. Additionally, due to the office improvement, a new liability item is included: Note Payable of $135,174. Nonetheless, the Total Net Position decrease is mainly accounted for by the following breakdown:

- <u>Decrease in Total Assets by $60,114.</u>
    - Total cash payments for the office improvement and move total $249,401 over two years, all budgeted activity. However, all transactions have been recorded for FY 2017-18. This includes the $33,792 annual repayment to the San Bernardino County Transportation Authority (SBCTA) for lease hold improvements that it fronted (discussed below under "Lease Hold Improvements").
        - For 2016-17, the $100,000 deposit for tenant improvements for the renovation of the new LAFCO office was reclassified from an expenditure to a Pre-paid Item (an asset) in the Statement of Net Position and Balance Sheet. This is because the office was not occupied until July 2017 (FY 2017-18). For 2017-18, the amount was classified as an expenditure against fund balance.
        - In addition to the renovation costs, additional costs were processed during this fiscal year, totaling $115,609. Many of these invoices were received in the prior year, but the County ceased payment processing due to the transition to its new financial system affecting the timing of the expenses being included on the books. These costs

include, but are not limited to: fiber optics/electrical work, kitchen mill work, alarm system, window blinds/shutters, moving service, and office furniture.

- We have incurred significant unanticipated legal costs. For the past three years, there has been exposure to litigation related to a number of individual items: review of activation of latent powers, declaration statement related to litigation, and subpoena issued to the staff. These legal charges are not directly related to a proposal; therefore, they are not recoverable. Charges totaled $67,376 for FY 2017-18.

- Due to the renovation, Capital Assets significantly increased to $307,661. Over five years, depreciation will decrease this figure.

- <u>Increase in Deferred Outflow from Pension Plan by $19,536</u> (similar to an asset for this audit year), which is an accounting measure and does not affect fund balance.

  This is defined as pension activities that apply to future periods and so will not be recognized as an expense until later. For this audit year, Deferred Outflows include: employer contributions after the measurement date of June 30, 2017, and changes in actuarial assumptions such as mortality rate, and differences in the projected and actual earnings on investments. More information on this can be found in Note 9 on pages 26 and 27.

- <u>Increase in Total Liabilities by $196,600.</u> This is mainly due to an increase in Net Pension Liability of $95,787 and the addition of $135,174 in Notes Payable remaining for the office improvement. Both of these are accounting measures and do not affect fund balance. Over five years, Notes Payable will annually decrease by $33,792.

  - *<u>Net Pension Liability</u>: 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, 2017 measurement date to be $864,960, an increase of $95,787. This information can be found in Note 9 on pages 26 and 27.*

  - *<u>Lease Hold Improvements</u>: On October 5, 2015 (amended on July 17, 2017), LAFCO entered into a lease agreement with the San Bernardino County Transportation Authority (SBCTA), which included provisions for certain leasehold improvements and a related note payable. The cost of the project was paid for by SBCTA, however $268,967 of the costs would be repaid to SBCTA by the LAFCO. The repayment terms included a $100,000 initial lump sum payment made during Fiscal Year 2016-17, while the remaining balance of $168,967 was secured by a note payable. The note payable bears no interest and is due in quarterly payments of $8,448 until the note is fully repaid in June 2022.*

- Decrease in Inflow from Pension Plan of $36,656 (similar to a liability for this audit year) which is an accounting measure and does not affect cash.

  This is defined as pension activities that apply to future periods and so will not be recognized as revenue until later. For the audit year, Deferred Outflows include the difference between the actual and expected proportion of LAFCO's share of the Total SBCERA Net Pension Liability. More information on this can be found in Note 9 on pages 26 and 27.

Conclusion

The Administrative Committee and LAFCO management staff have discussed the draft audit with the independent auditors. Neither have issues or concerns with the conduct of the audit or letters provided by the auditors. Per Commission policy, an auditor representative will present the audit at this hearing.

All payments made through June 30, 2018 for the office improvement and move have been recorded for FY 2017-18. Additional annual payments are scheduled through June 2022 to repay SBCTA for the lease hold improvements that it fronted. Due to the renovation, Capital Assets increased in kind. For the past three years, there has been exposure to litigation related to a number of individual items. These legal charges are not directly related to a proposal; therefore, they are not recoverable. As for Liabilities, Net Pension Liability continues to increase and the Note Payable for repayment of the office improvement remains until June 2022.

Staff recommends that the Commission receive and file the materials submitted by Davis Farr LLP related to the Commission's audit for Fiscal Year 2017-18. Once accepted the audit will be posted on the LAFCO website under the "Open Government Portal".

Should you have any questions, LAFCO staff would be glad to answer them prior to or at the hearing.

SM/MT

Enclosure

DavisFarr
CERTIFIED PUBLIC ACCOUNTANTS

Davis Farr LLP
2301 Dupont Drive | Suite 200 | Irvine, CA 92612
Main: 949.474.2020 | Fax: 949.263.5520

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, 2018. 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 June 14, 2018. 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 No new accounting policies were adopted, and the application of existing policies was not changed during the year. We noted no transactions entered into by 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 February 13, 2019.

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.

Restriction on Use

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 Farr LLP

Irvine, California
February 13, 2019

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

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*

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 basic financial statements of the Local Agency Formation Commission for San Bernardino County (the Commission), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated February 13, 2019.

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 Commission'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 Commission'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 Commission's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Davis Farr LLP

Irvine, California
February 13, 2019

LOCAL AGENCY FORMATION COMMISSION
FOR SAN BERNARDINO COUNTY

Financial Statements

For the Fiscal Year Ended June 30, 2018

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

Financial Statements

For the Fiscal Year Ended June 30, 2018

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DavisFarr
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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, 2018, 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, 2018, 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 February 13, 2019 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 Commission's internal control over financial reporting and compliance.

Davis Farr LLP

Irvine, California
February 13, 2019

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, 2018. Please read it in conjunction with the financial statements as outlined in the table of contents.

Using the Accompanying Financial Statements

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Reporting the Commission as a Whole – Net Position

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

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

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

TABLE 1
NET POSITION – GOVERNMENTAL ACTIVITIES

	2017-18	2016-17	Difference
Assets:			
Cash and investments	$ 476,181	$ 751,825	$ (275,644)
Accounts receivable	14,091	5,052	9,039
Due from other governments	-	-	-
Prepaid items	-	100,000	(100,000)
Capital assets, net of depreciation	307,661	1,170	306,491
Total Assets	**797,933**	**858,047**	**(60,114)**
Deferred outflow of resources:			
Deferred outflows from pension plan	**469,426**	**449,890**	**19,536**
Liabilities:			
Accounts payable	46,470	60,082	(13,612)
Other accrued liabilities	44,669	44,401	268
Unearned revenues	13,600	41,044	(27,444)
Deposits Payable	-	10,160	(10,160)
Long-term liabilities:			
Compensated absences:			
Due within one year	33,044	28,068	4,976
Due beyond one year	77,102	65,491	11,611
Notes Payable:			
Due within one year	33,793	-	33,793
Due beyond one year	101,381	-	101,381
Net pension liability	864,960	769,173	95,787
Total Liabilities	**1,215,019**	**1,018,419**	**196,600**
Deferred inflow of resources:			
Deferred inflows from pension plan	**146,552**	**183,208**	**(36,656)**
Net Position:			
Invested in capital assets	172,487	1,170	171,317
Unrestricted	(266,699)	105,140	(371,839)
Total Net Position	**$ (94,212)**	**$ 106,310**	**$ (200,522)**

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

TABLE 2
CHANGE IN NET POSITION – GOVERNMENTAL ACTIVITIES

	2017-18	2016-17	Difference
Revenues:			
Charges for services	$ 171,981	$ 194,051	$ (22,070)
Apportionment	1,009,583	926,223	83,360
Interest	6,645	6,032	613
Total Revenues	**1,188,209**	**1,126,306**	**61,903**
Expenses	**1,503,866**	**1,262,792**	**241,074**
Change in Net Position	**(200,522)**	**(136,486)**	**(64,036)**
Net Position Beginning	106,310	242,796	(136,486)
Net Position Ending	**$ (94,212)**	**$ 106,310**	**$ (200,522)**

Explanation of Change in Net Position

The tables presented above show an overall decrease in the receipt of revenues, as well as increase in expenditures mainly due to the office relocation. Some of the more significant reasons for the changes in the revenues and expenses of the Commission's governmental activities are outlined as follows:

- Charges for Service experienced a decrease in revenues due to the prior year having several proposals related to annexations to County Fire, which have higher processing fees.

- For 2016-17, the $100,000 deposit for tenant improvements for the renovation of the new LAFCO office was reclassified from an expenditure to a Pre-paid Item (an asset) in the Statement of Net Position and Balance Sheet. This is because the office was not occupied until July 2017 (FY 2017-18). For 2017-18, the amount was classified as an expenditure against fund balance.

- The staff office moved to the Santa Fe Depot, providing a base for up to 15 years. The single most significant event was the payment of the majority of the costs related to the move being processed during this fiscal year, totaling $115,609. Many of these invoices were received in the prior year, but the County ceased payment processing due to the transition to its new financial system affecting the timing of the expenses being included on the books. Total cash payments for the renovation and move total $225,609 over two years, all budgeted activity. However, all transactions have been recorded for FY 2017-18.

- We have incurred significant unanticipated legal costs. For the past three years, there has been exposure to litigation related to a number of individual items: review of activation of latent powers, declaration statement related to litigation, subpoena issued to the Commission staff, and the

Commission's authorization of the former Executive Officer's contract. These legal charges are not directly related to a proposal; therefore, they are not recoverable. Charges totaled $67,376 for FY 2017-18.

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.

TABLE 3
FUND BALANCE

	2017-18	2016-17	Difference
Nonspendable:			
Prepaid items	$ -	$ 100,000	$ (100,000)
Committed:			
Compensated absences reserve	110,146	87,222	22,924
Net pension liability reserve	148,450	117,097	31,353
Assigned:			
General/Litigation reserve	69,154	241,370	(172,216)
Contingency	57,783	155,501	(97,718)
Unassigned	-	-	-
Total	**$ 385,533**	**$701,190**	**$ (315,657)**

The year-end fund balance decreased by a total of $315,657 in comparison to the prior year. The overall decrease is explained as follows:

- Prepaid Items. For 2016-17, the $100,000 deposit for tenant improvements for the renovation of the new LAFCO office was reclassified from Unassigned to a Pre-Paid item. This is because the office was not occupied until July 2017 (FY 2017-18). For 2017-18, the amount was classified as an expenditure against fund balance.

- Compensated Absences Reserve. The increase of $22,924 is due to the natural balance accruals for five employees.

- Net Pension Liability Reserve. The FY 2017-18 budget increased Net Pension Liability Reserve by $31,353.

- General/Litigation Reserve. The General/Litigation Reserve amount is decreasing by $41,370 due to unrecoverable legal charges incurred during the audit year. In February 2018, the Commission transferred funds from the General/Litigation Reserve to the Legal Counsel Expenditure Account to cover non-recoverable legal charges.

- Contingency. Contingency decreased by $97,718. In April 2018, the Commission decreased the Contingency Reserve to cover the deficit due to the increased legal charges coupled with a lack of proposal receipts. In July 2018 as a part of the year-end financial report, the Commission decreased Contingency to cover the year-end deficit of the same amount.

- Unassigned. Unassigned Fund Balance decreased by $130,846 primarily due to the office renovation.

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

	2017-18	2016-17	Difference
Compensated Absences	$110,146	$ 93,559	$ 16,587
Notes Payable	$135,174	$ -	$ 135,174

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 2017-18 compensated absences increased by $16,587, and notes payable increased by $135,174, calculated as follows:

- Additions of $73,181 comprised of natural balance accruals for five employees.
- Deletions of $56,906 comprised of leave taken during the fiscal year for five employees.
- Additions of $168,967 comprised of the balance owed for the Leasehold Improvements.
- Deletions of $33,793 comprised of payments made against the outstanding balance.

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 1170 W. Third Street, Unit 150, San Bernardino, CA 92415-0490, or 909-388-0480.

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY
Statement of Net Position
June 30, 2018

		Governmental Activities
Assets:		
Cash and investments (note 3)	$	476,181
Accounts receivable		14,091
Capital assets, net (note 4)		307,661
Total assets		797,933
Deferred outflow of resources:		
Deferred outflows from pension plan (note 9)		469,426
Liabilities:		
Accounts payable		46,470
Other accrued liabilities		44,669
Unearned revenues (note 5)		13,600
Long-term liabilities:		
Due within one year (note 6)		66,837
Due beyond one year (note 6)		178,483
Net pension liability (note 9)		864,960
Total liabilities		1,215,019
Deferred inflow of resources:		
Deferred inflows from pension plan (note 9)		146,552
Net position (deficit):		
Net Investment in capital assets		172,487
Unrestricted		(266,699)
Total net position	$	(94,212)

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, 2018

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Governmental Activites
Governmental activities:					
General government	$ 1,388,731	171,981	-	-	(1,216,750)
Total governmental activities	$ 1,388,731	171,981	-	-	(1,216,750)
General revenues:					
Apportionment					1,009,583
Investment income					6,645
Total general revenues					1,016,228
Change in net position					(200,522)
Net position, beginning of year					106,310
Net position, end of year					$ (94,212)

See accompanying notes to the basic financial statements

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY
Governmental Funds
Balance Sheet
June 30, 2018

	General Fund
Assets	
Cash and investments	$ 476,181
Accounts receivable	14,091
Total assets	$ 490,272
Liabilities and Fund Balance	
Liabilities:	
Accounts payable	$ 46,470
Salaries and benefits payable	44,669
Unearned revenues	13,600
Total liabilities	104,739
Fund balance:	
Committed:	
Compensated absences	110,146
Net pension liability reserve	148,450
Assigned:	
General reserve	69,154
Contingency	57,783
Unassigned	-
Total fund balance	385,533
Total liabilities and fund balance	$ 490,272

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, 2018

Fund balances of governmental funds		$ 385,533
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	392,768	
Accumulated depreciation	(85,107)	307,661
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	125,543	
Changes in actuarial assumptions	221,039	
Changes in proportion and differences between employer contributions and the proportionate share of contributions	91,438	
Differences in projected and actual earnings on investments	31,406	469,426
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	(864,960)	
Notes payable	(135,174)	
Compensated absences	(110,146)	(1,110,280)
Pension related deferred inflows of resources, net of accumulated amortization, have not been reported in the governmental funds:		
Differences in expected and actual experience	(92,533)	
Changes in proportion and differences between employer contributions and the proportionate share of contributions	(54,019)	(146,552)
Net position of governmental activities		$ (94,212)

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, 2018

	General Fund
Revenues:	
Apportionment	$ 1,009,583
Charges for services	171,981
Investment income	6,645
Total revenues	1,188,209
Expenditures:	
General government:	
Salaries and employee benefits	755,851
Services and supplies	748,015
Total expenditures	1,503,866
Excess (deficiency) of revenues over (under) expenditures	(315,657)
Fund balances at beginning of year	701,190
Fund balances at end of year	$ 385,533

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, 2018

Net changes in fund balances - total governmental funds		$ (315,657)
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	384,576	
Depreciation expense	(78,085)	306,491
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	(95,787)	
Change in notes payable	(135,174)	
Change in deferred outflows of resources related to pensions	19,536	
Change in deferred inflows of resources related to pensions	36,656	(174,769)
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.		(16,587)
Change in net position of governmental activities		$ (200,522)

See accompanying notes to the basic financial statements

1. Summary of Significant Accounting Policies:

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

a. Reporting Entity:

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

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

The Commission 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.

1. Summary of Significant Accounting Policies (Continued):

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

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

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

      Intergovernmental revenues, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

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

   d. 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 four items that qualify for reporting in this category for the fiscal year ended June 30, 2018, all of which relate to pensions. The first three include pension contributions subsequent the to measurement date, change in assumptions, change in employer’s proportion and differences between the employer’s contributions and employer’s 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. The last is net differences between projected and actual earnings, and is amortized over a closed 5-year period.

1. Summary of Significant Accounting Policies (Continued):

d. 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 two items that qualify for reporting in this category for the fiscal year ended June 30, 2018, all of which relate to pensions. These include differences between expected and actual experience, and changes in employer's proportion and differences between the employer's contributions and the employer's 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. 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 5-year period.

e. 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.

f. 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.

1. Summary of Significant Accounting Policies (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.

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 acquisition 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.

i. Fund Balance:

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

1. Summary of Significant Accounting Policies (Continued):

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.

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.

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date (VD)	June 30, 2016
Measurement Date (MD)	June 30, 2017
Measurement Period (MP)	June 30, 2016 to June 30, 2017

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.

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, 2018, consist of the following:

Petty cash	$ 250
Investment in County of San Bernardino Investment Pool	475,931
Total Cash and Investments	$ 476,181

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, 2018, 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 $476,181. 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.

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).

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, 2018, 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, 2018 was as follows:

	Balance at July 1, 2017	Additions	Deletions	Balance at June 30, 2018
Capital assets:				
Office equipment	$ 8,192	-	-	8,192
Leasehold improvements	-	384,576	-	384,576
Less accumulated depreciation for:				
Office equipment	(7,022)	(1,170)	-	(8,192)
Leasehold improvements	-	(76,915)	-	(76,915)
Total capital assets, net	$ 1,170	306,491	-	307,661

5. Unearned Revenues:

At June 30, 2018, the Commission deferred recognition of $13,982 from fee revenues and deposits that have been received but not yet earned.

6. Long Term Liabilities:

The following is a summary of changes in long-term liabilities for the year ended June 30, 2018:

	Balance at July 1, 2017	Additions	Deletions	Balance at June 30, 2018	Due within one year
Compensated Absences	$ 93,559	73,181	(56,594)	110,146	33,044
Notes Payable	-	168,967	(33,793)	135,174	33,793
Total long term debt	$ 93,559	242,148	(90,387)	245,320	66,837

On October 5, 2015 (amended on July 17, 2017), the LAFCO entered into a lease agreement with the San Bernardino County Transportation Authority (SBCTA), which included provisions for certain leasehold improvements and a related note payable. The cost of the project was paid for by SBCTA, however $268,967 of the costs would be repaid to SBCTA by the LAFCO. The repayment terms included a $100,000 initial lump sum payment made during fiscal year 16/17, while the remaining balance of $168,967 was secured by a note payable. The note payable bears no interest and is due in quarterly payments of $8,448 until the note is fully repaid in June 2022.

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
Property Coverage	$ 1,000,000,000	Per Occurrence
Property - Boiler & Machinery	100,000,000	Per Occurrence
Property - Pollution Coverage	2,000,000	Per Occurrence
Property - Cyber Coverage	Limits on file	Per Occurrence
General Liability - Bodily Injury	2,500,000	Per Occurrence
General Liability - Property Damage	2,500,000	Per Occurrence
General Liability - Public Officials Personal	500,000	Per Occurrence
General Liability - Employment Benefits	2,500,000	Per Occurrence
General Liability - Employee/Public Officials E & O	2,500,000	Per Occurrence
General Liability - Employment Practices Liability	2,500,000	Per Occurrence
General Liability - Employee/Public Officials Dishonesty	1,000,000	Per Occurrence
Auto Liability - Auto Bodily Injury	2,500,000	Per Occurrence
Auto Liability - Auto Property Damage	2,500,000	Per Occurrence
Auto Liability - Uninsured Motorist	Limits on file	Per Occurrence
Employers Liability	5,000,000	Per Occurrence
Worker's Compensation	Statutory	Per Occurrence

The Commission is self-insured for unemployment insurance.

8. Operating Lease:

On October 5, 2015 (amended on July 17, 2017) the LAFCO entered into non-cancelable operating lease agreements for the rental of office space and office equipment, expiring in June 2022 with a tenant option to extend up to 10 years. The lease agreements also provide for annual rental adjustments in the amount of the Consumer Price Index, not to exceed 103%. Total rent expense for the year ended June 30, 2018 amounted to $33,864.

Fiscal Year	Rent Expense *
18/19	$ 33,864
19/20	33,864
20/21	33,864
21/22	33,864
	$ 135,456

* - these amounts do not consider annual CPI adjustments

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.

The Plan's provisions and benefits in effect at June 30, 2018, are summarized as follows:

Hire date	Prior to January 1, 2014	On or After January 1, 2014
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%

9. 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, 2016 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Actuarial Cost Method
Actuarial Assumptions:	
Discount Rate	7.25%
Inflation	3.00%
Payroll Growth	3.75%
Projected Salary Increase	4.50% - 14.50% (1)
Investment Rate of Return	7.25% (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, 2016 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.

9. Pension Plan (Continued):

Discount Rate:

The discount rates used to measure the Total Pension Liability was 7.25% as of the June 30, 2017 measurement date. 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 7.25% were applied to all periods of projected benefit payments to determine the Total Pension Liability as of June 30, 2017.

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.

The June 30, 2018 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	100%	

9. Pension Plan (Continued):

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, 2017, 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, 2016 rolled forward to June 30, 2017 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.

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

Balance at June 30, 2016	$	769,173
Balance at June 30, 2017		864,960
Change - Increase (Decrease)	$	95,787

The Commission's proportionate share of the net pension liability for the Plan as of the June 30, 2016 and 2017 measurement dates was as follows:

Proportion - June 30, 2016	0.033%
Proportion - June 30, 2017	0.034%
Change - Increase (Decrease)	0.001%

For the year ended June 30, 2018, the Commission recognized pension expense of $147,373. At June 30, 2018, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

9. Pension Plan (Continued):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 125,543	-
Differences between actual and expected experience	-	(92,533)
Change in assumptions	221,039	-
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	91,438	(54,019)
Net differences between projected and actual earnings on plan investments	31,406	-
Total	$ 469,426	(146,552)

The deferred outflows of resources related to contributions subsequent to the measurement date of $125,543 will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. 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
2019	$ 58,239
2020	74,352
2021	35,630
2022	(13,511)
2023	34,690
Thereafter	7,931
	$ 197,331

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:

9. Pension Plan (Continued):

1% Decrease		6.25%
Net Pension Liability	$	1,253,449
Current Discount Rate		7.25%
Net Pension Liability	$	864,960
1% Increase		8.25%
Net Pension Liability	$	545,421

Pension Plan Fiduciary Net Position:

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

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 $28,565 to this plan for the fiscal year ended June 30, 2018.

10. Salary Savings Plans:

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.

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 $1,507 to this plan for the fiscal year ended June 30, 2018.

11. Excess Expenditures over Appropriations

For the fiscal year ended June 30, 2018, the Commission’s expenditures exceeded appropriations by $112,705.

12. Commitments & Contingencies

In conducting its activities, the LAFCO, from time to time is the subject of various legal claims. Management is currently unable to determine the ultimate resolution of such legal claims, or the monetary impact on the financial statements.

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*

	Measurement Date			
	6/30/2017	6/30/2016	6/30/2015	6/30/2014
Proportion of the Collective Net Pension Liability	0.033%	0.031%	0.035%	0.034%
Proportionate Share of the Collective Net Pension Liability	$ 864,960	769,173	681,447	584,731
Covered Payroll	$ 369,541	359,294	341,542	289,935
Proportionate Share of the Collective Net Pension Liability as percentage of covered payroll	234.06%	214.08%	199.52%	201.68%
Plan's fiduciary net position	$ 1,943,960	1,639,622	1,736,731	1,505,924
Plan's total pension liability	$ 2,808,921	2,408,795	2,418,178	2,090,655
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.21%	68.07%	71.82%	72.03%

Notes to Schedule:

Benefit Changes:
There were no changes in benefits.

Changes in Assumptions:
For measurement date June 30, 2017 the discount rate was decreased from 7.50% to 7.25%.

* - Fiscal year 2015 was the 1st year of implementation, therefore only four years are shown.

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

Schedule of Plan Contributions

Last Ten Fiscal Years*

	Fiscal Year			
	2017-18	2016-17	2015-16	2014-15
Actuarially Determined Contribution	$ 125,543	132,171	120,963	122,480
Contributions in Relation to the Actuarially Determined Contribution	(125,543)	(132,171)	(120,963)	(122,480)
Contribution Deficiency (Excess)	$ -	-	-	-
Covered Payroll	$ 475,010	369,541	359,294	341,542
Contributions as a Percentage of Covered Payroll	26.43%	35.77%	33.67%	35.86%

Notes to Schedule:

Valuation Date 6/30/2016

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	3.00%
Salary increases	4.50 to 14.50%, including inflation of 3.00%
Investment rate of return	7.25%, 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 four 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, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Apportionment	$ 1,009,583	1,009,583	1,009,583	-
Charges for services	236,832	236,832	171,981	(64,851)
Investment income	8,000	8,000	6,645	(1,355)
Total revenues	1,254,415	1,254,415	1,188,209	(66,206)
Expenditures:				
General government:				
Salaries and benefits	766,331	766,331	755,851	10,480
Service and supplies	554,171	624,830	748,015	(123,185)
Total expenditures	1,320,502	1,391,161	1,503,866	(112,705)
Excess (deficiency) of revenues over (under) expenditures	(66,087)	(136,746)	(315,657)	(178,911)
Net change in fund balances	(66,087)	(136,746)	(315,657)	(178,911)
Fund balances at beginning of year	701,190	701,190	701,190	-
Fund balances at end of year	$ 635,103	564,444	385,533	(178,911)

See notes to required supplementary information

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

Notes to Required Supplementary Information

For the Fiscal Year Ended June 30, 2018

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.

2. Excess Expenditures over Appropriations

   For the fiscal year ended June 30, 2018, the Commission’s expenditures exceeded appropriations by $112,705.