

**LOCAL AGENCY FORMATION COMMISSION  
FOR SAN BERNARDINO COUNTY  
FINANCIAL STATEMENTS  
JUNE 30, 2008**

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LOCAL AGENCY FORMATION COMMISSION  
SAN BERNARDINO COUNTY

FINANCIAL STATEMENTS

JUNE 30, 2008

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CERTIFIED PUBLIC ACCOUNTANTS

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Local Agency Formation Commission for San Bernardino County  
Independent Auditors' Report

We have audited the accompanying financial statements of the governmental activities and major fund of the Local Agency Formation Commission for San Bernardino County (Commission), as of and for the year ended June 30, 2008, which collectively comprise the Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 major fund of the Local Agency Formation Commission for San Bernardino County as of June 30, 2008, and the respective changes in financial position thereof, and the budgetary comparison of the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2009, on our consideration of the Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

January 26, 2009

## 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, 2008. Please read it in conjunction with the financial statements identified in the accompanying table of contents.

### Using the Accompanying Financial Statements

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

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

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

### Reporting the Commission as a Whole

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

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

### Reporting the Commission's Fund Activity

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

The following table provides a summary of the government-wide statement of net assets:

**TABLE 1  
NET ASSETS – GOVERNMENTAL ACTIVITIES**

	2007-08	2006-07	Difference
<b>Assets:</b>			
Cash and cash equivalents	\$ 196,287	50,311	\$145,976
Accounts receivable	11,583	6,481	5,102
Due from other governments	10,393	0	10,393
Capital assets, net of depreciation	3,239	4,873	(1,634)
<b>Total Assets</b>	<b>221,502</b>	<b>61,665</b>	<b>159,837</b>
<b>Liabilities:</b>			
Accounts payable	3,079	20,206	(17,127)
Salaries and benefits payable	48,165	39,394	8,771
Unearned revenue	127,074	160,473	(33,399)
Deposits Payable	59,492	36,146	23,346
Due to County of San Bernardino	0	30,000	(30,000)
Compensated absences:			
Due within one year	23,554	--	23,554
Due in more than one year	54,958	38,508	16,450
<b>Total Liabilities</b>	<b>316,322</b>	<b>324,727</b>	<b>(8,405)</b>
<b>Net Assets:</b>			
Invested in capital assets, net of related debt	3,239	4,873	(1,634)
Unrestricted	(98,059)	(267,935)	169,876
<b>Total Assets</b>	<b>\$ (94,820)</b>	<b>(263,062)</b>	<b>\$168,242</b>

The following table provides a summary of the statement of activities:

**TABLE 2  
CHANGES IN NET ASSETS – GOVERNMENTAL ACTIVITIES**

	<b>2007-08</b>	<b>2006-07</b>	<b>Difference</b>
<b>Revenues</b>			
Charges for Services	\$ 304,790	\$ 310,154	\$ (5,364)
Other Governmental Aid	1,018,825	693,043	325,782
Interest	22,448	17,315	5,133
<b>Total Revenues</b>	<b>1,346,063</b>	<b>1,020,512</b>	<b>325,551</b>
<b>Expenses</b>	<b>1,177,821</b>	<b>1,119,329</b>	<b>58,492</b>
<b>Change in Net Assets</b>	<b>168,242</b>	<b>(98,817)</b>	<b>267,059</b>
Net Assets Beginning	(263,062)	(164,245)	(98,817)
Net Assets Ending	\$ (94,820)	\$ (263,062)	\$ 168,242

The reasons for significant changes in the revenues and expenses of the Commission's governmental activities presented above are as follows:

- A significant portion of Charges for Services revenues received during Fiscal Year 2007-08 (38%) was determined to be unearned, as required per Generally Accepted Accounting Principles (GAAP), and has been identified as unearned revenue in the accompanying financial statements. The basis for this determination is that the Commission has adopted a fee schedule that uses milestones to determine when proposals have earned revenues. For example, if a proposal meets the milestone of being advertised for the Commission's consideration, then 75% of the LAFCO fee related to that proposal is determined to have been earned. Additionally, deposits for services incur costs when direct costs are billed for a service provided. Revenue not earned is then deferred to the next fiscal year. For Fiscal Year 2007-08, the amount of revenue not recognized was \$186,566 (\$127,074 in Unearned Revenue and \$59,492 in Deposits Payable) and will be recognized in Fiscal Year 2008-09. In comparison, the amount of revenue not recognized for Fiscal Year 2006-07 was \$196,619 (\$160,473 in Unearned Revenue and \$36,146 in Deposits Payable).
- Revenue related to proposal activity, Charges for Services, is \$304,790 (\$5,364 less than prior year).
- Comparing fiscal years, Fiscal Year 2006-07 had staffing expenses for five paid positions and a contracted position which provided clerical and processing assistance for nine months during that year. In Fiscal Year 2007-08, a new, full-time position was created as the second Deputy Clerk to the Commission, for a total of six paid positions. Fiscal Year 2008-09 maintains staffing of six paid positions.
- The Salaries and Benefits series of accounts also incurred increased expenditures as compared to Fiscal Year 2006-07 due to the financial obligation related to the retirement of the Clerk to the Commission totaling \$18,540; and changes in exempt benefits, approved by the County, which affected LAFCO employees after the budget was adopted. However, overall the total expenditure within the Salary and Benefit series was 2.4% under budget target.

- The Services and Supplies series of accounts ended the year 4.0% under budget. However, there were activities that incurred expenditures above budget targets within this series to accommodate the following activities:
  - Processing of the County Fire Reorganization, the largest and most complex proposal in San Bernardino LAFCO history. The processing of this application affected expenditure items sensitive to activity levels for this Fiscal Year in the amount of \$48,337. Of this amount, \$28,758 was reimbursed by the applicant according to the Commission's existing policies. Two expenditure items specifically affected by this proposal were legal advertisement and postage.
    - For the fiscal year, legal advertisement exceeded its budgeted amount by \$19,294. Of this amount, \$17,700 is attributable to the notice of availability, LAFCO Commission hearing, and protest hearing for the County Fire Reorganization.
    - Postage for the LAFCO hearings and completion documents along with regular activities is attributed to the postage expenditure exceeding the budgeted amount by \$10,592.
  - The Commission approved a contract with the former Clerk to the Commission, totaling \$5,000, to assist in the training of the new Clerk to the Commission and to archive files.
- The Commission incurred costs for Legal Counsel due to litigation related to the proposed consolidation of the San Bernardino Valley Municipal Water District and the San Bernardino Valley Water Conservation District totaling \$40,223, all of which was reimbursed by the San Bernardino Valley Municipal Water District as required by Commission policy.

At year's end, Total Expenditures (Salaries and Benefits and Services and Supplies) was 2.9% under budget target.

CAPITAL ASSETS  
(net of depreciation)

	<b>2007-08</b>	<b>2006-07</b>	<b>Difference</b>
<b>Equipment and Furniture</b>	\$3,239	\$4,873	(\$1,634)

LONG-TERM LIABILITIES

	<b>2007-08</b>	<b>2006-07</b>	<b>Difference</b>
<b>Compensated Absences</b>	\$78,512	\$38,508	\$40,004

Compensated absences include 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 2007-08 compensated absences increased by \$40,004, calculated as follows:

- Additions in the amount of \$82,020 comprised of:
  - Natural balance accrual for five employees
  - One employee becoming eligible (five years of service) for sick leave cash-out;
  - The transfer in of existing leave balances for the newly hired Clerk to the Commission, a former County employee;
  - The hiring of an additional employee;
  
- Deletions in the amount of \$42,016 comprised of:
  - Leave taken during the fiscal year; and
  - Financial obligation related to the retirement of the former Clerk to the Commission.

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

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

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

STATEMENT OF NET ASSETS  
 JUNE 30, 2008

	<u>Governmental Activities</u>
<b>Assets:</b>	
Cash and cash equivalents	\$ 196,287
Accounts receivable	11,583
Due from other governments	10,393
Capital assets, net of depreciation	<u>3,239</u>
<b>Total Assets</b>	<b><u>221,502</u></b>
<b>Liabilities:</b>	
Accounts payable	3,079
Salaries and benefits payable	48,165
Unearned revenue	127,074
Deposits payable	59,492
Compensated absences:	
Due within one year	23,554
Due in more than one year	<u>54,958</u>
<b>Total Liabilities</b>	<b><u>316,322</u></b>
<b>Net Assets:</b>	
Invested in capital assets, net of related debt	3,239
Unrestricted	<u>(98,059)</u>
<b>Total Net Assets</b>	<b><u>\$ (94,820)</u></b>

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

STATEMENT OF ACTIVITIES  
 YEAR ENDED JUNE 30, 2008

	Program Revenues				Net (Expenses) Revenues and Changes in Net Assets
	Expenses	Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants	Primary Government
					Governmental Activities
<b>Functions/Programs</b>					
<b>Primary Government:</b>					
Governmental Activities:					
General government	\$ 1,177,821	\$ 304,790	\$ 1,018,825	\$ -	\$ 145,794
<b>Total Governmental Activities</b>	<b>1,177,821</b>	<b>304,790</b>	<b>1,018,825</b>	<b>-</b>	<b>145,794</b>
<b>General Revenues:</b>					
Use of money and property					22,448
<b>Total General Revenues, Contributions,     Special Items and Transfers</b>					<b>22,448</b>
Change in Net Assets					168,242
Net Assets at Beginning of Year					(263,062)
<b>Net Assets at End of Year</b>					<b>\$ (94,820)</b>

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2008**

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	<b>General Fund</b>
<b>Assets:</b>	
Cash and cash equivalents	\$ 196,287
Receivables:	
Accounts	11,583
Due from other governments	<u>10,393</u>
<b>Total Assets</b>	<b><u>\$ 218,263</u></b>
<b>Liabilities and Fund Balances:</b>	
<b>Liabilities:</b>	
Accounts payable	\$ 3,079
Salaries and benefits payable	48,165
Deferred revenues	11,583
Unearned revenues	127,074
Deposits payable	<u>59,492</u>
<b>Total Liabilities</b>	<b><u>249,393</u></b>
<b>Fund Balances:</b>	
Undesignated	<u>(31,130)</u>
<b>Total Fund Balances</b>	<b><u>(31,130)</u></b>
<b>Total Liabilities and Fund Balances</b>	<b><u>\$ 218,263</u></b>

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

GOVERNMENTAL FUNDS  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2008

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Fund balances of governmental funds	\$ (31,130)
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets net of depreciation have not been included as financial resources in governmental fund activity	3,239
Compensated absences have not been included in the governmental fund activity	(78,512)
Revenues reported as deferred revenue in the governmental funds and recognized in the Statement of Activities. These are included in the intergovernmental revenues in the governmental fund activity.	<u>11,583</u>
<b>Net assets of governmental activities</b>	<b><u><u>\$ (94,820)</u></u></b>

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2008

	<b>General Fund</b>
<b>Revenues:</b>	
Intergovernmental	\$ 1,018,825
Charges for services	299,688
Use of money and property	22,448
	<hr/>
<b>Total Revenues</b>	<b>1,340,961</b>
	<hr/>
<b>Expenditures:</b>	
Current:	
General government	1,136,183
	<hr/>
<b>Total Expenditures</b>	<b>1,136,183</b>
	<hr/>
Excess (Deficiency) of Revenues Over (Under) Expenditures	204,778
	<hr/>
Net Change in Fund Balances	204,778
	<hr/>
Fund Balances, Beginning of Year	(235,908)
	<hr/>
<b>Fund Balances, End of Year</b>	<b>\$ (31,130)</b>
	<hr/> <hr/>

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
JUNE 30, 2008

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Net change in fund balances - total governmental funds \$ 204,778

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period (1,634)

Compensated absences expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds (40,004)

Revenues reported as deferred revenue in the governmental funds and recognized in the Statement of Activities. These are included in the intergovernmental revenues in the governmental fund activity. 5,102

**Change in net assets of governmental activities** \$ 168,242

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

**BUDGETARY COMPARISON STATEMENT  
GENERAL FUND  
YEAR ENDED JUNE 30, 2008**

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Budgetary Fund Balance, July 1	\$ (235,908)	\$ (235,908)	\$ (235,908)	\$ -
<b>Resources (Inflows):</b>				
Intergovernmental	984,645	984,645	1,018,825	34,180
Charges for services	258,008	258,008	299,688	41,680
Use of money and property	5,000	5,000	22,448	17,448
<b>Amounts Available for Appropriation</b>	<b>1,011,745</b>	<b>1,011,745</b>	<b>1,105,053</b>	<b>93,308</b>
<b>Charges to Appropriation (Outflow):</b>				
General government				
Salaries and benefits	765,685	755,685	737,866	17,819
Services and supplies	404,770	414,770	398,317	16,453
Contingency and reserves	77,198	77,198	-	77,198
<b>Total Charges to Appropriations</b>	<b>1,247,653</b>	<b>1,247,653</b>	<b>1,136,183</b>	<b>111,470</b>
<b>Budgetary Fund Balance, June 30</b>	<b>\$ (235,908)</b>	<b>\$ (235,908)</b>	<b>\$ (31,130)</b>	<b>\$ 204,778</b>

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

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2008**

**Note 1: Summary of Significant Accounting Policies**

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

**a. Description of the Reporting Entity**

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

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

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

**b. Government-wide and Fund Financial Statements**

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

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

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

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

**Note 1: Summary of Significant Accounting Policies (Continued)**

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

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

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

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

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

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

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

**d. Cash and Cash Equivalents**

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

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

**Local Agency Formation Commission for San Bernardino County  
Notes to Financial Statements (Continued)  
June 30, 2008**

**Note 1: Summary of Significant Accounting Policies (Continued)**

**e. Capital Assets**

Capital assets are reported as governmental activities in the government-wide financial statements. Capital assets are defined by the Commission as assets with an initial, individual cost of more than \$5,000 and have an estimated useful life in excess of one (1) year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Equipment of the Commission is depreciated using the straight-line method over a 5 to 7 year estimated useful life.

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

**f. Employee Compensated Absences**

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

**Note 2: Stewardship, Compliance and Accountability**

**General Budget Policies**

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

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

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

**Note 3: Cash and Cash Equivalents**

Cash and cash equivalents as of June 30, 2008, consist of the following:

Petty Cash	\$ 250
Demand Deposits	196,037
	<hr/>
Total Cash and Cash Equivalents	\$ 196,287
	<hr/> <hr/>

**Local Agency Formation Commission for San Bernardino County**  
**Notes to Financial Statements (Continued)**  
**June 30, 2008**

**Note 3: Cash and Cash Equivalents (Continued)**

Investments Authorized by the Commission's Investment Policy

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

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

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of the fair value to changes in market interest rates.

As of June 30, 2008, the Commission had all its cash and investments pooled with the County of San Bernardino Treasurer and therefore was not exposed to any interest rate risk as described above.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The money pooled with the County of San Bernardino is not subject to a credit rating.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Commission's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure Authority deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as the money invested by the Commission in the County of San Bernardino Investment Pool).

**Local Agency Formation Commission for San Bernardino County**  
**Notes to Financial Statements (Continued)**  
**June 30, 2008**

**Note 4: Capital Assets**

<b>Government Activities</b>	<u>Balance at July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2008</u>
Capital assets being depreciated:				
Equipment	\$ 20,593	\$ -	\$ 9,153	\$ 11,440
Less accumulated depreciation for:				
Equipment	15,720	1,634	9,153	8,201
Total net capital assets	<u>\$ 4,873</u>	<u>\$ (1,634)</u>	<u>\$ -</u>	<u>\$ 3,239</u>

**Note 5: Unearned Revenue**

At June 30, 2008, the Commission deferred recognition of \$127,074 from service fees and other revenue that had been received but not yet earned.

**Note 6: Compensated Absences**

Changes in compensated absences at June 30, 2008, follows:

	<u>Balance at July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2008</u>
Compensated Absences	<u>\$ 38,508</u>	<u>\$ 82,020</u>	<u>\$ (42,016)</u>	<u>\$ 78,512</u>

**Note 7: Operating Lease**

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

<u>Fiscal Year</u>	<u>Amount</u>
2009	\$ 4,196
2010	4,322
2011	4,452
2012	4,585
2013	4,722

**Local Agency Formation Commission for San Bernardino County**  
**Notes to Financial Statements (Continued)**  
**June 30, 2008**

**Note 8: Insurance**

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

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

The Commission is self-insured for unemployment insurance.

**Note 9: Retirement Plan**

Plan Description

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

**Local Agency Formation Commission for San Bernardino County**  
**Notes to Financial Statements (Continued)**  
**June 30, 2008**

**Note 9: Retirement Plan (Continued)**

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

Funding Policy

Participating members are required by statute (Sections 31621, 31621.2, and 31639.25 of the California Government Code) to contribute a percentage of covered salary based on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% to 13.46% of their annual covered salary, of which the Commission pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll, and all non-County special district employers are required to contribute 20.25% of current year covered payroll. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

Contributions

For fiscal year 2007-2008, the Commission's annual pension cost of \$129,594 for SBCERA was equal to the Commission's required and actual contributions. The required contribution was determined as part of the June 30, 2007, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8.00% investment rate of return (net of administrative expenses), (b) projected annual salary increase that vary by duration of service and (c) cost-of-living adjustments are contingent upon CPI increases with a 2% maximum. Both (a) and (b) included an inflation component of 3.75%.

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

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

**Local Agency Formation Commission for San Bernardino County**  
**Notes to Financial Statements (Continued)**  
**June 30, 2008**

**Note 9: Retirement Plan (Continued)**

<u>Three-year Trend Information</u>			
<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2006	\$ 96,211	100%	\$ -
June 30, 2007	110,744	100%	-
June 30, 2008	129,594	100%	-

**Note 10: Subsequent Event - Financial Concerns Relating to the California Economy**

As indicated in the State of California's 2008-2009 Proposed Budget Summary – Economic Outlook:

“The California and national economies faced considerable headwinds -a deepening housing slump, a breakdown in mortgage markets, tighter credit, more volatile financial markets, and rising energy prices. Upward resets of subprime mortgage rates made payments unaffordable for many borrowers and helped push mortgage defaults and foreclosures to record levels. Several large financial institutions reported huge losses on subprime mortgages and securities backed by these mortgages. Uncertainty about how far the problems with these mortgages would spread increased financial market volatility and prompted lenders to tighten credit standards. The Federal Reserve injected liquidity into the financial markets and eased monetary policy on a number of occasions in the second half of the year, but as year-end neared, financial markets were still not functioning normally.”

While the values shown in the attached financial statements reflect those present at June 30, 2008, substantial changes have occurred in the economy in which the Commission operates. Therefore, the projection of the financial data for the Commission into future periods must recognize these factors and consider the effect of these on its operations and costs.