



**LOCAL AGENCY FORMATION COMMISSION  
FOR SAN BERNARDINO COUNTY  
FINANCIAL STATEMENTS  
JUNE 30, 2009**

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LOCAL AGENCY FORMATION COMMISSION  
FOR SAN BERNARDINO COUNTY  
FINANCIAL STATEMENTS  
JUNE 30, 2009

LOCAL AGENCY FORMATION COMMISSION  
SAN BERNARDINO COUNTY

FINANCIAL STATEMENTS

JUNE 30, 2009

TABLE OF CONTENTS

	<u>Page Number</u>
Independent Auditors' Report .....	1
Management's Discussion and Analysis (unaudited) .....	2
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets.....	6
Statement of Activities.....	7
Fund Financial Statements:	
Balance Sheet – Governmental Funds .....	8
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets.....	9
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	10
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	11
General Fund Budgetary Comparison Statement.....	12
Notes to Financial Statements .....	13



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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, 2009, 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, 2009, 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 11, 2010, 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 11, 2010

## 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, 2009. 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**

	<b>2008-09</b>	<b>2007-08</b>	<b>Difference</b>
<b>Assets:</b>			
Cash and cash equivalents	\$ 244,835	\$ 196,287	\$ 48,548
Accounts receivable	1,574	11,583	(10,009)
Due from other governments	14,088	10,393	3,695
Capital assets, net of depreciation	0	3,239	(3,239)
<b>Total Assets</b>	<b>260,497</b>	<b>221,502</b>	<b>38,995</b>
<b>Liabilities:</b>			
Accounts payable	19,186	3,079	16,107
Salaries and benefits payable	58,565	48,165	10,400
Unearned revenue	33,909	127,074	(93,165)
Deposits Payable	41,191	59,492	(18,301)
Compensated absences:			
Due within one year	32,489	23,554	8,935
Due in more than one year	69,819	54,958	14,861
<b>Total Liabilities</b>	<b>255,159</b>	<b>316,322</b>	<b>(61,163)</b>
<b>Net Assets:</b>			
Invested in capital assets, net of related debt	0	3,239	(3,239)
Unrestricted	5,338	(98,059)	103,397
<b>Total Net Assets</b>	<b>\$ 5,338</b>	<b>\$ (94,820)</b>	<b>\$ 100,158</b>

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

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

	<b>2008-09</b>	<b>2007-08</b>	<b>Difference</b>
<b>Revenues</b>			
Charges for Services	\$ 253,366	\$ 304,790	\$ (51,424)
Other Governmental Aid	1,050,744	1,018,825	31,919
Interest	21,405	22,448	(1,043)
<b>Total Revenues</b>	<b>1,325,515</b>	<b>1,346,063</b>	<b>(20,548)</b>
<b>Expenses</b>	<b>1,225,357</b>	<b>1,177,821</b>	<b>47,536</b>
<b>Change in Net Assets</b>	<b>100,158</b>	<b>168,242</b>	<b>(68,084)</b>
Net Assets Beginning	(94,820)	(263,062)	168,242
Net Assets Ending	<b>\$ 5,338</b>	<b>\$ (94,820)</b>	<b>\$ 100,158</b>

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

- A portion of Charges for Services revenues received during Fiscal Year 2008-09 (13%) 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 2008-09, the amount of revenue not recognized was \$75,100 (\$33,909 in Unearned Revenue and \$41,191 in Deposits Payable) and will be recognized in Fiscal Year 2009-10. In comparison, the amount of revenue not recognized for Fiscal Year 2007-08 was \$186,566 (\$127,074 in Unearned Revenue and \$59,492 in Deposits Payable).
- Revenue related to proposal activity, Charges for Services, is \$253,366 (\$51,424 less than prior year). The budget for the Fiscal Year ended June 30, 2009, anticipated receipts of \$360,670 recognizing additional revenues for increased litigation cost recovery and the deposits toward completion of the fiscal impact analysis for LAFCO 3076. Exclusion of these receipts shows a reduction in Charges for Service overall of approximately \$97,000 for the year. This reduction is directly related to the economic downturn for the region and its impact on applications received for processing.
- The Salary and Benefits series of accounts was 5.1% under budget. However, \$36,198 in anticipated expenditures has been carried into FY 2009-10 due to the payment of the final pay period on July 1, 2009.
- The Services and Supplies series of accounts:
  - Was \$26,351 greater than the previous year. Activities related to the proposed consolidation of the San Bernardino Valley Municipal Water District and the San Bernardino Valley Water Conservation District (LAFCO 3076) which contributed to the increased expenditures as follows:
    - In FY 2008-09, \$22,644 was incurred for an unbudgeted activity - the independent financial analysis for LAFCO 3076 (\$25,000 contracted cost). The cost was covered by deposits from the San Bernardino Valley Municipal Water District and San Bernardino Valley Water Conservation District.
    - The Commission incurred costs for Legal Counsel due to litigation related to LAFCO 3076 totaling \$73,625 (\$33,402 greater than previous year), all of which was reimbursed by the San Bernardino Valley Municipal Water District as required by Commission policy.
  - Ended the year 11.6% under budget. However, activities budgeted for FY 2008-09 that will occur in FY 2009-10 are:
    - Roughly \$24,000 in costs associated with proposal and service review processing.
    - The remainder of the contracted cost for the Independent Financial Analysis for LAFCO 3076 totaling \$2,356.
- At year's end, Total Expenditures were \$47,536 greater than the previous year. However the expenditures in the Salaries and Benefits and Services and Supplies categories were, in total, 7.5% under budget.

CAPITAL ASSETS  
(net of depreciation)

	2008-09	2007-08	Difference
<b>Equipment and Furniture</b>	\$0	\$3,239	(\$3,239)

All capital assets have been fully depreciated as of the end of the Fiscal Year.

LONG-TERM LIABILITIES

	2008-09	2007-08	Difference
<b>Compensated Absences</b>	\$102,308	\$78,512	\$23,796

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 2008-09 compensated absences increased by \$23,796, calculated as follows:

- Additions in the amount of \$49,004 comprised of natural balance accruals for six employees.
- Deletions in the amount of \$25,208 comprised of leave taken during the fiscal year.

***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, 2009

	<b>Governmental Activities</b>
<b>Assets:</b>	
Cash and cash equivalents	\$ 244,835
Accounts receivable	1,574
Due from other governments	14,088
	<hr/>
<b>Total Assets</b>	<b>260,497</b>
	<hr/>
<b>Liabilities:</b>	
Accounts payable	19,186
Salaries and benefits payable	58,565
Unearned revenue	33,909
Deposits payable	41,191
Compensated absences:	
Due within one year	32,489
Due in more than one year	69,819
	<hr/>
<b>Total Liabilities</b>	<b>255,159</b>
	<hr/>
<b>Net Assets:</b>	
Unrestricted	5,338
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<b>Total Net Assets</b>	<b>\$ 5,338</b>
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LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2009

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expenses) Revenues and Changes in Net Assets</u>	
		<u>Charges for Services</u>	<u>Operating Contributions and Grants</u>		<u>Capital Contributions and Grants</u>
				<u>Primary Governmental Activities</u>	
<b>Functions/Programs</b>					
<b>Primary Government:</b>					
Governmental Activities:					
General government	\$ 1,225,357	\$ 253,366	\$ 1,050,744	\$ -	\$ 78,753
<b>Total Governmental Activities</b>	<b>1,225,357</b>	<b>253,366</b>	<b>1,050,744</b>	<b>-</b>	<b>78,753</b>
<b>General Revenues:</b>					
Use of money and property					21,405
<b>Total General Revenues</b>					<b>21,405</b>
Change in Net Assets					100,158
Net Assets at Beginning of Year					(94,820)
<b>Net Assets at End of Year</b>					<b>\$ 5,338</b>

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2009**

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	<u>General Fund</u>
<b>Assets:</b>	
Cash and cash equivalents	\$ 244,835
Receivables:	
Accounts	1,574
Due from other governments	<u>14,088</u>
<b>Total Assets</b>	<b><u>\$ 260,497</u></b>
<b>Liabilities and Fund Balances:</b>	
<b>Liabilities:</b>	
Accounts payable	\$ 19,186
Salaries and benefits payable	58,565
Deferred revenues	1,574
Unearned revenues	33,909
Deposits payable	<u>41,191</u>
<b>Total Liabilities</b>	<b><u>154,425</u></b>
<b>Fund Balances:</b>	
Undesignated	<u>106,072</u>
<b>Total Fund Balances</b>	<b><u>106,072</u></b>
<b>Total Liabilities and Fund Balances</b>	<b><u>\$ 260,497</u></b>

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

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2009**

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Fund balances of governmental funds	\$ 106,072
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Compensated absences have not been included in the governmental fund activity.	(102,308)
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>1,574</u>
<b>Net assets of governmental activities</b>	<b><u><u>\$ 5,338</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, 2009

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	<u>General Fund</u>
<b>Revenues:</b>	
Intergovernmental	\$ 1,050,744
Charges for services	263,375
Use of money and property	<u>21,405</u>
<b>Total Revenues</b>	<b><u>1,335,524</u></b>
<b>Expenditures:</b>	
Current:	
General government	<u>1,198,322</u>
<b>Total Expenditures</b>	<b><u>1,198,322</u></b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>137,202</u>
Net Change in Fund Balances	<u>137,202</u>
Fund Balances, Beginning of Year	<u>(31,130)</u>
<b>Fund Balances, End of Year</b>	<b><u><u>\$ 106,072</u></u></b>

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, 2009

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Net change in fund balances - total governmental funds	\$ 137,202
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.	(3,239)
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.	(23,796)
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>(10,009)</u>
<b>Change in net assets of governmental activities</b>	<b><u>\$ 100,158</u></b>

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

**BUDGETARY COMPARISON STATEMENT  
GENERAL FUND  
YEAR ENDED JUNE 30, 2009**

	<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	\$ (31,130)	\$ (31,130)	\$ (31,130)	\$ -
<b>Resources (Inflows):</b>				
Intergovernmental	1,050,000	1,050,000	1,050,744	744
Charges for services	265,670	360,670	263,375	(97,295)
Use of money and property	12,250	12,250	21,405	9,155
<b>Amounts Available for Appropriation</b>	<b><u>1,296,790</u></b>	<b><u>1,391,790</u></b>	<b><u>1,304,394</u></b>	<b><u>(87,396)</u></b>
<b>Charges to Appropriation (Outflow):</b>				
General government				
Salaries and benefits	800,641	815,641	773,654	41,987
Services and supplies	375,540	480,540	424,668	55,872
Contingency and reserves	151,739	126,739	-	126,739
<b>Total Charges to Appropriations</b>	<b><u>1,327,920</u></b>	<b><u>1,422,920</u></b>	<b><u>1,198,322</u></b>	<b><u>224,598</u></b>
<b>Budgetary Fund Balance, June 30</b>	<b><u>\$ (31,130)</u></b>	<b><u>\$ (31,130)</u></b>	<b><u>\$ 106,072</u></b>	<b><u>\$ 137,202</u></b>

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

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2009**

**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, 2009**

**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, 2009, consist of the following:

Petty Cash	\$ 250
Demand Deposits	244,585
	<hr/>
Total Cash and Cash Equivalents	<u>\$ 244,835</u>

**Local Agency Formation Commission for San Bernardino County**  
**Notes to Financial Statements (Continued)**  
**June 30, 2009**

**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, 2009, 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, 2009**

**Note 4: Capital Assets**

<b>Government Activities</b>	<u>Balance at July 1, 2008</u>	<u>Adjustments*</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2009</u>
Capital assets being depreciated:					
Equipment	\$ 11,440	9,153	\$ -	\$ -	\$ 20,593
Less accumulated depreciation for:					
Equipment	<u>8,201</u>	<u>9,153</u>	<u>3,239</u>	<u>-</u>	<u>20,593</u>
Total net capital assets	<u>\$ 3,239</u>	<u>-</u>	<u>\$ (3,239)</u>	<u>\$ -</u>	<u>\$ -</u>

\*Adjustments were made to correct the value of assets purchased in prior years.

**Note 5: Unearned Revenue**

At June 30, 2009, the Commission deferred recognition of \$33,909 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, 2009, follows:

	<u>Balance at July 1, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2009</u>	<u>Due Within One Year</u>
Compensated absences	<u>\$ 78,512</u>	<u>\$ 49,004</u>	<u>\$ (25,208)</u>	<u>\$ 102,308</u>	<u>\$ 32,489</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>
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, 2009**

**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, 2009**

**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 19.97% 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 2008-2009, the Commission's annual pension cost of \$115,198 for SBCERA was equal to the Commission's required and actual contributions. The required contribution was determined as part of the June 30, 2008, 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, 2009**

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

Three-year Trend Information

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2007	\$ 110,744	100%	\$ -
June 30, 2008	129,594	100%	-
June 30, 2009	115,197	100%	-