LOCAL AGENCY FORMATION COMMISSION
FOR SAN BERNARDINO COUNTY

FINANCIAL STATEMENTS

WITH REPORT ON AUDIT
BY INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

FOR THE YEAR ENDED JUNE 30, 2012

LOCAL AGENCY FORMATION COMMISSION FOR THE COUNTY OF SAN BERNARDINO

TABLE OF CONTENTS

For the year ended June 30, 2012

WHITE NELSON DIEHL EVANS LLP
Certified Public Accountants & Consultants

INDEPENDENT AUDITORS' REPORT

To the Members of the Commission
Local Agency Formation Commission
for San Bernardino County
San Bernardino, California

We have audited the accompanying financial statements of the governmental activities and General Fund of the Local Agency Formation Commission for San Bernardino County (the Commission) as of and for the year ended June 30, 2012, 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 an opinion 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 General Fund of the Commission, as of June 30, 2012 and the respective changes in financial position, thereof, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

2875 Michelle Drive, Suite 300, Irvine, CA 92606 • Tel: 714.978.1300 • Fax: 714.978.7893

Offices located in Orange and San Diego Counties

In accordance with Government Auditing Standards, we have also issued our report dated January 7, 2013 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the 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 management's discussion and analysis 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 management's discussion and analysis because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

White Nelson Diehl Evans LLP

Irvine, California
January 7, 2013

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, 2012. 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 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 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

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.

See independent auditors' report.

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

TABLE 1
NET ASETS – GOVERNMENTAL ACTIVITIES

	2011-12	2010-11	Difference
Assets:			
Cash and investments	$ 481,982	$ 305,056	$ 176,926
Capital assets, net of depreciation	7,022	8,192	(1,170)
Accounts receivable	5,596	0	5,596
Total Assets	**494,600**	**313,248**	**181,352**
Liabilities:			
Accounts payable	24,982	5,915	19,067
Salaries and benefits payable	12,528	23,674	(11,146)
Unearned revenues	10,425	15,642	(5,217)
Deposits payable	-	16,647	(16,647)
Compensated absences	70,604	57,675	12,929
Total Liabilities	**118,539**	**119,553**	**(1,014)**
Net Assets:			
Invested in capital assets	7,022	8,192	(1,170)
Unrestricted	369,039	185,503	183,536
Total Net Assets	**$ 376,061**	**$ 193,695**	**$ 182,366**

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

TABLE 2
CHANGE IN NET ASETS – GOVERNMENTAL ACTIVITIES

	2011-12	2010-11	Difference
Revenues			
Charges for services	$ 58,930	$ 92,509	$ (33,579)
Operating contributions	933,639	1,033,911	(100,272)
Use of money and property	3,992	6,569	(2,577)
Total Revenues	**996,561**	**1,132,989**	**(136,428)**
Expenses	**814,195**	**976,769**	**(162,574)**
Change in Net Assets	**182,366**	**156,220**	**26,146**
Net Assets Beginning	193,695	37,475	156,220
Net Assets Ending	**$ 376,061**	**$ 193,695**	**$182,366**

See independent auditors' report.

The tables presented above show an overall reduction in the receipt of revenues, as well as reductions in expenditures for both personnel and operations. Some of the more significant reasons for the changes in the revenues and expenses of the Commission's governmental activities are outlined as follows:

- Table 1 -- The return of the Executive Officer as a contract employee for the entire fiscal year reduced overall salaries and benefits.

- Table 2 -- Revenues related to proposal activity were significantly reduced ($33,579 less than prior year or 36%) due to the economic climate within the region which translates into a corresponding reduction in proposal activity.

- Table 2 -- Apportionment contributions decreased by $100,272 during the period due to the Commission's determination to reduce overall costs.

- Table 2 -- Overall, total expenditures decreased by $162,574 over the prior year. Therefore, Net Assets Ending continues to show movement in a positive direction.

The following table provides a summary of the Long Term Liabilities for the past two fiscal years:

TABLE 3
LONG-TERM LIABILITIES

	2011-12	**2010-11**	**Difference**
Compensated Absences	$ 70,604	$ 57,675	$ 12,929

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 2011-12 compensated absences increased by $12,929, calculated as follows:

- Additions of $51,327 comprised of natural balance accruals for four employees and one employee becoming vested for accumulated sick leave.

- Additions of $6,182 due to Administrative Leave now being counted as a liability.

- Deletions of $44,580 comprised of leave taken during the fiscal year for four employees.

The total for Reserves and Contingencies increased from $159,305 in FY 2010-11 to $339,510. Contingencies and General Reserve each increased from the prior year. Also, the Commission established two additional reserve categories to accommodate future costs related to the Countywide Cost Allocation Plan (COWCAP) and compensated absences.

See independent auditors' report.

TABLE 4
CONTINGENCIES AND RESERVES

	2011-12	2010-11
Contingencies	$ 41,507	$ 35,197
General Reserve	180,000	124,108
COWCAP Reserve	56,000	--
Compensated Absences Reserve	62,003	--
Total	**$ 339,510**	**$ 159,305**

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, 2012

	Governmental Activities
ASSETS:	
Cash and investments	$ 481,982
Accounts receivable	5,596
Capital assets, net of accumulated depreciation	7,022
TOTAL ASSETS	494,600
LIABILITIES:	
Accounts payable	24,982
Other accrued liabilities	12,528
Unearned revenues	10,425
Compensated absences:	
Due within one year	21,181
Due in more than one year	49,423
TOTAL LIABILITIES	118,539
NET ASSETS:	
Invested in capital assets	7,022
Unrestricted	369,039
TOTAL NET ASSETS	$ 376,061

See independent auditors' report and notes to basic financial statements.

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

STATEMENT OF ACTIVITIES

For the year ended June 30, 2012

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets Primary Government
Functions/programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:					
General government	$ 814,195	$ 58,930	$ 933,639	$ -	$ 178,374
Total governmental activities	$ 814,195	$ 58,930	$ 933,639	$ -	178,374
General revenues:					
Use of money and property					3,992
Change in net assets					182,366
Net assets - Beginning of Year					193,695
Net assets - End of Year					$ 376,061

See independent auditors' report and notes to basic financial statements.

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

BALANCE SHEET
GOVERNMENTAL FUND

June 30, 2012

	General Fund
ASSETS	
Cash and investments	$ 481,982
Accounts receivable	5,596
TOTAL ASSETS	$ 487,578
LIABILITIES AND FUND BALANCE	
LIABILITIES:	
Accounts payable	$ 24,982
Salaries and benefits payable	12,528
Deferred revenue	5,596
Unearned revenues	10,425
TOTAL LIABILITIES	53,531
FUND BALANCE:	
Committed:	
COWCAP reserve	56,000
Compensated absences reserve	62,003
Assigned:	
Contingency	41,507
General reserve	180,000
Unassigned	94,537
TOTAL FUND BALANCE	434,047
TOTAL LIABILITIES AND FUND BALANCE	$ 487,578

See independent auditors' report and notes to basic financial statements.

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

June 30, 2012

Fund balance for the governmental fund		$ 434,047
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets and accumulated depreciation, have not been included as financial resources in governmental fund activity:		
Capital assets	$ 8,192	
Accumulated depreciation	(1,170)	
		7,022
Compensated absences that have not been included in the governmental fund activity:		
Compensated absences		(70,604)
Revenues reported as deferred revenue in the governmental fund and recognized in the Statement of Activities. These revenues will be included in the intergovernmental revenues in the governmental fund activity when they become available.		5,596
Net assets of governmental activities		$ 376,061

See independent auditors' report and notes to basic financial statements.

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND

For the year ended June 30, 2012

	General Fund
REVENUES:	
Intergovernmental	$ 933,639
Charges for services	53,334
Use of money and property	3,992
TOTAL REVENUES	990,965
EXPENDITURES:	
Current:	
General government	800,096
NET CHANGE IN FUND BALANCE	190,869
FUND BALANCE - BEGINNING OF YEAR	243,178
FUND BALANCE - END OF YEAR	$ 434,047

See independent auditors' report and notes to basic financial statements.

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES

For the year ended June 30, 2012

Net change in fund balance - total governmental fund		$ 190,869
Amounts reported for governmental activities in the Statement of Activities are different because:		
The governmental fund reports capital outlay as expenditures. However in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period:		
Capital outlay	$ -	
Depreciation expense	(1,170)	
		(1,170)
Compensated absences expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental fund.		(12,929)
Revenues reported as deferred revenue in the governmental fund and recognized in the Statement of Activities. These revenues will be included in the intergovernmental revenues in the governmental fund activity when they become available.		5,596
Change in net assets of governmental activities		$ 182,366

See independent auditors' report and notes to basic financial statements.

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

BUDGETARY COMPARISON STATEMENT
GENERAL FUND

For the year ended June 30, 2012

	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual	(Negative)
Fund balance, July 1	$ 243,178	$ 243,178	$ 243,178	$ -
Resources (inflows):				
Intergovernmental	933,639	933,639	933,639	-
Charges for services	256,819	348,281	53,334	(294,947)
Use of money and property	7,500	7,500	3,992	(3,508)
Amounts Available for Appropriation	1,197,958	1,289,420	990,965	(298,455)
Charges to appropriations (outflows):				
General government:				
Salaries and benefits	574,500	544,500	518,390	26,110
Services and supplies	366,948	405,410	281,706	123,704
Contingency and reserves	256,510	339,510	-	339,510
Total charges to appropriations (outflows)	1,197,958	1,289,420	800,096	489,324
Excess of resources over (under) charges to appropriations	-	-	190,869	190,869
Fund balance, June 30	$ 243,178	$ 243,178	$ 434,047	$ 190,869

See independent auditors' report and notes to basic financial statements.

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. 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 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.

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. 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

d. Cash and Cash Equivalents (Continued):

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.

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 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.

g. Fund Balance:

Committed fund balance includes amounts that can be used only for the specific purposes determined by a formal action of the government’s highest level of decision-making authority. The governing council is the highest level of decision-making authority that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balances. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken to remove or revise the limitation.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

g. Fund Balance (Continued):

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 restricted, 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.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

General Budget Policies:

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

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

Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balance as provided for in the County Budget Act.

3. CASH AND INVESTMENTS:

Cash and Investments:

Cash and investments as of June 30, 2012, consist of the following:

Petty Cash	$	250
Investment in County of San Bernardino Investment Pool		481,732
Total Cash and Investments	$	481,982

Investments Authorized by the Commission's Investment Policy:

The Commission's investment policy authorizes investments in the following investment types:

- County of San Bernardino Investment Pool
- Bankers' Acceptances
- Commercial Papers
- 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, 2012, the Commission’s cash was 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 $481,732. Information on the pool’s use of derivative securities in its investment portfolio and its and the Commission’s exposure to credit, market, or legal risk is not available.

3. CASH AND INVESTMENTS (CONTINUED):

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 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).

4. CAPITAL ASSETS:

Capital asset activity for the year ended June 30, 2012 was as follows:

	Balance at July 1, 2011	Additions	Deletions	Balance at June 30, 2012
Capital assets:				
Office equipment	$ 8,192	$ -	$ -	$ 8,192
Less accumulated depreciation for:				
Office equipment	-	(1,170)	-	(1,170)
Total capital assets, net	$ 8,192	$ (1,170)	$ -	$ 7,022

5. UNEARNED REVENUE:

At June 30, 2012, the Commission deferred recognition of $10,425 from fee revenues and deposits that had been received but not yet earned.

6. COMPENSATED ABSENCES:

Changes in compensated absences at June 30, 2012, were as follows:

Compensated absences at July 1, 2011	$ 57,675
Compensated absences earned	57,509
Compensated absences used	(44,580)
Compensated absences at June 30, 2012	$ 70,604

There is no fixed payment schedule for earned but unpaid compensated absences. Compensated absences expected to be paid within one year is $21,181 at June 30, 2012.

7. OPERATING LEASE:

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

Year Ending June 30	Amount
2013	$ 50,796
2014	52,230
2015	53,708
2016	52,241
2017	53,808
Total	$ 262,783

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	
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

See independent auditors' report.

8. INSURANCE (CONTINUED):

Coverage	Limit of Insurance	
Public Officials Personal Liability	$ 500,000	Per occurrence/annual aggregate Board Member
Property Coverage	1,000,000,000	Per occurrence, $2,000 deductible per occurrence
Workers' Compensation	Statutory	Per occurrence
Employers' Liability	5,000,000	Per occurrence
Boiler and Machinery	100,000,000	Per occurrence, $1,000 deductible per occurrence
Uninsured/Underinsured Motorists	1,000,000	Per occurrence

The Commission is self-insured for unemployment insurance.

9. RETIREMENT PLAN:

Benefit Plan Groups:

For the purpose of this retirement plan and the salary savings plans, as described in Note 10, employees shall be divided into the following groups:

a. Group A. Executive Officer

b. Group B All Commission Employees not in Groups A or C

c. Group C Deputy Clerk to the Commission and LAFCO Secretary

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.

9. RETIREMENT PLAN (CONTINUED):

Plan Description (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 31621.6 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). Employees are required to contribute 8.31% to 12.07% of their annual covered salary, of which the Commission pays a portion. The Commission has agreed to contribute on behalf of each employee $236, $152, or $95, per bi-weekly pay period for employee groups A, B, and C, respectively. All employers combined are required to contribute 21.03% of the current year covered payroll, and all non-County special district employers are required to contribute 22.38% 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 2011-2012, the Commission’s annual pension cost of $73,575 for SBCERA was equal to the Commission’s required and actual contributions. The required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% 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 3.50%.

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. The actuarial value of assets is reduced by the value of the non-valuation reserves.

9. RETIREMENT PLAN (CONTINUED):

Contributions (Continued):

SBCERA's 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.

Three-year Trend Information

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2010	$ 106,861	100%	$ -
June 30, 2011	102,932	100%	-
June 30, 2012	73,575	100%	-

10. SALARY SAVINGS PLANS:

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 $19,774 to this plan for the fiscal year ended June 30, 2012.

10. SALARY SAVINGS PLANS (CONTINUED):

457 Deferred Compensation Plan:

Bi-weekly contributions of Commission Group A employees to the County's Section 457 Deferred Compensation Plan up to one percent (1%) of an employee's bi-weekly base salary will be matched by a Commission contribution on the basis of one (1) times the employee's contribution. The Commission contribution shall not exceed one percent of the employee's bi-weekly salary. The contribution shall be deposited in the County's 401(a) Plan.

Bi-weekly contributions of Commission Group B and C employees to the County's Section 457 Deferred Compensation Plan up to one percent (1%) of an employee's bi-weekly base salary will be matched by a Commission contribution of one-half (1/2) times the employee's contribution. The Commission's contribution shall not exceed one-half percent (1/2%) of the employee's bi-weekly salary. The contribution shall be deposited in the County's 401(a) Plan.

The Commission contributed $1,296 to this plan for the fiscal year ended June 30, 2012.