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, 2013

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

TABLE OF CONTENTS

For the year ended June 30, 2013

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these basic financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Commission's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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Offices located in Orange and San Diego Counties

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of the Commission, as of June 30, 2013, and the respective changes in financial position thereof, and the budgetary comparison of the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 1d to the basic financial statements, the Commission incorporated deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure of net position due to the adoption of Governmental Accounting Standards Board's Statement No. 63, *"Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position"*. The adoption of this standard also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Our opinion is not modified with respect to this matter.

As discussed in Note 1d to the basic financial statements, the Commission has changed its method for accounting and reporting certain items previously reported as assets or liabilities during fiscal year 2012-2013 due to the early adoption of Governmental Accounting Standards Board's Statement No. 65, *"Items Previously Reported as Assets and Liabilities"*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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 information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2014, on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Commission's internal control over financial reporting and compliance.

White Nelson Diehl Evans LLP

Irvine, California
January 30, 2014

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, 2013. Please read it in conjunction with the financial statements as outlined in the table of contents.

Using the Accompanying Financial Statements

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

In FY 2012-13, the Commission implemented two GASB Statements that alter what was formerly known as the Statement of Net Assets. GASB 65 reclassifies certain items that were previously reported as assets and liabilities. The additional categories are deferred outflows (expenditures that apply to a future period and will not be recognized as an expenditure until then) and deferred inflows (revenues that apply to a future period and will not be recognized as a revenue until then). The Commission does not have any deferred outflows or deferred inflows to report. GASB 63 incorporates deferred outflows and deferred inflows into the components of what was formerly known as Net Assets, now known as Net Position.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Reporting the Commission as a Whole – Net Position

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

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

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

TABLE 1
NET POSITION – GOVERNMENTAL ACTIVITIES

	2012-13	2011-12	Difference
Assets:			
Cash and investments	$ 621,605	$ 481,982	$ 139,623
Capital assets, net of depreciation	5,851	7,022	(1,171)
Due from other governments	1,794	5,596	(3,802)
Total Assets	**629,250**	**494,600**	**134,650**
Liabilities:			
Accounts payable	5,052	24,982	(19,930)
Salaries and benefits payable	14,019	28,122	(14,103)
Unearned revenue	17,107	7,832	9,275
Deposits payable	0	2,593	(2,593)
Compensated absences	68,772	70,604	(1,832)
Total Liabilities	**104,950**	**134,133**	**(29,183)**
Net Position:			
Invested in capital assets	5,851	7,022	(1,171)
Unrestricted	518,449	353,445	165,004
Total Net Position	**$ 524,300**	**$ 360,467**	**$ 163,833**

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

TABLE 2
CHANGE IN NET POSITION – GOVERNMENTAL ACTIVITIES

	2012-13	2011-12	Difference
Revenues			
Charges for services	$ 47,066	$ 58,930	$ (11,864)
Operating contributions	903,000	933,639	(30,639)
Interest	4,009	3,992	17
Total Revenues	**954,075**	**996,561**	**(42,486)**
Expenses	**805,835**	**829,789**	**(23,954)**
Change in Net Position	**148,240**	**166,772**	**(18,532)**
Net Position Beginning	376,060	193,695	182,365
Net Position Ending	**$ 524,300**	**$ 360,467**	**$163,833**

Reporting the Commission's Fund Activity

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

The following table provides a summary of the Fund Balance for the past two fiscal years. The Fund Balance total increased from $434,047 in FY 2012-13 to $587,221.

TABLE 3
FUND BALANCE

	2011-12	2010-11
Committed:		
COWCAP Reserve	$ 46,780	$ 56,000
Compensated Absences Reserve	66,620	62,003
Assigned:		
Ongoing approved projects	7,578	0
Contingency	84,730	41,507
General Reserve	200,000	180,000
Unassigned	181,513	94,537
Total	**$ 587,221**	**$ 434,047**

Explanation of Change in Net Position and Fund Balance

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 2 -- The continuation 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 reduced by $11,864 from the prior year, or 20%, due to the economic climate within the region which translates into a corresponding reduction in proposal activity.
- Table 2 - Apportionment contributions decreased by $30,639 during the period due to the Commission's determination to reduce overall costs.
- Table 2 -- Overall, total expenditures decreased by $23,954 over the prior year. Therefore, Net Position Ending continues to show movement in a positive direction.

Long-Term Liabilities

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

TABLE 4
LONG-TERM LIABILITIES

	2012-13	2011-12	Difference
Compensated Absences	$ 68,772	$ 70,604	$ (1,832)

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 2012-13 compensated absences decreased by $1,832, calculated as follows:

- Additions of $51,836 comprised of natural balance accruals for four employees and one employee becoming vested for accumulated sick leave.

- Deletions of $53,668 comprised of leave taken during the fiscal year for four employees.

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 POSITION

June 30, 2013

	Governmental Activities
ASSETS:	
Cash and investments	$ 621,605
Due from other governments	1,794
Capital assets, net of accumulated depreciation	5,851
TOTAL ASSETS	629,250
LIABILITIES:	
Accounts payable	5,052
Other accrued liabilities	14,019
Unearned revenues	17,107
Compensated absences:	
Due within one year	20,631
Due in more than one year	48,141
TOTAL LIABILITIES	104,950
NET POSITION:	
Net investment in capital assets	5,851
Unrestricted	518,449
TOTAL NET POSITION	$ 524,300

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, 2013

		Program Revenues			Net (Expense) Revenue and Changes in Net Position
Functions/programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:					
General government	$ 805,835	$ 47,066	$ 903,000	$ -	$ 144,231
Total governmental activities	$ 805,835	$ 47,066	$ 903,000	$ -	144,231
General revenues:					
Investment income					4,009
Change in net position					148,240
Net Position - Beginning of Year					376,060
Net Position - End of Year					$ 524,300

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

BALANCE SHEET
GOVERNMENTAL FUND

June 30, 2013

	General Fund
ASSETS	
Cash and investments	$ 621,605
Due from other governments	1,794
TOTAL ASSETS	$ 623,399
LIABILITIES AND FUND BALANCE	
LIABILITIES:	
Accounts payable	$ 5,052
Salaries and benefits payable	14,019
Unearned revenues	17,107
TOTAL LIABILITIES	36,178
FUND BALANCE:	
Committed:	
COWCAP reserve	46,780
Compensated absences reserve	66,620
Assigned:	
Ongoing approved projects	7,578
Contingency	84,730
General reserve	200,000
Unassigned	181,513
TOTAL FUND BALANCE	587,221
TOTAL LIABILITIES AND FUND BALANCE	$ 623,399

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 POSITION

June 30, 2013

Fund balance for the governmental fund		$ 587,221
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets and accumulated depreciation, have not been included as financial resources in governmental fund activity:		
Capital assets	$ 8,192	
Accumulated depreciation	(2,341)	
		5,851
Accrued compensated absences that have not been included in the governmental fund activity.		(68,772)
Net position of governmental activities		$ 524,300

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

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

For the year ended June 30, 2013

	General Fund
REVENUES:	
Intergovernmental	$ 903,000
Charges for services	52,662
Investment income	4,009
TOTAL REVENUES	959,671
EXPENDITURES:	
Current:	
General government	806,497
NET CHANGE IN FUND BALANCE	153,174
FUND BALANCE - BEGINNING OF YEAR	434,047
FUND BALANCE - END OF YEAR	$ 587,221

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, 2013

Net change in fund balance - total governmental fund		$ 153,174
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 depreciation exceeded capital outlays in the current period:		
Capital outlay	$ -	
Depreciation expense	(1,170)	
		(1,170)
Accrued 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.		1,832
Revenues reported as unearned 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 position of governmental activities		$ 148,240

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, 2013

	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual	(Negative)
Fund balance, July 1	$ 434,047	$ 434,047	$ 434,047	$ -
Resources (inflows):				
Intergovernmental	903,000	903,000	903,000	-
Charges for services	17,200	17,200	52,662	35,462
Investment income	4,000	4,000	4,009	9
Amounts Available for Appropriation	924,200	924,200	959,671	35,471
Charges to appropriations (outflows):				
General government:				
Salaries and benefits	643,845	621,845	560,529	61,316
Services and supplies	294,870	367,894	245,968	121,926
Total charges to appropriations (outflows)	938,715	989,739	806,497	183,242
Excess of resources over (under) charges to appropriations	(14,515)	(65,539)	153,174	218,713
Fund balance, June 30	$ 419,532	$ 368,508	$ 587,221	$ 218,713

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 (the Commission) conform to generally accepted accounting principles as applicable to governments. The following is a summary of the significant policies.

a. Reporting Entity:

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

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

The Commission'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 position and the statement of activities) report information on all of the activities of the Commission.

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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

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

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

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

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

   d. New Accounting Pronouncements:

   Implemented:

   In fiscal year 2012-2013, the Commission implemented Governmental Accounting Standards Board (GASB) Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*". This statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, *"Elements of Financial Statements"* into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provides a new Statement of Net Position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

d. New Accounting Pronouncements (Continued):

Implemented (Continued):

In fiscal year 2012-2013, the Commission early implemented GASB Statement No. 65, "*Items Previously Reported as Assets and Liabilities*". This statement established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. The early implementation of this statement had no effect on the accompanying financial statements.

Pending Accounting Standards:

GASB has issued the following statements which may impact the Commission's financial reporting requirements in the future:

- GASB 66 - "*Technical Corrections, an amendment of GASB Statement No. 10 and Statement No. 62",* effective for periods beginning after December 15, 2012.
- GASB 67 - *"Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25"*, effective for the fiscal years beginning after June 15, 2013.
- GASB 68 - "*Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27"*, effective for the fiscal years beginning after June 15, 2014.
- GASB 69 - *"Government Combinations and Disposals of Government Operations"*, effective for periods beginning after December 15, 2013.
- GASB 70 - "*Accounting and Financial Reporting for Nonexchange Financial Guarantees"*, effective for the periods beginning after June 15, 2013.

e. Deferred Outflows/Inflows of Resources:

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Commission does not have any deferred outflows to report.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The Commission does not have any deferred inflows to report.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

   f. 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.

   g. Capital Assets:

      Capital assets are reported as governmental activities in the government-wide financial statements. Capital assets are defined by the Commission as assets with an initial, individual cost of more than $5,000 and have an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at 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.

   h. Employee Compensated Absences:

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

   i. Fund Balance:

   Committed fund balance includes amounts that can be used only for the specific purposes determined by a formal action of the Commission's highest level of decision-making authority. The governing board is the highest level of decision-making authority that can commit fund balances. Once adopted, the limitation imposed by the commitment remains in place until a similar action is taken to remove or revise the limitation.

   Assigned fund balance includes amounts to be used by the Commission for specific purposes but do not meet the criteria to be classified as restricted or committed.

   Unassigned fund balance includes the residual amounts that have not been committed or assigned to specific purposes.

   When an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available, the Commission's policy is to apply restricted fund balance first.

   When an expenditure is incurred for purposes for which committed, assigned, or unassigned fund balances are available, the Commission's policy is to apply committed fund balance first, then assigned fund balance, and finally unassigned fund balance.

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, 2013, consist of the following:

Petty Cash	$ 250
Investment in County of San Bernardino Investment Pool	621,355
Total Cash and Investments	$ 621,605

Investments Authorized by the Commission's Investment Policy:

The Commission's investment policy authorizes investments only in the County of San Bernardino Investment Pool.

Interest Rate Risk:

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

As of June 30, 2013, 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 $621,355. Information on the pool's use of derivative securities in its investment portfolio and the Commission's exposure to credit, market, or legal risk is not available.

Credit Risk:

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

3. CASH AND INVESTMENTS (CONTINUED):

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, 2013 was as follows:

	Balance at July 1, 2012	Additions	Deletions	Balance at June 30, 2013
Capital assets:				
Office equipment	$ 8,192	$ -	$ -	$ 8,192
Less accumulated depreciation for:				
Office equipment	(1,171)	(1,170)	-	(2,341)
Total capital assets, net	$ 7,021	$ (1,170)	$ -	$ 5,851

5. UNEARNED REVENUE:

At June 30, 2013, the Commission deferred recognition of $17,107 from fee revenues and deposits that had been received but not yet earned.

6. COMPENSATED ABSENCES:

Changes in unpaid compensated absences at June 30, 2013, were as follows:

Accrued compensated absences at July 1, 2012	$ 70,604
Compensated absences earned	51,836
Compensated absences used	(53,668)
Accrued compensated absences at June 30, 2013	$ 68,772

There is no fixed payment schedule for earned but unpaid compensated absences. Accrued compensated absences expected to be paid within one year is $20,631 at June 30, 2013.

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
2014	$ 52,230
2015	53,708
2016	52,241
2017	53,808
Total	$ 211,987

Total rent expense for the year ended June 30, 2013 amounted to $52,493.

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
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.

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.

The California Public Employees' Pension Reform Act (PEPRA) is effective as of January 1, 2013, and caused changes in the plans available to future employees of the Commission. Under PEPRA, employees hired after January 1, 2013 will join the 2.5% at 67 plan. As of June 30, 2013, there were no active members of the 2.5% at 67 plan.

9. RETIREMENT PLAN (CONTINUED):

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 9.43% to 12.67% of their annual covered salary, of which the Commission pays a portion. The Commission has agreed to contribute on behalf of each employee $148 per bi-weekly pay period for employee group B. As of June 30, 2013, there were no employees under groups A, C or under the 2.5% at 67 plan. All employers combined are required to contribute 23.08% of the current year covered payroll, and all non-County special district employers are required to contribute 25.77% 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 2012-2013, the Commission's annual pension cost of $86,130 for SBCERA was equal to the Commission's required and actual contributions. There have been no contributions to the 2.5% at 67 plan since there are no active members. The required contribution was determined as part of the June 30, 2012 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.

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.

9. RETIREMENT PLAN (CONTINUED):

Contributions (Continued):

Three-year Trend Information					
Fiscal Year		Annual Pension Cost (APC)	Percentage of APC Contributed		Net Pension Obligation
June 30, 2011	$	102,932	100%	$	-
June 30, 2012		73,575	100%		-
June 30, 2013		86,130	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 $21,182 to this plan for the fiscal year ended June 30, 2013.

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.

10. SALARY SAVINGS PLANS (CONTINUED):

457 Deferred Compensation Plan (Continued):

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

The Commission contributed $1,333 to this plan for the fiscal year ended June 30, 2013.

11. SUBSEQUENT EVENTS:

Events occurring after June 30, 2013 have been evaluated for possible adjustments to the financial statements or disclosure as of January 30, 2014, which is the date these financial statements were available to be issued.