


LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

1170 West Third Street, Unit 150, San Bernardino, CA 92415-0490
(909) 388-0480 • Fax (909) 388-0481
lafco@lafco.sbcounty.gov
www.sbclafco.org

DATE: JANUARY 8, 2019 
FROM: SAMUEL MARTINEZ, Executive Officer
MICHAEL TUERPE, Senior Analyst
TO: LOCAL AGENCY FORMATION COMMISSION

SUBJECT: Agenda Item #10: Review and Accept Audit Report for Fiscal Year
Ended June 30, 2019

RECOMMENDATION:

Staff recommends that the Commission receive and file the materials submitted by Davis Farr LLP related to the Commission's audit for Fiscal Year 2018-19.

BACKGROUND:

The public accounting firm of Davis Farr LLP has conducted the Commission's annual audit for the period July 1, 2018 through June 30, 2019 (copy enclosed with this staff report). The auditor has independently verified the financial documents prepared by LAFCO staff, outlined its professional responsibilities and findings, and disclosed its compliance with current *Government Auditing Standards*. As outlined in its letter, during the audit process, the auditor did not identify any deficiencies in internal controls.

Meeting with Audit/Budget Committee

On January 6 the LAFCO Administrative Committee (composed of Chair McCallon, Vice-Chair Curatalo, and Commissioner Lovingood), LAFCO management, and the auditors discussed the draft audit. The auditor identified that it performed tests on internal controls of LAFCO and the County, which resulted in no material weaknesses or significant deficiencies being identified.

Net Position

The financial statements show a negative change of \$115,263 for Total Net Position. The primary reasons for such a large decrease in net position are:

- Depreciation of Capital Assets by \$76,915.

- Increase of Net Pension Liability by \$20,287.
- The budget projected the receipt of nine proposals; however, four proposals were received during the year.

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

Additional Pension Contribution

In June 2019, the Commission made an additional contribution of \$184,963 to SBCERA as credit towards LAFCO's net pension liability. Unfortunately, for this audit the additional contribution did not yet decrease LAFCO's net pension liability. In short, for this audit, the additional contribution counts as an expense without a corresponding reduction in net pension liability.

The reason for this circumstance is that the GASB 68 report available for this audit period is based on June 30, 2018 data. The additional contribution will reflect in the June 30, 2019 valuation (for the 2019-20 audit). The SBCERA June 30, 2019 valuation was recently released and it identifies a reduction in LAFCO's net pension liability as well as reduction in the contribution percentage beginning FY 2020-21.

In April 2020 as a part of the Third Quarter financial report, staff will request that the Commission submit an additional contribution to SBCERA for \$42,500.

Conclusion

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

Staff recommends that the Commission receive and file the materials submitted by Davis Farr LLP related to the Commission's audit for Fiscal Year 2018-19. Once accepted the audit will be posted on the LAFCO website under the "Open Government Portal".

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

SM/MT

Enclosure

To the Board of Commissioners
Local Agency Formation Commission for San Bernardino County

We have audited the financial statements of the governmental activities, and each major fund of the Local Agency Formation Commission for San Bernardino County ("Commission") for the year ended June 30, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 11, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Commission are described in Note 1 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during the year. We noted no transactions entered into by Commission during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the Commission's financial statements was allocations of the net pension liability and related amounts. These amounts were calculated by an actuary and audited by another firm.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was Footnote 9: Pension Plan.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated January 7, 2020.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the *Management's Discussion and Analysis*, the *Schedule of the Plan's Proportionate Share of the Net Pension Liability*, the *Schedule of Pension Plan Contributions*, and the *Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual* which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

This information is intended solely for the use of Board of Commissioners and management of the San Bernardino County Local Agency Formation Commission and is not intended to be, and should not be, used by anyone other than these specified parties.



Irvine, California
January 7, 2020

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the Local Agency Formation Commission for San Bernardino County (the Commission), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated January 7, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Commission's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Commission's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads "David Lam, CPA". The signature is written in a cursive style.

Irvine, California
January 7, 2020

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

Basic Financial Statements

Year ended June 30, 2019

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

BASIC FINANCIAL STATEMENTS

Year ended June 30, 2019

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Independent Auditor's Report

Board of Commissioners
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 governmental fund of the Local Agency Formation Commission for San Bernardino County (the Commission) as of and for the year ended June 30, 2019, 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.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the governmental fund of the Commission, as of June 30, 2019, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, the budgetary comparison information, schedule of the plan's proportionate share of the net pension liability and the schedule of plan contributions, identified as required supplementary information (RSI) in the accompanying table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the RSI because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 7, 2020 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.



Irvine, California
January 7, 2020

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, 2019. Please read it in conjunction with the financial statements as outlined in the table of contents.

Using the Accompanying Financial Statements

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Reporting the Commission as a Whole – Net Position

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

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

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

**TABLE 1
NET POSITION – GOVERNMENTAL ACTIVITIES**

	2018-19	2017-18	Difference
Assets:			
Cash and investments	\$ 289,081	\$ 476,181	(187,100)
Accounts receivable	-	14,091	(14,091)
Capital assets, net of depreciation	230,746	307,661	(76,915)
Total Assets	519,827	797,933	(278,106)
Deferred outflow of resources:			
Deferred outflows from pension plan	632,522	469,426	163,096
Liabilities:			
Accounts payable	9,529	46,088	(36,559)
Other accrued liabilities	46,897	44,669	2,228
Unearned revenues	56,002	13,982	42,020
Long-term liabilities:			
Compensated absences:			
Due within one year	76,579	66,837	9,742
Due beyond one year	167,426	178,483	(11,057)
Net pension liability	885,247	864,960	20,287
Total Liabilities	1,241,680	1,215,019	26,661
Deferred inflow of resources:			
Deferred inflows from pension plan	120,144	146,552	(26,408)
Net Position:			
Invested in capital assets	129,364	307,661	(178,297)
Unrestricted	(338,839)	(401,873)	63,034
Total Net Position	\$(209,475)	\$ (94,212)	(115,263)

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

**TABLE 2
CHANGE IN NET POSITION – GOVERNMENTAL ACTIVITIES**

	2018-19	2017-18	Difference
Revenues:			
Charges for services	\$ 107,861	\$ 171,981	\$ (64,120)
Apportionment	1,105,497	1,009,583	95,914
Interest	21,762	6,645	15,117
Total Revenues	1,235,120	1,188,209	46,911
Expenses	1,350,383	1,388,731	(38,348)
Change in Net Position	(115,263)	(200,522)	85,259
Net Position Beginning	(94,212)	106,310	(200,522)
Net Position Ending	\$ (209,475)	\$ (94,212)	\$ (115,263)

Explanation of Change in Net Position

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

- The budget projected the receipt of nine proposals; however, four proposals were received during the year.
- Unbudgeted legal activity related to two proposals occurred, totaling roughly \$56,000. This pushed Legal Counsel (Account 2400) to 240% of budget authority. However, the applicants indemnified LAFCO for these matters.
- The Commission made an additional contribution of \$184,963 to SBCERA as credit towards LAFCO’s net pension liability.

Note that in this audit the additional contribution did not yet decrease LAFCO’s net pension liability. The GASB 68 report available for this audit period is based on June 30, 2018 data. The additional contribution will reflect in the June 30, 2019 valuation. This amount will amortize as a percent of pay over twenty years and it will credit with earnings based on the Plan’s market value investment return every year.

- On a cash basis, expenditures exceeded revenues by \$673. The Commission transferred funds from its Contingency Reserve to cover this amount.

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.

Long-Term Liabilities

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

**TABLE 3
LONG-TERM LIABILITIES**

	2018-19	2017-18	Difference
Compensated Absences	\$ 142,623	\$110,146	\$ 32,477
Notes Payable	\$ 101,382	\$135,174	\$ (33,792)
TOTAL	\$ 244,005	\$ 245,320	\$ (1,315)

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 2018-19 compensated absences increased by \$32,477, and notes payable decreased by \$33,792, calculated as follows:

- Additions of \$95,000 comprised of natural balance accruals for five employees.
- Deletions of \$62,523 comprised of leave taken during the fiscal year for five employees.
- Deletions of \$33,793 comprised of payments made against the outstanding balance.

Contacting the Commission’s Financial Management:

This financial report is designed to provide our citizen’s, taxpayers, governments, and creditors with a general overview of the Commission’s finances and to show the Commission’s accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Executive Officer at 1170 W. Third Street, Unit 150, San Bernardino, CA 92415-0490, or 909-388-0480.

BASIC FINANCIAL STATEMENTS

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

Statement of Net Position

June 30, 2019

	<u>Governmental Activities</u>
Assets:	
Cash and investments (note 3)	\$ 289,081
Capital assets, net (note 4)	<u>230,746</u>
Total assets	<u>519,827</u>
Deferred outflow of resources:	
Deferred outflows from pension plan (note 9)	<u>632,522</u>
Liabilities:	
Accounts payable	9,529
Other accrued liabilities	46,897
Unearned revenues (note 5)	56,002
Long-term liabilities:	
Due within one year (note 6)	76,579
Due beyond one year (note 6)	167,426
Net pension liability (note 9)	<u>885,247</u>
Total liabilities	<u>1,241,680</u>
Deferred inflow of resources:	
Deferred inflows from pension plan (note 9)	<u>120,144</u>
Net position (deficit):	
Net investment in capital assets	129,364
Unrestricted	<u>(338,839)</u>
Total net position	<u>\$ (209,475)</u>

See accompanying notes to the basic financial statements

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

Statement of Activities

Year ended June 30, 2019

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Governmental Activities</u>	<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>		
Governmental activities:					
General government	<u>\$ 1,350,383</u>	<u>107,861</u>	<u>-</u>	<u>-</u>	<u>(1,242,522)</u>
 Total governmental activities	 <u>\$ 1,350,383</u>	 <u>107,861</u>	 <u>-</u>	 <u>-</u>	 <u>(1,242,522)</u>
		General revenues:			
		Apportionment			1,105,497
		Investment income			<u>21,762</u>
		Total general revenues			<u>1,127,259</u>
		Change in net position			(115,263)
		Net position, beginning of year			<u>(94,212)</u>
		Net position, end of year			<u>\$ (209,475)</u>

See accompanying notes to the basic financial statements

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

Balance Sheet - Governmental Funds

June 30, 2019

	<u>Assets</u>	<u>General Fund</u>
Cash and investments		\$ 289,081
Total assets		<u>\$ 289,081</u>
	<u>Liabilities and Fund Balance</u>	
Liabilities:		
Accounts payable		\$ 9,529
Salaries and benefits payable		46,897
Unearned revenues		56,002
Total liabilities		<u>112,428</u>
Fund balance:		
Nonspendable:		
Committed:		
Compensated absences		97,377
Assigned:		
General reserve		29,276
Contingency		50,000
Unassigned		-
Total fund balance		<u>176,653</u>
Total liabilities and fund balance		<u>\$ 289,081</u>

See accompanying notes to the basic financial statements

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position

June 30, 2019

Fund balances of governmental funds		\$ 176,653
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets and accumulated depreciation have not been included as financial resources in governmental fund activity:		
Capital assets	392,768	
Accumulated depreciation	<u>(162,022)</u>	230,746
Pension related deferred outflows of resources, net of accumulated amortization, have not been reported in the governmental funds:		
Employer contributions subsequent to the measurement date	361,363	
Changes in actuarial assumptions	179,539	
Changes in proportion and differences between employer contributions and the proportionate share of contributions	85,835	
Differences in projected and actual earnings on investments	<u>5,785</u>	632,522
Long-term liabilities are not available to pay for current-period expenditures and, therefore, are not reported in the governmental funds. Long-term liabilities consist of the following:		
Net pension liability	(885,247)	
Notes payable	(101,382)	
Compensated absences	<u>(142,623)</u>	(1,129,252)
Pension related deferred inflows of resources, net of accumulated amortization, have not been reported in the governmental funds:		
Differences in expected and actual experience	(62,747)	
Net difference between projected and actual earnings on Pension Plan Investments	(16,117)	
Changes in proportion and differences between employer contributions and the proportionate share of contributions	<u>(41,280)</u>	<u>(120,144)</u>
Net position of governmental activities		\$ <u>(209,475)</u>

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

**Statement of Revenue, Expenditures, and Changes in
Fund Balance - Governmental Funds**

Year ended June 30, 2019

Revenues:	<u>General Fund</u>
Apportionment	\$ 1,105,497
Charges for services	107,861
Investment income	21,762
Total revenues	<u>1,235,120</u>
Expenditures:	
General government:	
Salaries and employee benefits	1,006,606
Services and supplies	437,394
Total expenditures	<u>1,444,000</u>
Excess (deficiency) of revenues over (under) expenditures	(208,880)
Fund balances at beginning of year	<u>385,533</u>
Fund balances at end of year	<u>\$ 176,653</u>

See accompanying notes to the basic financial statements

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

**Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balance of Governmental Funds to the Statement of Activities**

Year ended June 30, 2019

Net changes in fund balances - total governmental funds \$ (208,880)

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

The governmental fund reports capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The following are the capital outlays, if any, and depreciation in the current period.

Depreciation expense (76,915) (76,915)

Pension Expense reported in the governmental fund includes the actual contributions made in the fiscal year. Pension expense reported in the Statement of Activities includes the changes in the net pension liability and pension related deferred outflows/inflows of resources.

Change in net pension liability (20,287)
Change in notes payable 33,793
Change in deferred outflows of resources related to pensions 163,096
Change in deferred inflows of resources related to pensions 26,408 203,010

Accrued compensated absence expenses reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in the government fund.

(32,478)

Change in net position of governmental activities \$ (115,263)

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

Year ended June 30, 2019

1. Summary of Significant Accounting Policies:

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

a. Reporting Entity:

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

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

The Commission is composed of seven voting members, with four alternate members who vote only in the absence or abstention of a voting member. Two members are elected county supervisors and are selected by the Board of Supervisors. Two members are elected city council members and are selected by the mayors of the cities within San Bernardino County. Two members are elected members of a special district board of directors and are selected by the presidents of the independent special districts in San Bernardino County. These six elected officials select a "public" member who is not affiliated with county, city, or special district governments. Alternate members for the county, city, special district, and public categories are selected in the same manner. Each commissioner and alternate serve a four-year term.

b. Government-wide Financial Statements:

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

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

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

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

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

Notes to the Basic Financial Statements

Year ended June 30, 2019

(Continued)

1. Summary of Significant Accounting Policies (Continued):

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

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

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

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

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

d. Deferred Outflows/Inflows of Resources:

In addition to assets, the statement of net position and the governmental fund balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The Commission has four items that qualify for reporting in this category for the fiscal year ended June 30, 2019, all of which relate to pensions. These include pension contributions subsequent to the measurement date, differences between actual and expected experience, change in assumptions, and change in employer's proportion and differences between the employer's contributions and employer's proportionate share of contributions. These last three items are amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the Plan.

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

Notes to the Basic Financial Statements

Year ended June 30, 2019

(Continued)

1. Summary of Significant Accounting Policies (Continued):

d. Deferred Outflows/Inflows of Resources (Continued):

In addition to liabilities, the statement of net position and the governmental fund balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. The Commission has three items that qualify for reporting in this category for the fiscal year ended June 30, 2019, all of which relate to pensions. The first two items include differences between expected and actual experience, and changes in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions. These amounts are amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the Plan. The third item is a deferred inflow related to pensions for the net difference between projected and actual earnings on plan investments. This amount is amortized over a closed 5-year period.

e. Cash and Investments:

Cash and investments include the cash balances of substantially all funds, which are pooled and invested by the County Treasurer to increase interest earnings through investment activities. Investment activities are governed by the California Government Code Sections 53601, 53635, and 53638 and the County's Investment Policy.

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

f. Fair Value Measurements:

Certain assets and liabilities are required to be reported at fair value. The fair value framework provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

Notes to the Basic Financial Statements

Year ended June 30, 2019

(Continued)

1. Summary of Significant Accounting Policies (Continued):

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly and fair value is determined through the use of models or other valuation methodologies including:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in markets that are inactive;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement. These unobservable input reflect the Commission's own assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). These unobservable inputs are developed based on the best information available in the circumstances and may include the Commission's own data.

g. Capital Assets:

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

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

h. Employee Compensated Absences:

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

i. Fund Balance:

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

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

Notes to the Basic Financial Statements

Year ended June 30, 2019

(Continued)

1. Summary of Significant Accounting Policies (Continued):

Restricted fund balance includes amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation. If the Commission action limiting the use of funds is included in the same action (legislation) that created (enables) the funding source, then it is restricted.

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

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

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

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

j. Pensions:

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Commission's San Bernardino County Employees' Retirement Association (SBCERA) plan (Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by SBCERA. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

Valuation Date (VD)	June 30, 2017
Measurement Date (MD)	June 30, 2018
Measurement Period (MP)	June 30, 2017 to June 30, 2018

k. Use of Estimates:

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

Notes to the Basic Financial Statements

Year ended June 30, 2019

(Continued)

2. Stewardship, Compliance and Accountability: General Budget Policies:

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

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

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

3. Cash and Investments:

Cash and investments as of June 30, 2019 consist of the following:

Petty cash	\$ 250
Investment in County of San Bernardino Investment Pool	<u>288,831</u>
Total Cash and Investments	<u>\$ 289,081</u>

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, 2019, the Commission's cash was voluntarily invested in the County of San Bernardino Investment Pool, and therefore was not exposed to any interest rate risk as described above.

The County of San Bernardino Investment Pool is a pooled investment fund program governed by the San Bernardino County Board of Supervisors, and is administered by the County Treasurer. Investments in the pool are highly liquid as deposits and withdrawal can be made at any time without penalty. The Commission's fair value of its share in the pool is the same value of the pool shares, which amounted to \$289,081. 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.

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

Notes to the Basic Financial Statements

Year ended June 30, 2019

(Continued)

3. Cash and Investments (Continued):

Credit Risk:

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

Custodial Credit Risk:

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

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

The Commission is a participant in the San Bernardino County Investment Pool (SBCIP). The SBCIP is an external investment pool, is not rated and is not registered with the Securities Exchange Commission (SEC). The County Treasury Oversight Committee and the County Board of Supervisors conduct SBCIP oversight. Cash on deposit in the SBCIP at June 30, 2019, is stated at fair value. The SBCIP values participant shares on an amortized cost basis during the year and adjusts to fair value at year-end. For further information regarding the SBCIP, refer to the County of San Bernardino Comprehensive Annual Financial Report.

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

Notes to the Basic Financial Statements

Year ended June 30, 2019

(Continued)

4. Capital Assets:

Capital asset activity for the year ended June 30, 2019 was as follows:

	<u>Balance at</u> <u>July 1, 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at</u> <u>June 30, 2019</u>
Capital assets:				
Office equipment	\$ 8,192	-	-	8,192
Leasehold improvements	384,576	-	-	384,576
Less accumulated depreciation for:				
Office equipment	(8,192)	-	-	(8,192)
Leasehold improvements	<u>(76,915)</u>	<u>(76,915)</u>	-	<u>(153,830)</u>
Total capital assets, net	<u>\$ 307,661</u>	<u>(76,915)</u>	<u>-</u>	<u>230,746</u>

5. Unearned Revenues:

At June 30, 2019, the Commission deferred recognition of \$56,002 from fee revenues and deposits that have been received but not yet earned.

6. Long Term Liabilities:

The following is a summary of changes in long-term liabilities for the year ended June 30, 2019:

	<u>Balance at</u> <u>July 1, 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at</u> <u>June 30, 2019</u>	<u>Due within</u> <u>one year</u>
Compensated Absences	\$ 110,146	95,000	(62,523)	142,623	42,787
Notes Payable	<u>135,174</u>	-	<u>(33,792)</u>	<u>101,382</u>	<u>33,792</u>
Total long term debt	<u>\$ 245,320</u>	<u>95,000</u>	<u>(96,315)</u>	<u>244,005</u>	<u>76,579</u>

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

<u>Fiscal Year</u>	<u>Notes Payable</u>
19/20	\$ 33,794
20/21	33,794
21/22	33,794
	<u>\$ 101,382</u>

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

Notes to the Basic Financial Statements

Year ended June 30, 2019

(Continued)

7. Insurance:

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

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

The Commission is self-insured for unemployment insurance.

8. Operating Lease:

On October 5, 2015 (amended on July 17, 2017) the LAFCO entered into non-cancelable operating lease agreements for the rental of office space and office equipment, expiring in June 2022 with a tenant option to extend up to 10 years. The lease agreements also provide for annual rental adjustments in the amount of the Consumer Price Index, not to exceed 103%. Total rent expense for the year ended June 30, 2019 amounted to \$33,858.

Fiscal Year	Rent Expense *
19/20	\$ 33,858
20/21	33,858
21/22	33,858
	<u>\$ 101,574</u>

* - these amounts do not consider annual CPI adjustments

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

Notes to the Basic Financial Statements

Year ended June 30, 2019

(Continued)

9. Pension Plan:

a. General Information about the Pension Plan:

Plan Description:

The San Bernardino County Employees' Retirement Association (SBCERA) administers the SBCERA pension plan - a cost-sharing multiple-employer defined benefit pension plan (the Plan). SBCERA provides retirement, disability, death and survivor benefits to its members, who are employed by 17 active participating employers (including SBCERA) and 3 withdrawn employers. SBCERA publishes its own Comprehensive Annual Financial Report (CAFR) which is available on SBCERA's website at www.SBCERA.org.

Benefits Provided:

SBCERA provides service retirement, disability, death and survivor benefits to eligible employees. Generally, any employee of the County of San Bernardino or participating employers who is appointed to a regular position whose service is greater than fifty percent of the full standard of hours required by a participating SBCERA employer (e.g. 20 hours per week or more) must become a member of SBCERA effective on the first day of employment. The retirement benefit the member will receive is based upon age at retirement, final average compensation, years of retirement service credit and retirement plan and tier.

The Plan's provisions and benefits in effect at June 30, 2019, are summarized as follows:

	Prior to <u>January 1, 2014</u>	On or After <u>January 1, 2014</u>
Hire date		
Benefit formula	2%@55	2.5%@67
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 65	52 - 67
Monthly benefits, as a % of eligible compensation	1.49% - 3.13%	1.0% - 2.5%
Required employee contribution rates	10.74%	8.74%
Required employer contribution rates	34.53%	30.09%

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

Notes to the Basic Financial Statements

Year ended June 30, 2019

(Continued)

9. Pension Plan (Continued):

Contributions:

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Commission is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

Actuarial Assumptions:

The total pension liabilities was determined using the following actuarial assumptions:

Valuation Date	June 30, 2017
Measurement Date	June 30, 2018
Actuarial Cost Method	Entry-Age Actuarial Cost Method
Actuarial Assumptions:	
Discount Rate	7.25%
Inflation	3.00%
Payroll Growth	3.50%
Projected Salary Increase	4.50% - 14.50% (1)
Investment Rate of Return	7.25% (2)
Mortality	(3)

(1) Depending on age, service and type of employment

(2) Net of pension plan investment expenses, including inflation

(3) The probabilities of mortality are derived using SBCERA's membership data for all funds. The mortality table used was developed based on SBCERA's specific data. The table includes 20 years of mortality improvements using Projection Scale BB. For more details on this table, please refer to the Actuarial Experience Study dated May 30, 2014.

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period June 30, 2010 through June 30, 2013. Further details of the Experience Study can found on the SBCERA website.

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

Notes to the Basic Financial Statements

Year ended June 30, 2019

(Continued)

9. Pension Plan (Continued):

Discount Rate:

The discount rates used to measure the Total Pension Liability was 7.25% as of the June 30, 2018 measurement date. The projection of cash flows used to determine the discount rate assumed employer and member contributions will be made at rates equal to the actuarially determined contribution rates. For this purpose, only employee and employer contributions that are intended to fund benefits for current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the Pension Plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on pension plan investments of 7.25% were applied to all periods of projected benefit payments to determine the Total Pension Liability as of June 30, 2018.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adding expected inflation and subtracting expected investment expenses and a risk margin.

The June 30, 2019 target allocations (approved by the Board) and projected arithmetic real rates of return for each major asset class, after deducting inflation but before deducting investment expenses, used in the derivation of the long-term expected investment rate of return assumption are summarized in the following tables:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Large Cap U.S. Equity	8.00%	5.61%
Small Cap U.S. Equity	2.00%	6.37%
Developed International Equity	6.00%	6.96%
Emerging Market Equity	6.00%	9.28%
U.S. Core Fixed Income	2.00%	1.06%
High Yield/Credit Strategies	13.00%	65.00%
Global Core Fixed Income	1.00%	0.07%
Emerging Market Debt	6.00%	3.85%
Real Estate	9.00%	4.37%
Cash & Equivalents	2.00%	-0.17%
International Credit	11.00%	6.75%
Absolute Return	13.00%	3.56%
Other Real Assets	5.00%	6.35%
Private Equity	16.00%	8.47%
Total	100%	

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

Notes to the Basic Financial Statements

Year ended June 30, 2019

(Continued)

9. Pension Plan (Continued):

b. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions:

Allocation of Net Pension Liability:

The Commission's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2018, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017 rolled forward to June 30, 2018 using standard update procedures.

The Commission's proportionate share of the net pension liability was based on a projection of the Commission's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

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

Balance at June 30, 2017	\$	864,960
Balance at June 30, 2018		<u>885,247</u>
Change - Increase (Decrease)	\$	<u><u>20,287</u></u>

The Commission's proportionate share of the net pension liability for the Plan as of the June 30, 2017 and 2018 measurement dates was as follows:

Proportion - June 30, 2017	0.034%
Proportion - June 30, 2018	<u>0.035%</u>
Change - Increase (Decrease)	<u><u>0.001%</u></u>

For the year ended June 30, 2019, the Commission recognized pension expense of \$192,148. At June 30, 2019, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

Notes to the Basic Financial Statements

Year ended June 30, 2019

(Continued)

9. Pension Plan (Continued):

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u> </u>	<u> </u>
Pension contributions subsequent to measurement date	\$ 361,363	-
Differences between actual and expected experience	5,785	(62,747)
Change in assumptions	179,539	-
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	85,835	(41,280)
Net Difference between projected and actual earnings on Pension Plan Investments	-	(16,117)
Total	<u>\$ 632,522</u>	<u>(120,144)</u>

The deferred outflows of resources related to contributions subsequent to the measurement date of \$361,963 will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ending June 30,	<u>Amount</u>
2020	\$ 76,864
2021	36,844
2022	(15,122)
2023	35,610
2024	15,915
2025	901
	<u>\$ 151,015</u>

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate:

The following presents the Commission's proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what the Commission's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

Notes to the Basic Financial Statements

Year ended June 30, 2019

(Continued)

9. Pension Plan (Continued):

1% Decrease		6.25%
Net Pension Liability	\$	1,307,324
Current Discount Rate		7.25%
Net Pension Liability	\$	885,247
1% Increase		8.25%
Net Pension Liability	\$	539,042

Pension Plan Fiduciary Net Position:

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

10. Salary Savings Plans:

Benefit Plan Groups:

For the purpose of the salary savings plans, employees shall be divided into the following groups:

- a. Group A Executive Officer
- b. Group B All Commission Employees not in Group A or C
- c. Group C Administrative Assistant

401(k) Plan:

Bi-weekly contributions of Commission employees to the County's 401(k) Defined Contribution Plan will be matched by a Commission contribution on the basis of two times the employee's contribution. The bi-weekly contributions of employees in Groups A and B of up to four percent of bi-weekly base salary will be matched by a Commission contribution of two times the employee's contribution, not to exceed eight percent of an employee's bi-weekly base salary.

The bi-weekly contributions of employees in Group C to the County's 401(k) Defined Contribution Plan of up to three percent of bi-weekly base salary will be matched by a Commission contribution of two times the employee's contribution. The Commission's contribution shall not exceed six percent of an employee's bi-weekly base salary.

The Commission contributed \$35,173 to this plan for the fiscal year ended June 30, 2019.

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

Notes to the Basic Financial Statements

Year ended June 30, 2019

(Continued)

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 \$2,695 to this plan for the fiscal year ended June 30, 2019.

11. Excess Expenditures over Appropriations

For the fiscal year ended June 30, 2018, the Commission's expenditures exceeded appropriations by \$41,560.

12. Commitments & Contingencies

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

REQUIRED SUPPLEMENTARY INFORMATION

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

Schedule of the Plan's Proportionate Share of the Net Pension Liability

Last Ten Fiscal Years*

	Measurement Date				
	6/30/2018	6/30/2017	6/30/2016	6/30/2015	6/30/2014
Proportion of the Collective Net Pension Liability	0.035%	0.033%	0.031%	0.035%	0.034%
Proportionate Share of the Collective Net Pension Liability	\$ 885,247	864,960	769,173	681,447	584,731
Covered Payroll	\$ 475,010	369,541	359,294	341,542	289,935
Proportionate Share of the Collective Net Pension Liability as percentage of covered payroll	186.36%	234.06%	214.08%	199.52%	201.68%
Plan's fiduciary net position	\$ 2,181,226	1,943,960	1,639,622	1,736,731	1,505,924
Plan's total pension liability	\$ 3,066,474	2,808,921	2,408,795	2,418,178	2,090,655
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	71.13%	69.21%	68.07%	71.82%	72.03%

Notes to Schedule:

Benefit Changes:

There were no changes in benefits.

Changes in Assumptions:

There were no changes in Assumptions.

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

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

Schedule of Plan Contributions

Last Ten Fiscal Years*

	Fiscal Year				
	2018-19	2017-18	2016-17	2015-16	2014-15
Actuarially Determined Contribution	\$ 177,400	125,543	132,171	120,963	122,480
Contributions in Relation to the Actuarially Determined Contribution	<u>(361,363)</u>	<u>(125,543)</u>	<u>(132,171)</u>	<u>(120,963)</u>	<u>(122,480)</u>
Contribution Deficiency (Excess)	<u>\$ (183,963)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Covered Payroll	\$ 478,224	475,010	369,541	359,294	341,542
Contributions as a Percentage of Covered Payroll	37.10%	26.43%	35.77%	33.67%	35.86%

Notes to Schedule:

Valuation Date 6/30/2017

Methods and Assumptions Used to Determine Contribution Rates:

Cost sharing employers	Entry Age Actuarial Cost Method
Amortization method	Level percentage of payroll, closed
Remaining amortization period	20 years
Asset valuation method	5-year smoothed market
Inflation	3.00%
Salary increases	4.50 to 14.50%, including inflation of 3.00%
Investment rate of return	7.25%, net of pension plan investment expense, including inflation
Retirement age	50-70 years (2%@50 and 2.5%@67)
Mortality	RP-2000 Combined Healthy Mortality Table

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

LOCAL AGENCY FORMATION COMMISSION FOR SAN BERNARDINO COUNTY

Notes to the Required Supplementary Information

Year ended June 30, 2019

1. **Budgetary Reporting**

The Commission established accounting control through formal adoption of an annual budget for the Governmental Fund. The budget is prepared on a basis consistent with generally accepted accounting principles. The adopted budget can be amended by the Commission to change both appropriations and estimated revenues as unforeseen circumstances come to management's attention. Increases and decreases in revenue and appropriations require Commission's approval. Expenditures may not exceed total appropriations at the individual fund level. It is the practice of the Commission's management to review the budget monthly and provide quarterly updates to the Commission.

2. **Excess Expenditures over Appropriations**

For the fiscal year ended June 30, 2019, the Commission's expenditures exceeded appropriations by \$41,560.