

**COUNTY OF SAN BERNARDINO
SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 70
ZONE L**

REPORT ON AUDIT

JUNE 30, 2008

County of San Bernardino Special Districts
County Service Area No. 70
Zone L
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 District County Service Area
 No. 70 - Zone L

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the business-type activities, and the aggregate remaining fund information of the County of San Bernardino Special District County Service Area No. 70 - Zone L (CSA), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2008, which collectively comprise the CSA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the State Controller's Minimum Audit Requirement for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, and the aggregate remaining fund information of the County of San Bernardino Special District County Service Area No. 70 - Zone L, as of June 30, 2008, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

The County of San Bernardino Special District County Service Area No. 70 - Zone L has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Rogers, Anderson, Malody & Scott, LLP

November 26, 2008

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**County of San Bernardino Special Districts
County Service Area No. 70 - Zone L
Statement of Net Assets
Proprietary Fund
June 30, 2008**

	<u>Enterprise Fund</u> <u>Water Services</u>
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 133,122
Interest receivable	1,544
Total Current Assets	134,666
Noncurrent Assets:	
Capital assets:	
Land	96,159
Improvements to land	2,701,959
Construction in progress	72,538
Accumulated depreciation	(1,546,840)
Total Noncurrent Assets	1,323,816
Total Assets	1,458,482
LIABILITIES	
Current Liabilities:	
Accrued interest payable	14,500
Matured bonds payable	5,000
Bonds payable	70,000
Total Current Liabilities	89,500
Noncurrent Liabilities:	
Bonds payable	800,000
Total Noncurrent Liabilities	800,000
Total Liabilities	889,500
NET ASSETS	
Invested in capital assets, net of related debt	448,816
Unrestricted	120,166
Total Net Assets	\$ 568,982

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 70 - L
Statement of Revenues, Expenses and Changes in Fund Net Assets
June 30, 2008

	Enterprise Fund Water Services
OPERATING REVENUES	
Water sales	\$ 3,535,832
Connection fees	440,970
Other services	57,906
Total Operating Revenues	4,034,708
OPERATING EXPENSES	
Professional services	176,635
Salaries and benefits	2,025,913
Services and supplies	1,128,024
Rents and leases	602
Utilities	740,199
Depreciation	774,842
Other	2,014,296
Total Operating Expenses	6,860,511
Operating Loss	(2,825,803)
NONOPERATING REVENUES (EXPENSES)	
Investment earnings	762,732
Investment expense	(164,934)
Property taxes	930,019
Special assessments	307,104
Other taxes	74,345
State assistance	13,896
Penalties	114,169
Other	(156,647)
Loss on disposal of capital assets	(2,091,606)
Total Nonoperating Revenues (Expenses)	(210,922)
EXTRAORDINARY ITEM	
Net contributions to other government	(25,951,855)
Change in Net Assets	(28,988,580)
Net Assets - beginning	29,557,562
Net Assets - ending	\$ 568,982

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
County Service Area No. 70 - Zone L
Statement of Cash Flows
Proprietary Fund
June 30, 2008**

	<u>Enterprise Fund Water Services</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 4,474,670
Payments to suppliers	(4,272,911)
Payments to employees	(2,025,913)
	<u>(1,824,154)</u>
 CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Property taxes	1,030,059
Special assessments	307,104
State assistance	13,896
Other taxes	74,345
Penalties	114,169
Other nonoperating expenses	(169,026)
	<u>1,370,547</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal paid on bonds	(70,000)
Interest paid on bonds	(212,098)
Principal paid on long-term debt	(93,380)
Acquisition of capital assets	679,836
	<u>304,358</u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
Investment earnings	920,912
Contribution to other government	(15,285,855)
	<u>(14,364,943)</u>
Net Cash Used for Investing Activities	<u>(14,364,943)</u>
Net Decrease in Cash and Cash Equivalents	(14,514,192)
Cash and Cash Equivalents – beginning of the year	<u>14,647,314</u>
Cash and Cash equivalents – end of the year	<u>\$ 133,122</u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
County Service Area No. 70 - Zone L
Statement of Cash Flows
Proprietary Fund
June 30, 2008**

	<u>Enterprise Fund</u> <u>Water Services</u>
Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	\$ (2,825,803)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation expense	770,812
Change in assets and liabilities:	
Decrease in accounts receivable, net	390,681
Decrease in due from other governments	49,281
Decrease in accounts payable	(177,213)
Decrease in due to other governments	(31,912)
Net Cash Used for Operating Activities	\$ (1,824,154)

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
County Service Area No. 70 - Zone L
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2008**

ASSETS

Cash and investments	<u>\$ 2,884</u>
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Total Assets	<u><u>\$ 2,884</u></u>
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LIABILITIES

Due to bondholders	<u>\$ 2,884</u>
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Total Liabilities	<u><u>\$ 2,884</u></u>
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County of San Bernardino Special Districts
County Service Area No. 70 - Zone L
Notes to Financial Statements
June 30, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement focus, basis of accounting, and financial statement presentation

The CSA reports its activities as an enterprise funds, which is used to account for operations that are financed and operated in a manner similar to business enterprises, where the intent of providing goods and services to the general public on a continuing basis be financed primarily through user charges.

The accompanying 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 timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Property taxes are considered to be susceptible to accrual have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period.

The government reports the following major proprietary fund:

The *enterprise fund* labeled "Water Services" accounts for the activities of the government's water services.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are allowed in proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for the business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expense from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

Deposits and investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone L
Notes to Financial Statements
June 30, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (e.g., the current portion of interfund loans) or "advances to/from other funds" (e.g., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All receivables are shown net of an allowance for uncollectibles when applicable.

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1st and become delinquent with penalties on August 31st.

Inventories and prepaid items

Inventories, if any, are valued at cost using the first-in/first-out method. The costs of inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the proprietary statements.

Capital assets

Capital assets, which include property, plant, and equipment are reported in the proprietary financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of two years. Structures with an initial cost of \$100,000 are considered capital assets. 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.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

**County of San Bernardino Special Districts
County Service Area No. 70 - Zone L
Notes to Financial Statements
June 30, 2008**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment of the government is depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Infrastructure	40 - 60
Structures and improvements	5 - 40
Equipment and vehicles	4 - 15

Long-term obligations

In the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Fund equity

In the financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of estimates

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

Stewardship, compliance and accountability

A. Budgetary information

Although the District prepared and adopts an annual budget, budgetary information is not presented because the District is not legally required to adopt a budget.

NOTE 2: CASH AND DEPOSITS

Cash and cash equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and cash equivalents are shown at the fair value as of June 30, 2008.

See the County of San Bernardino's Comprehensive Annual Financial Report (CAFR) for details of their investment policy and disclosures related to investment credit risk, concentration of credit risk, interest rate risk and custodial credit risk, as required by GASB Statement No. 40.

**County of San Bernardino Special Districts
County Service Area No. 70 - Zone L
Notes to Financial Statements
June 30, 2008**

NOTE 3: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 436,593	\$ -	\$ (340,434)	\$ 96,159
Construction in progress	1,956,215	679,836	(2,563,513)	72,538
Total capital assets, not being depreciated	<u>2,392,808</u>	<u>679,836</u>	<u>(2,903,947)</u>	<u>168,697</u>
Capital assets, being depreciated:				
Improvements to land	28,233,618	-	(25,531,659)	2,701,959
Structures and improvements	642,655	-	(642,655)	-
Vehicles	83,929	-	(83,929)	-
Equipment	30,994	-	(30,994)	-
Total capital assets, being depreciated	<u>28,991,196</u>	<u>-</u>	<u>(26,289,237)</u>	<u>2,701,959</u>
Less accumulated depreciation for:				
Improvements to land	(12,533,804)	(721,480)	11,708,444	(1,546,840)
Structures and improvements	(166,747)	(51,468)	218,215	-
Vehicles	(83,929)	-	83,929	-
Equipment	(4,602)	(1,894)	6,496	-
Total accumulated depreciation	<u>(12,789,082)</u>	<u>(774,842)</u>	<u>12,017,084</u>	<u>(1,546,840)</u>
Total capital assets, being depreciated, net	<u>16,202,114</u>	<u>(774,842)</u>	<u>(14,272,153)</u>	<u>1,155,119</u>
Business-type activities capital assets, net	<u>\$ 18,594,922</u>	<u>\$ (95,006)</u>	<u>\$(17,176,100)</u>	<u>\$ 1,323,816</u>

NOTE 4: REFUNDING OF 1915 ACT BONDS

On June 30, 1994, the County's Assessment District 94-2 issued a Limited Obligation Refunding Bond (the Assessment Bond) under the provisions of the Refunding Act of 1984 for 1915 Improvement Act Bonds for the purpose of refunding eleven prior series of assessment district bonds of the County. The prior series assessment bonds of Assessment District #81-1, #82-6, #84-2, #84-4 and #87-3 amounting to \$9,575,000 were refunded. The Assessment Bond is payable from reassessment payments, collected on assessed parcels within Assessment District 94-2, of which Assessment District #81-1, #82-6, #84-2, #84-4 and #87-3 are subareas. Exhibit "I" shows the cash and investments of the Agency funds including Assessment Districts #81-1, #82-4, #82-6, #84-2, #84-4 and #87-3 which represent reserve funds of the Assessment District County Service Area No. 70 Zone G, L and L-1 at June 30, 2008.

**County of San Bernardino Special Districts
County Service Area No. 70 - Zone L
Notes to Financial Statements
June 30, 2008**

NOTE 4: REFUNDING OF 1915 ACT BONDS (continued)

The County has no obligation to advance funds to pay debt service on the Assessment Bond in the event collections are insufficient. However, the County may, at its option and in its sole discretion, elect to advance available surplus funds of the County in the amount of any delinquent payments to pay debt service on the Assessment Bond.

NOTE 5: LONG-TERM DEBT

Business-type activities

General obligation bond - matured

In 1974, the Board of Supervisors approved the issuance of general obligation bonds to finance construction of a water facility. Bonds were issued under the authority provided under the County Service Area Law of the California Government Code. The matured bonds payable amounts to \$5,000 at June 30, 2008.

General obligation bonds - outstanding

County Service Area No. 70, Zone L, has two series of outstanding general obligation bonds issued to finance water distribution projects in the Pinon Hills area. A summary of bonds payable is as follows:

	<u>Interest Rates (%)</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Amount of Original Issue</u>	<u>Outstanding as of June 30, 2008</u>
Series A	5.00	3/1/1978	3/1/2018	\$ 1,708,000	\$ 770,000
Series B	5.00	3/1/1978	3/1/2018	275,000	100,000
				<u>\$ 1,983,000</u>	<u>\$ 870,000</u>
					\$ 70,000
					<u>800,000</u>
					<u>\$ 870,000</u>

**County of San Bernardino Special Districts
County Service Area No. 70 - Zone L
Notes to Financial Statements
June 30, 2008**

NOTE 5: LONG-TERM DEBT (continued)

The following is a schedule of debt service requirements to maturity as of June 30, 2008 for the District's bonds payable:

Year Ending June 30,	Series A	Series B	Total
2009	\$ 98,500	\$ 15,000	\$ 113,500
2010	100,500	14,500	115,000
2011	102,250	14,000	116,250
2012	98,750	13,500	112,250
2013	100,250	13,000	113,250
2014 - 2018	496,500	57,500	554,000
Total Payments	996,750	127,500	1,124,250
Less: Interest	(226,750)	(27,500)	(254,250)
Total Principal	<u>\$ 770,000</u>	<u>\$ 100,000</u>	<u>\$ 870,000</u>

Loan payable

The CSA 70, Zone L, entered into an Enterprise Fund Installment Agreement (the Agreement) dated December 17, 2002 with the California Infrastructure and Economic Development Bank (CIEDB) to fund water system improvements known as the County Service Area 70 - Water Tank Project. According to the Agreement, the CIEDB will issue a total amount of \$5,001,000 in Infrastructure State Revolving Fund Program Revenue Bonds (the Bonds) to the CSA on a reimbursement basis. The CSA has agreed to make installment payments to the CIEDB on the Bonds, secured by a pledge of first lien on all the pledged net system revenue and all amounts in the CSA. The term of the agreement is thirty years from December 17, 2002 at an interest rate of 3.50%. Total amounts reimbursed by the CIEDB from inception to June 30, 2008 was \$3,581,759 and the principal amount paid by the CSA on the Bond was \$506,525. The remainder of the loan payable balance was assumed by the Phelan-Pinion Hills Community Service District per LAFCO resolution No. 2989 as of March 18, 2008. The balance of the CIEDB loan assumed was \$3,075,234.

**County of San Bernardino Special Districts
County Service Area No. 70 - Zone L
Notes to Financial Statements
June 30, 2008**

NOTE 5: LONG-TERM DEBT (continued)

Change in long-term liabilities

The following is a schedule of changes in long-term debt of the CSA for the fiscal year ended June 30, 2008.

	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Business-type activities:					
<i>Bonds payable:</i>					
Matured bonds	\$ 5,000	\$ -	\$ -	\$ 5,000	\$ 5,000
Series A	830,000	-	(60,000)	770,000	60,000
Series B	110,000	-	(10,000)	100,000	10,000
Total bonds payable	<u>945,000</u>	<u>-</u>	<u>(70,000)</u>	<u>875,000</u>	<u>75,000</u>
<i>Loan payable:</i>					
Enterprise Fund Installment Sale Agreement	3,168,614	-	(3,168,614)	-	-
Business-type activity long-term liabilities	<u>\$ 4,113,614</u>	<u>\$ -</u>	<u>\$(3,238,614)</u>	<u>\$ 875,000</u>	<u>\$ 75,000</u>

NOTE 6: RETIREMENT PLAN

Plan Description

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the "Plan") operating under the California County Employees Retirement Act of 1937 ("1937 Act"). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (MDAQMD) and the South Coast Air Quality Management District (AQMD), were later included, along with the County of San Bernardino (the "County"), and are collectively referred to as the "Participating Members." The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. 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.

Fiduciary Responsibility

The Retirement Association is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2008.

**County of San Bernardino Special Districts
County Service Area No. 70 - Zone L
Notes to Financial Statements
June 30, 2008**

NOTE 6: RETIREMENT PLAN (continued)

Funding Policy

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary based on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). General members are required to contribute 8.97% - 12.84% and safety members 11.14% - 15.09% of their annual covered salaries, of which the County pays approximately 7%. County of San Bernardino employer contribution rates are 12.03% for general members and 24.84% for safety members. All employers combined are required to contribute 14.46% of the current year covered payroll. For 2008, the County's annual pension cost of \$203,712,000 was equal to the County's required and actual contributions. 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.

The County's annual pension cost and prepaid asset, computed in accordance with GASB 27, *Accounting for Pensions by State and Local Governmental Employers*, for the year ended June 30, 2008, were as follows (in thousands):

Annual Required Contribution (County fiscal year basis)	\$ 203,712
Interest on Pension Assets	(32,917)
Adjustment to the Annual Required Contribution	47,803
Annual Pension Cost	<u>218,598</u>
Annual Contributions Made	<u>203,712</u>
Increase/(Decrease) in Pension Assets	(14,886)
Pension Assets, Beginning of Year	<u>828,602</u>
Pension Assets, End of Year	<u><u>\$ 813,716</u></u>

The following table shows the County's required contributions and percentage contributed for the current year and two preceding years:

<u>Year Ended June 30,</u>	<u>Annual Contributions Made (in thousands)</u>		<u>Percentage Contributed</u>
	<u>SBCERA</u>	<u>County</u>	
2006	\$ 197,343	\$ 166,614	100%
2007	\$ 239,857	\$ 194,130	100%
2008	\$ 241,721	\$ 203,712	100%

The County, along with the AQMD, issued Pension Refunding Bonds (the "Bonds") in November 1995 with an aggregate amount of \$420,527,000. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan, and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266,000. In April 2008, the County refunded a portion of the Bonds. The current amount outstanding at June 30, 2008 is \$432,767,000.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone L
Notes to Financial Statements
June 30, 2008

NOTE 6: RETIREMENT PLAN (continued)

On June 24, 2004, the County issued its County of San Bernardino Pension Obligation Bonds, Series 2004 A (Fixed Rate Bonds), its County of San Bernardino Pension Obligation Bonds, Series 2004 B (Auction Rate Bonds), and its County of San Bernardino Pension Obligation Bonds, Series 2004 C (Index Bonds) in respective aggregate principal amounts of \$189,070,000, \$149,825,000, and \$125,000,000. The Bonds were issued to finance the County's share of the unfunded accrued actuarial liability of the SBCERA. In April 2008, the County refunded a portion of the Series 2004 A and all of the 2004 Series B. The current amount outstanding at June 30, 2008 is \$301,595,000.

In April 2008, the County of San Bernardino issued its \$160,900,000 in Pension Obligation Refunding Bonds (POB), Series 2008 (the "Series 2008 Bonds"). The current amount outstanding at June 30, 2008 is \$160,900,000.

NOTE 7: FEDERAL AND STATE GRANTS

From time to time the CSA may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

NOTE 8: RISK MANAGEMENT

The CSA is insured through the County's self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$1 million per occurrence. Excess insurance coverage over the Self-Insured Retention (SIR) up to \$35 million is provided through a Risk Pool Agreement with California State Association of Counties Excess Insurance Authority (CSAC EIA) Liability Program II. Workers' compensation claims are self-insured up to \$2 million per occurrence and covered by CSAC EIA for up to \$10 million for employer's liability and up to \$50 million for workers' compensation per occurrence. Property damage claims are insured on an occurrence basis over a \$25,000 deductible, and insured with CSAC EIA Property Program.

The County supplements its self-insurance for medical malpractice claims with CSAC EIA, which provides annual coverage on a per claim basis with an SIR of \$1 million for each claim. Maximum coverage under the policy is \$11.5 million per claim with an additional \$10 million in limits provided by the CSAC EIA General Liability II Program.

All public officials and County employees are insured under a blanket Comprehensive Disappearance, Destruction, and Dishonesty policy covering County monies and securities, also with CSAC EIA with a \$100,000 deductible, and excess limits up to \$10 million per occurrence.

**County of San Bernardino Special Districts
County Service Area No. 70 - Zone L
Notes to Financial Statements
June 30, 2008**

NOTE 8: RISK MANAGEMENT (continued)

The activities related to such programs are accounted for in the County's Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance, which are accounted for in the County's General Fund. The IBNR (Incurred But Not Reported) and IBNS (Incurred But Not Settled) liabilities stated on the Risk Management Fund's balance sheet are based upon the results of actuarial studies, and include amounts for allocated and unallocated loss adjustment expenses. The liabilities for these claims are reported using a discounted rate of 2.75%. It is the County's practice to obtain actuarial studies on an annual basis.

The total claims liability of \$149.3 million reported at June 30, 2008 is based on the requirements of GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements, and the amount of the loss can be reasonably estimated.

Changes in the claims liability amount in fiscal years 2007 and 2008 were:

<u>Fiscal Year</u>	<u>Beginning of Fiscal Year Liability (in thousands)</u>	<u>Current Year Claims and Changes in Estimates (in thousands)</u>	<u>Claims Payments (in thousands)</u>	<u>End of Fiscal Year Liability (in thousands)</u>
2006-07	\$ 127,233	\$ 34,312	\$ (31,862)	\$ 129,683
2007-08	\$ 129,683	\$ 51,702	\$ (32,064)	\$ 149,321

NOTE 9: EXTRAORDINARY ITEM

During the fiscal year ended June 30, 2008, the Local Agency Formation Commission of the County of San Bernardino (LAFCO) passed Resolution No. 2994, which reorganized several CSA's and formed the Phelan-Pinon Hills Community Services District (CSD). CSA 56 was detached and CSA 9, CSA 56 Improvement Zone F-1, CSA 70 Improvement Zone P-4, and a portion of CSA 70 Improvement Zone L were dissolved. As of March 18, 2008, the CSAs transferred assets and their corresponding liabilities to the CSD. The net of the contribution to the CSD is shown as an extraordinary item on the Statement of Revenues, Expenditures and Change in Net Assets for the Proprietary Fund for the year ended June 30, 2008.