

**COUNTY OF SAN BERNARDINO
SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 70
ZONE S-7 - LENWOOD SEWER
IMPROVEMENTS PROJECT**

REPORT ON AUDIT

JUNE 30, 2008

**County of San Bernardino Special Districts
County Service Area No. 70
Zone S-7 - Lenwood Sewer Improvements Project
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County of San Bernardino
County of San Bernardino Special
District County Service Area
Zone S-7 - Lenwood Sewer
Improvement Project

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the major fund and the aggregate remaining fund information of the County of San Bernardino Special District County Service Area Zone S-7 - Lenwood Sewer (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 opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the major fund and the aggregate remaining fund information of the County of San Bernardino Special District County Service Area Zone S-7 - Lenwood Sewer, as of June 30, 2008, and the respective changes in financial position and its cash flows 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 budgetary comparison information on page 23 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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The County of San Bernardino Special District County Service Area Zone S-7 - Lenwood Sewer 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the CSA's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly presented in all material respects in relation to the component unit financial statements taken as a whole.

Rogers, Anderson, Malody + Scott, LLP

November 26, 2008

County of San Bernardino Special Districts
County Service Area No. 70 - Zone S-7 - Lenwood Sewer Improvements Project
Statement of Net Assets
June 30, 2008

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 128,716	\$ 649,647	\$ 778,363
Interest receivable	-	7,738	7,738
Capital assets, net of depreciation	-	6,404,986	6,404,986
Total Assets	128,716	7,062,371	7,191,087
LIABILITIES			
	-	-	-
NET ASSETS			
Invested in capital assets, net of related debt	-	6,404,986	6,404,986
Unrestricted	128,716	657,385	786,101
Total Net Assets	\$ 128,716	\$ 7,062,371	\$ 7,191,087

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

County of San Bernardino Special Districts
County Service Area No. 70 - Zone S-7 - Lenwood Sewer Improvements Project
Statement of Activities
For the Year Ended June 30, 2008

	Governmental Activities	Business-type Activities	Total
EXPENSES			
Services and supplies	\$ -	\$ 2,934	\$ 2,934
Depreciation	730	94,191	94,921
Intergovernmental	113,020	-	113,020
Total Program Expenses	<u>113,750</u>	<u>97,125</u>	<u>210,875</u>
PROGRAM REVENUES			
Charges for services	125,735	2,456	128,191
Total Program Revenue	<u>125,735</u>	<u>2,456</u>	<u>128,191</u>
Net Program Revenue (Expense)	<u>11,985</u>	<u>(94,669)</u>	<u>(82,684)</u>
GENERAL REVENUES			
Property taxes	2,519	-	2,519
Investment earnings	180	36,857	37,037
Other	-	100	100
Total General Revenues	<u>2,699</u>	<u>36,957</u>	<u>39,656</u>
Change in Net Assets	14,684	(57,712)	(43,028)
Net Assets – beginning, restated	<u>114,032</u>	<u>7,120,083</u>	<u>7,234,115</u>
Net Assets - ending	<u>\$ 128,716</u>	<u>\$ 7,062,371</u>	<u>\$ 7,191,087</u>

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

County of San Bernardino Special Districts
County Service Area No. 70 - Zone S-7 - Lenwood Sewer Improvements Project
Balance Sheet
Governmental Funds
June 30, 2008

	SPECIAL REVENUE FUND	OTHER GOVERNMENTAL FUNDS	Total Governmental Funds
	AD 01-01 Redemption (RNJ)		
ASSETS			
Cash and cash equivalents	\$ 120,400	\$ 8,316	\$ 128,716
Total Assets	\$ 120,400	\$ 8,316	\$ 128,716
LIABILITIES AND FUND BALANCES			
Liabilities	\$ -	\$ -	\$ -
Fund Balances:			
Unreserved:			
Undesignated	120,400	8,316	128,716
Total Fund Balances	120,400	8,316	128,716
Total Liabilities and Fund Balances	\$ 120,400	\$ 8,316	
None			-
Net Assets of Governmental Activities			\$ 128,716

Amounts reported for *governmental activities* in the statement of net assets (Exhibit "A") are different because:

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

County of San Bernardino Special Districts
County Service Area No. 70 - Zone S-7 - Lenwood Sewer Improvements Project
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2008

	SPECIAL REVENUE FUND		
	AD 01-01 Redemption (RNJ)	OTHER GOVERNMENTAL FUNDS	Total Governmental Funds
REVENUES			
Property taxes	\$ 2,519	\$ -	\$ 2,519
Special assessments	125,735	-	125,735
Investment earnings	59	121	180
Total Revenues	128,313	121	128,434
EXPENDITURES			
	-	-	-
Excess of Revenues Over (Under) Expenditures	128,313	121	128,434
OTHER FINANCING SOURCES (USES)			
Transfer out	(108,517)	-	(108,517)
Total Other Financing Sources	(108,517)	-	(108,517)
Net Change in Fund Balances	19,796	121	19,917
Fund Balances - beginning	100,604	8,195	108,799
Fund Balances - ending	<u>\$ 120,400</u>	<u>\$ 8,316</u>	<u>\$ 128,716</u>

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

**County of San Bernardino Special Districts
County Service Area No. 70 - Zone S-7 - Lenwood Sewer Improvements Project
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Funds to the
Statement of Activities
For the Year Ended June 30, 2008**

Net Change in Fund Balances - Total Governmental Funds	\$	19,917
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense (\$730) exceeded capital outlay (\$-0-) in the current period.		(730)
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Net capital contributions from other governments decrease net assets in the statement of activities, but do not appear in the governmental funds because they are not financial resources.		(4,503)
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Change in Net Assets of Governmental Activities	\$	<u>14,684</u>
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The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone S-7 - Lenwood Sewer Improvements Project
Statement of Net Assets
Proprietary Fund
June 30, 2008

	ENTERPRISE FUND
	Sewer
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 649,647
Interest receivable	7,738
Total Current Assets	657,385
Noncurrent Assets:	
Capital Assets:	
Improvements to land	6,499,177
Accumulated depreciation	(94,191)
Total Noncurrent Assets	6,404,986
Total Assets	7,062,371
LIABILITIES	-
NET ASSETS	
Invested in capital assets, net of related debt	6,404,986
Unrestricted	657,385
Total Net Assets	\$ 7,062,371

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

County of San Bernardino Special Districts
County Service Area No. 70 - Zone S-7 - Lenwood Sewer Improvements Project
Statement of Revenues, Expenses, and Change in Net Assets
Proprietary Fund
For the Year Ended June 30, 2008

	ENTERPRISE FUND
	Sewer
OPERATING REVENUES	
Connection fees	\$ 2,237
Other	219
Total Operating Revenues	2,456
OPERATING EXPENSES	
Services and supplies	2,934
Depreciation	94,191
Total Operating Expenses	97,125
Operating (Loss)	(94,669)
NONOPERATING REVENUES (EXPENSES)	
Investment earnings	36,857
Interest expense	-
Other	100
Total Nonoperating Revenues (Expenses)	36,957
Change in Net Assets	(57,712)
Net Assets – beginning, restated	7,120,083
Net Assets – ending	\$ 7,062,371

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

**County of San Bernardino Special Districts
County Service Area No. 70 - Zone S-7 - Lenwood Sewer Improvements Project
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2008**

	ENTERPRISE FUND
	Sewer
CASH FLOWS FROM OPERATING ACTIVITIES	
Payments received from customers	\$ 2,456
Payments to suppliers	(2,934)
Net Cash (Used for) Operating Activities	(478)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Other nonoperating revenue	100
Net Cash Provided by Noncapital Financing Activities	100
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment earnings	36,229
Net Cash Provided by Investing Activities	36,229
Cash and Cash Equivalents – beginning of the year	613,796
Cash and Cash Equivalents – end of the year	\$ 649,647
Reconciliation of operating (loss) to net cash (used for) operating activities:	
Operating (loss)	\$ (94,669)
Adjustments to reconcile operating (loss) to net cash (used for) operating activities:	
Depreciation expense	94,191
Net Cash (Used for) Operating Activities	\$ (478)

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

County of San Bernardino Special Districts
County Service Area No. 70 - Zone S-7 - Lenwood Sewer Improvements Project
Statement of Fiduciary Net Assets
Fiduciary Fund
June 30, 2008

	ENTERPRISE FUND
	Sewer
ASSETS	
Cash and cash equivalents	\$ 6,360
Total Assets	\$ 6,360
LIABILITIES	
Due to bondholders	\$ 6,360
Total Liabilities	\$ 6,360

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

County of San Bernardino Special Districts
County Service Area No. 70 Zone S-7 - Lenwood Sewer Improvements Project
Notes to Financial Statements
June 30, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The County Service Area (CSA) No. 70 Zone S-7 - Lenwood Sewer Improvements Project was established by an act of the Board of Supervisors of the County of San Bernardino (the County) on December 19, 1977 to provide sewer services to the community of Lenwood.

The CSA is a component unit of the County of San Bernardino and is governed by the actions of the County Board of Supervisors.

The accompanying financial statements reflect only the accounts of the County Service Area No 70 - Zone S-7 - Lenwood Sewer Improvement Project of the County of San Bernardino and are not intended to present the financial position of the County taken as a whole.

Because the CSA meets the reporting entity criteria established by the Governmental Accounting Standards Board (GASB), the CSA's financial statements have also been included in the Comprehensive Annual Financial Report of the County as a "component unit" for the fiscal year ended June 30, 2008.

Government-wide and fund financial statements

The government-wide financial statements (e.g., the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the reporting entity. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. *Governmental activities* normally are supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

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 timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

County of San Bernardino Special Districts
County Service Area No. 70 Zone S-7 - Lenwood Sewer Improvements Project
Notes to Financial Statements
June 30, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both 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. However, for revenue derived from voluntary non-exchange transactions, such as federal and state grants, the County expanded its definition of "available" to 9 months. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and 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. All other revenue items are considered to be measurable and available only when cash is received by the government.

The CSA reports the following major governmental fund:

The *special revenue fund* labeled "AD 01-01 Redemption" accounts for the collection of property owner approved assessments to pay debt service.

The government reports the following major proprietary fund:

The *enterprise fund* labeled "Sewer" accounts for the activities of the government's sewer services.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and 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 their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

County of San Bernardino Special Districts
County Service Area No. 70 Zone S-7 - Lenwood Sewer Improvements Project
Notes to Financial Statements
June 30, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Proprietary funds distinguish operating revenues and expenses 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.

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 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 governmental fund-type 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 both government-wide and fund financial statements.

**County of San Bernardino Special Districts
County Service Area No. 70 Zone S-7 - Lenwood Sewer Improvements Project
Notes to Financial Statements
June 30, 2008**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital assets

Capital assets, which include property, plant and equipment, are reported in the applicable governmental activities columns in the government-wide 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 one (1) year. Donated capital assets are recorded at estimated fair market value at the date of donation.

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.

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

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

Assets	Years
Improvements to Land	20 - 45
Equipment	6 - 15

Fund equity

In the fund 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

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the CSA prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for fixed assets within each fund.

County of San Bernardino Special Districts
County Service Area No. 70 Zone S-7 - Lenwood Sewer Improvements Project
Notes to Financial Statements
June 30, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special CSA's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

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 S-7 - Lenwood Sewer Improvements Project
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
Governmental activities:				
Capital assets, not being depreciated:				
Equipment	\$ 10,223	\$ -	\$ (10,223)	\$ -
Total capital assets, not being depreciated	10,223	-	(10,223)	-
Less accumulated depreciation for:				
Equipment	(4,990)	(730)	5,720	-
Total accumulated depreciation	(4,990)	(730)	5,720	-
Total capital assets, being depreciated, net	5,233	(730)	(4,503)	-
Governmental activities capital assets, net	<u>\$ 5,233</u>	<u>\$ (730)</u>	<u>\$ (4,503)</u>	<u>\$ -</u>
Business-type activities:				
Capital assets, being depreciated				
Improvements to land	\$ 6,499,177 *	\$ -	\$ -	\$ 6,499,177
Total capital assets, being depreciated	6,499,177	-	-	6,499,177
Less accumulated depreciation for:				
Improvements to land	-	(94,191)	-	(94,191)
Total accumulated depreciation	-	(94,191)	-	(94,191)
Total capital assets, being depreciated, net	6,499,177	(94,191)	-	6,404,986
Business-type activities capital assets, net	<u>\$ 6,499,177</u>	<u>\$ (94,191)</u>	<u>\$ -</u>	<u>\$ 6,404,986</u>

* See Note 10: Prior Period Adjustment.

County of San Bernardino Special Districts
County Service Area No. 70 Zone S-7 - Lenwood Sewer Improvements Project
Notes to Financial Statements
June 30, 2008

NOTE 4: 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.

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.

County of San Bernardino Special Districts
County Service Area No. 70 Zone S-7 - Lenwood Sewer Improvements Project
Notes to Financial Statements
June 30, 2008

NOTE 4: RETIREMENT PLAN (continued)

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.

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.

County of San Bernardino Special Districts
County Service Area No. 70 Zone S-7 - Lenwood Sewer Improvements Project
Notes to Financial Statements
June 30, 2008

NOTE 5: 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 6: 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.

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.

**County of San Bernardino Special Districts
County Service Area No. 70 Zone S-7 - Lenwood Sewer Improvements Project
Notes to Financial Statements
June 30, 2008**

NOTE 6: RISK MANAGEMENT (continued)

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 7: LONG-TERM DEBT

1915 Limited Obligation Improvements Bonds

The County acts as an agent for the property owners benefited by the projects financed from special assessment bond proceeds, in collecting the assessments, forwarding the collections to bondholders and initiating foreclosure proceedings, if appropriate. Special assessment bonds of \$2,074,000 at June 30, 2008 do not represent a liability of the County and, as such, do not appear in the accompanying basic financial statements.

NOTE 8: CONTINGENCIES

As of June 30, 2008, in the opinion of the CSA Administration, there are no outstanding matters, which would have a significant effect on the financial position of the CSA.

NOTE 9: PRIOR PERIOD ADJUSTMENT

Beginning net assets for the Governmental Activities has been adjusted to correct an error in the beginning balances of the Improvements to Land, Bonds Payable and Accrued Interest accounts. At June 30, 2007, \$6,499,177 was reported as Construction in Progress in *governmental activities* when it should have been reported as Improvements to Land in *business-type activities* while \$2,096,500 and \$28,827 were reported as Bonds Payable and Accrued Interest in *governmental activities* when it should not have been reported in the financial statements since this debt does not represent a liability of the County.

**County of San Bernardino Special Districts
County Service Area No. 70 Zone S-7 - Lenwood Sewer Improvements Project
Notes to Financial Statements
June 30, 2008**

NOTE 9: PRIOR PERIOD ADJUSTMENT (continued)

Beginning net assets for the *enterprise fund* labeled "Sewer" has been adjusted to correct an error in the beginning balances of the Improvements to Land account. At June 30, 2007, the amount was reported as Construction in Progress in *governmental activities* when it should have been reported as Improvements to Land in *business-type activities*. Accordingly, the beginning net assets of both the governmental activities and business-type activities have been adjusted as follows:

	Governmental Activities	Business-type Activities
	<u> </u>	<u> </u>
Net assets – beginning, as previously reported	\$ 4,487,882	\$ 620,906
Prior period adjustment	<u>(4,373,850)</u>	<u>6,499,177</u>
Net assets – beginning, as restated	<u>\$ 114,032</u>	<u>\$ 7,120,083</u>

County of San Bernardino Special Districts
County Service Area No. 70 Zone S-7 - Lenwood Sewer Improvements Project
Budgetary Comparison Schedule
Special Revenue Fund (AD01-01 Redemption)
For the Year Ended June 30, 2008

	SPECIAL REVENUE FUND			Variance with Final Budget Positive (Negative)
	AD 01-01 Redemption (RNJ)			
	Original Budget	Final Budget	Actual	
REVENUES				
Property taxes	\$ 2,000	\$ 2,000	\$ 2,519	\$ 519
Special assessments	116,000	116,000	125,735	9,735
Investment earnings	-	-	59	59
Total Revenues	<u>118,000</u>	<u>118,000</u>	<u>128,313</u>	<u>10,313</u>
EXPENDITURES				
Debt service:				
Interest	218,603	218,603	-	218,603
Total Expenditures	<u>218,603</u>	<u>218,603</u>	<u>-</u>	<u>218,603</u>
Excess of Revenues Over (Under) Expenditures	<u>(100,603)</u>	<u>(100,603)</u>	<u>128,313</u>	<u>228,916</u>
OTHER FINANCING SOURCES (USES)				
Transfer out	-	-	(108,517)	(108,517)
Total Other Financing Sources	<u>-</u>	<u>-</u>	<u>(108,517)</u>	<u>(108,517)</u>
Net Change in Fund Balance	<u>\$ (100,603)</u>	<u>\$ (100,603)</u>	19,796	<u>\$ 120,399</u>
Fund Balance - beginning			<u>100,604</u>	
Fund Balance - ending			<u>\$ 120,400</u>	

County of San Bernardino Special Districts
County Service Area No. 70 Zone S-7 - Lenwood Sewer Improvements Project
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2008

	<u>SPECIAL REVENUE FUNDS</u>			Total Nonmajor Governmental Funds (see Exhibit "C")
	<u>Sewer (SNJ)</u>	<u>AD 2001-01 Collection (SNK)</u>	<u>Cap Replce Res (SNN)</u>	
ASSETS				
Cash and cash equivalents	\$ -	\$ 8,308	\$ 8	\$ 8,316
Total Assets	<u>\$ -</u>	<u>\$ 8,308</u>	<u>\$ 8</u>	<u>\$ 8,316</u>
LIABILITIES AND FUND BALANCES				
Liabilities	\$ -	\$ -	\$ -	\$ -
Fund Balances:				
Unreserved:				
Undesignated	-	8,308	8	8,316
Total Fund Balances	-	8,308	8	8,316
Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ 8,308</u>	<u>\$ 8</u>	<u>\$ 8,316</u>

**County of San Bernardino Special Districts
County Service Area No. 70 Zone S-7 - Lenwood Sewer Improvements Project
Combining Statement of Revenues, Expenditures and
Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2008**

	SPECIAL REVENUE FUNDS			Total Nonmajor Governmental Funds (see Exhibit "D")
	Sewer (SNJ)	AD 2001-01 Collection (SNK)	Cap Replce Res (SNN)	
REVENUES				
Investment earnings	\$ 104	\$ 9	\$ 8	\$ 121
Total Revenues	<u>104</u>	<u>9</u>	<u>8</u>	<u>121</u>
EXPENDITURES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	104	9	8	121
Fund Balances – beginning	<u>(104)</u>	<u>8,299</u>	<u>-</u>	<u>8,195</u>
Fund Balances - ending	<u>\$ -</u>	<u>\$ 8,308</u>	<u>\$ 8</u>	<u>\$ 8,316</u>