

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

FINANCIAL STATEMENTS

JUNE 30, 2010

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

	Exhibit	Page
ACCOUNTANT'S REVIEW REPORT		1 - 2
BASIC FINANCIAL STATEMENTS		
Government-Wide Financial Statements		
Statement of Net Assets	A	3
Statement of Activities	B	4
Fund Financial Statements		
Balance Sheet - Governmental Fund	C	5
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Fund	D	6
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Fund to the Statement of Activities	E	7
Statement of Net Assets - Proprietary Fund	F	8
Statement of Revenues, Expenses and Changes in Net Assets - Proprietary Fund	G	9
Statement of Cash Flows - Proprietary Fund	H	10
Statement of Fiduciary Assets and Liabilities – Fiduciary Fund	I	11
Notes to Financial Statements		12 - 21
Required Supplementary Information	Schedule	
Budgetary Comparison Schedule - Special Revenue Fund (Capital Replacement Reserve)	One	22



ROGERS, ANDERSON, MALODY & SCOTT, LLP

CERTIFIED PUBLIC ACCOUNTANTS

ROBERT B. MEMORY, C.P.A. (1945-2009)

OF COUNSEL
JAY H. ZERCHER, C.P.A.

PHILLIP H. WALLER, C.P.A.
BRENDA L. ODLE, C.P.A.
TERRY P. SHEA, C.P.A.
KIRK A. FRANKS, C.P.A.
MATTHEW B. WILSON, C.P.A.
SCOTT W. MANNO, C.P.A.
LEENA SHANBHAG, C.P.A.

NANCY O'RAFFERTY, C.P.A.
BRADFORD A. WELEBIR, C.P.A.
JENNY LIU, C.P.A.
KATIE L. MILLSOM, C.P.A.
JONATHAN R. KUHN, C.P.A.
PAPA MATAR THIAW, C.P.A.
KATHERINE J. MUIR, C.P.A.
MAYA S. IVANOVA, C.P.A.
CHRISTOPHER MONTOYA, C.P.A.
DANIELLE E. ODGERS, C.P.A.

Board of Supervisors
County of San Bernardino
County of San Bernardino Special
District County Service Area
Zone S-7 - Lenwood Sewer
Improvements Project

ACCOUNTANT'S REVIEW REPORT

We have reviewed 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 No. 70 - Zone S-7 - Lenwood Sewer Improvements Project (CSA) as of and for the year ended June 30, 2010, which collectively comprise the CSA's basic financial statements as listed in the table of contents, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of the CSA.

A review consists principally of inquiries of CSA personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

The budgetary comparison information on page 22 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. Such information has not been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, but was compiled from information that is the representation of management, without audit or review. Accordingly, we do not express an opinion or any other form of assurance on the supplementary information.

Our review was made for the purpose of expressing limited assurance that there are no material modifications that should be made to the financial statements in order for them to be in conformity with generally accepted accounting principles.

MEMBERS

AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

PCPS THE AICPA ALLIANCE FOR CPA FIRMS

CALIFORNIA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

VANIR TOWER • 290 NORTH "D" STREET • SUITE 300
SAN BERNARDINO, CA 92401
(909) 889-0871 • (909) 824-6736 • FAX (909) 889-5361
Website: www.ramscpa.net

The County of San Bernardino Special District County Service Area No. 70 - Zone S-7 - Lenwood Sewer Improvements Project 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, LPA

November 30, 2010

County of San Bernardino Special Districts
County Service Area No. 70 - Zone S-7 - Lenwood Sewer Improvements Project
Statement of Net Assets
June 30, 2010

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ -	\$ 731,974	\$ 731,974
Interest receivable	-	2,149	2,149
Capital assets, net of depreciation	-	12,931,028	12,931,028
Total Assets	-	13,665,151	13,665,151
LIABILITIES			
Due to other governments	-	1,181	1,181
Total Liabilities	-	1,181	1,181
NET ASSETS			
Invested in capital assets	-	12,931,028	12,931,028
Unrestricted	-	732,942	732,942
Total Net Assets	\$ -	\$ 13,663,970	\$ 13,663,970

The accompanying notes are an integral part of these financial statements.
See accompanying accountant's report.

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, 2010

	Governmental Activities	Business-type Activities	Total
EXPENSES			
Professional services	\$ -	\$ 12,362	\$ 12,362
Salaries and benefits	-	4,654	4,654
Services and supplies	-	4,677	4,677
Depreciation	-	396,947	396,947
Total Program Expenses	-	418,640	418,640
PROGRAM REVENUE			
Charges for services	-	8,641	8,641
Net Program Expense	-	(409,999)	(409,999)
GENERAL REVENUES			
Investment earnings	-	7,730	7,730
Other	-	21,802	21,802
TRANSFERS - INTERNAL ACTIVITIES			
Total General Revenues	(18)	18	-
	(18)	29,550	29,532
Change in Net Assets	(18)	(380,449)	(380,467)
Net Assets - beginning	18	14,044,419	14,044,437
Net Assets - ending	\$ -	\$ 13,663,970	\$ 13,663,970

The accompanying notes are an integral part of these financial statements.
See accompanying accountant's report.

**County of San Bernardino Special Districts
 County Service Area No. 70 - Zone S-7 - Lenwood Sewer Improvements Project
 Balance Sheet
 Governmental Fund
 June 30, 2010**

	SPECIAL REVENUE FUND
	Capital Replacement Reserve (SNN)
ASSETS	\$ -
Total Assets	\$ -
LIABILITIES AND FUND BALANCE	
Liabilities	\$ -
Fund Balance	-
Total Liabilities and Fund Balance	\$ -
Total Fund Balance - Governmental Fund	\$ -
<p style="margin-left: 40px;">Amounts reported for <i>governmental activities</i> in the statement of net assets (Exhibit "A") are different because:</p>	
None	-
Net Assets of Governmental Activities	\$ -

The accompanying notes are an integral part of these financial statements.
 See accompanying accountant's report.

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 Balance
Governmental Fund
For the Year Ended June 30, 2010

	SPECIAL REVENUE FUND
	Capital Replacement Reserve (SNN)
REVENUES	\$ -
EXPENDITURES	-
Excess Revenues Over (Under) Expenditures	-
OTHER FINANCING SOURCES	
Transfer out	(18)
Total Other Financing Sources	(18)
Net Change in Fund Balance	(18)
Fund Balance - beginning	18
Fund Balance - ending	\$ -

The accompanying notes are an integral part of these financial statements.
See accompanying accountant's report.

**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 Balance of Governmental Fund to the
 Statement of Activities
 For the Year Ended June 30, 2010**

Net Change in Fund Balance - Total Governmental Fund	\$	(18)
--	----	------

Amounts reported for *governmental activities* in the statement of activities are different because:

None

-

Change in Net Assets of Governmental Activities	\$	(18)
---	----	------

The accompanying notes are an integral part of these financial statements.
 See accompanying accountant's report.

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, 2010

	ENTERPRISE FUND <hr/> Sewer <hr/>
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 731,974
Interest receivable	2,149
Total Current Assets	<hr/> 734,123 <hr/>
Noncurrent Assets:	
Capital Assets:	
Improvements to land	13,704,739
Accumulated depreciation	<hr/> (773,711) <hr/>
Total Noncurrent Assets	<hr/> 12,931,028 <hr/>
Total Assets	<hr/> 13,665,151 <hr/>
LIABILITIES	
Current Liabilities:	
Due to other governments	<hr/> 1,181 <hr/>
Total Current Liabilities	<hr/> 1,181 <hr/>
Total Liabilities	<hr/> 1,181 <hr/>
NET ASSETS	
Invested in capital assets	12,931,028
Unrestricted	<hr/> 732,942 <hr/>
Total Net Assets	<hr/> \$ 13,663,970 <hr/>

The accompanying notes are an integral part of these financial statements.
 See accompanying accountant's report.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone S-7 - Lenwood Sewer Improvements Project
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Fund
For the Year Ended June 30, 2010

	ENTERPRISE FUND
	Sewer
OPERATING REVENUES	
Other	\$ 8,641
Total Operating Revenues	8,641
OPERATING EXPENSES	
Professional services	12,362
Salaries and benefits	4,654
Services and supplies	4,677
Depreciation	396,947
Total Operating Expenses	418,640
Operating Loss	(409,999)
NONOPERATING REVENUES	
Investment earnings	7,730
Other	21,802
Total Nonoperating Revenues	29,532
Loss before Transfers	(380,467)
Transfers in	18
Change in Net Assets	(380,449)
Net Assets - beginning	14,044,419
Net Assets - ending	\$ 13,663,970

The accompanying notes are an integral part of these financial statements.
See accompanying accountant's report.

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, 2010

	ENTERPRISE FUND
	Sewer
CASH FLOWS FROM OPERATING ACTIVITIES	
Payments received from customers	\$ 8,641
Payments to suppliers	(15,858)
Payments to employees	(4,654)
Net Cash Used for Operating Activities	(11,871)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Other nonoperating revenue	21,802
Net Cash Provided by Noncapital Financing Activities	21,802
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Transfers from other funds	18
Net Cash Provided by Capital and Related Financing Activities	18
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment earnings	9,042
Net Cash Provided by Investing Activities	9,042
Net Increase in Cash and Cash Equivalents	18,991
Cash and Cash Equivalents - beginning of the year	712,983
Cash and Cash Equivalents - end of the year	\$ 731,974
Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	\$ (409,999)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation expense	396,947
Change in assets and liabilities:	
Increase in due to other governments	1,181
Net Cash Used for Operating Activities	\$ (11,871)

The accompanying notes are an integral part of these financial statements.
See accompanying accountant's report.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone S-7 - Lenwood Sewer Improvements Project
Statement of Fiduciary Assets and Liabilities
Fiduciary Fund
June 30, 2010

ASSETS

Cash and cash equivalents	<u>\$ 137,324</u>
---------------------------	-------------------

Total Assets	<u><u>\$ 137,324</u></u>
--------------	--------------------------

LIABILITIES

Due to bondholders	<u>\$ 137,324</u>
--------------------	-------------------

Total Liabilities	<u><u>\$ 137,324</u></u>
-------------------	--------------------------

The accompanying notes are an integral part of these financial statements.
See accompanying accountant's report.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone S-7 - Lenwood Sewer Improvements Project
Notes to Financial Statements
June 30, 2010

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, 2010.

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, 2010

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 “Capital Replacement Reserve” accounts for the activities and/or assets set aside to replace and/or improve the sewer system.

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, 2010

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, 2010**

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, 2010

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 CSA's account based upon the CSA's average daily deposit balance during the allocation period. Cash and cash equivalents are shown at the fair value as of June 30, 2010.

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, 2010

NOTE 3: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Business-type activities:				
Capital assets, being depreciated				
Improvements to land	\$ 13,704,739	\$ -	\$ -	\$ 13,704,739
Total capital assets, being depreciated	13,704,739	-	-	13,704,739
Less accumulated depreciation for:				
Improvements to land	(376,764)	(396,947)	-	(773,711)
Total accumulated depreciation	(376,764)	(396,947)	-	(773,711)
Total capital assets, being depreciated, net	13,327,975	(396,947)	-	12,931,028
Business-type activities capital assets, net	\$ 13,327,975	\$ (396,947)	\$ -	\$ 12,931,028

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, California State Association of Counties, South Coast Air Quality Management District (SCAQMD), San Bernardino Associated Governments (SANBAG), Local Agency Formation Commission (LAFCO), San Bernardino County Law Library, Barstow Fire Protection District, Hesperia Recreation and Parks District, SBCERA, City of Chino Hills, Crest Forest Fire District, Mojave Desert Air Quality Management District (MDAQMD), California Electronic Recording Transaction Network Authority (CERTNA), Inland Valley Development Agency (IVDA), San Bernardino International Airport Authority (SBIAA), the San Bernardino County Superior Court Inland Library System (ILS) and Rim of the World Recreation and Parks District (RIM-REC) were later included, along with the County, and are collectively referred to as the "Participating Members." The plan is governed by the SBCERA 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.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone S-7 - Lenwood Sewer Improvements Project
Notes to Financial Statements
June 30, 2010

NOTE 4: RETIREMENT PLAN (continued)

Fiduciary Responsibility

SBCERA 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. SBCERA publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. SBCERA 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 SBCERA pension trust fund as of June 30, 2010.

Funding Policy

Participating members are required by statute (Sections 31621.6 and 31639.25 of the California Government Code) to contribute a percentage of covered salary based on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). General members are required to contribute 7.42% - 12.96% and safety members 9.52% - 15.29% of their annual covered salaries, of which the County pays approximately 7%. County of San Bernardino employer contribution rates are as follows: County General 11.25%, County Safety 24.46%. All employers combined are required to contribute 13.95% of the current year covered payroll. For 2010, the County's annual pension cost of \$197,097,000 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, 2010, were as follows (in thousands):

Annual Required Contribution (County fiscal year basis)	\$ 197,097
Interest on Pension Assets	(4,131)
Adjustment to the Annual Required Contribution	32,488
Annual Pension Cost	<u>225,454</u>
Annual Contributions Made	197,097
Increase/(Decrease) in Pension Assets	<u>(28,357)</u>
Pension Assets, Beginning of Year	769,745
Pension Assets, End of Year	<u><u>\$ 741,388</u></u>

County of San Bernardino Special Districts
County Service Area No. 70 - Zone S-7 - Lenwood Sewer Improvements Project
Notes to Financial Statements
June 30, 2010

NOTE 4: RETIREMENT PLAN (continued)

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

Year Ended June 30,	Annual Contributions Made (in thousands)		Percentage Contributed
	SBCERA	County	
2008	\$ 241,721	\$ 203,712	100%
2009	246,232	200,300	100%
2010	243,773	197,097	100%

The County, along with the SCAQMD, 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 SCAQMD 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. The outstanding liability at June 30, 2010 is \$423,652,000.

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 all of the 2004 Series B. The outstanding liability at June 30, 2010 is \$294,515,000.

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 outstanding liability at June 30, 2010 is \$158,327,000.

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.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone S-7 - Lenwood Sewer Improvements Project
Notes to Financial Statements
June 30, 2010

NOTE 6: RISK MANAGEMENT

The County has 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 \$2 million per occurrence. Excess insurance coverage over the Self-Insured Retention (SIR) up to \$50 million is provided through a combination of insurance policies as recommended by AON Risk Services, Broker of Record, as follows: Primary Liability coverage \$25 million excess of \$2.5 million SIR with CV Starr/Everest; Excess Liability coverage of \$10 million, excess of \$25 million with Allied World Insurance Company (AWAC); and Excess Liability coverage \$15 million, excess of \$35 million with Great American Insurance Company of New York. Workers' compensation claims are self-insured up to \$5 million per occurrence, and covered by Arch Ins. Co. for up to \$3 million for employer's liability, and up to statutory limits for workers' compensation per occurrence. Property damage claims are insured on an occurrence basis over a \$25 thousand deductible, and insured with several insurers like Lexington Ins. Co., Affiliated FM, and Lloyd's of London, among others.

The County supplements its self-insurance for medical malpractice claims with Steadfast Ins. Co., which provides annual coverage on a per claim basis with an SIR of \$2 million for each claim. Maximum coverage under the policy is \$25 million in limits per claim provided by Illinois Union Ins. Co.

All public officials and County employees are insured under a blanket Comprehensive Disappearance, Destruction, and Dishonesty policy covering County monies and securities, with National Union Fire Ins. Co. of Pittsburgh with a \$100 thousand deductible, and excess limits up to \$10 million per occurrence.

The activities related to such programs are accounted for in Risk Management except for unemployment insurance, and employee dental insurance, which are accounted for in the General Fund. The IBNR (Incurred But Not Reported) and IBNS (Incurred But Not Settled) liabilities stated on Risk Management'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 1.70%. It is Risk Management's practice to obtain actuarial studies on an annual basis.

The total claims liability of \$145.4 million reported at June 30, 2010 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, 2010

NOTE 6: RISK MANAGEMENT (continued)

Changes in the claims liability amount in fiscal years 2009 and 2010 were:

Fiscal Year	Beginning of Fiscal Year Liability (in thousands)	Current Year Claims and Changes in Estimates (in thousands)	Claims Payments (in thousands)	End of Fiscal Year Liability (in thousands)
2008-09	\$ 149,321	\$ 32,909	\$ (32,289)	\$ 149,941
2009-10	\$ 149,941	\$ 37,441	\$ (45,000)	\$ 142,382

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 \$2,026,100 at June 30, 2010 do not represent a liability of the County and, as such, do not appear in the accompanying basic financial statements.

NOTE 8: TRANSFERS IN/OUT

Interfund transfers are transactions used to close out a fund, reimburse an operating fund, and transfer cash between operating funds and capital projects funds. At June 30, 2010, the CSA made the following interfund transfers in and out:

<u>Transfers out:</u>	<u>Transfers in: Proprietary Fund (ECZ)</u>
Capital Replacement Reserve (SNN)	<u>\$ 18</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 (Cap Replce Res)
June 30, 2010

	SPECIAL REVENUE FUND			Variance with Final Budget Positive (Negative)
	Capital Replacement Reserve (SNN)			
	Original Budget	Final Budget	Actual	
REVENUES	\$ -	\$ -	\$ -	\$ -
EXPENDITURES				
Reserves and contingencies	18	18	-	18
Total Expenditures	18	18	-	18
Excess Revenues Over (Under) Expenditures	(18)	(18)	-	18
OTHER FINANCING SOURCES				
Transfers out	-	-	(18)	(18)
Total Other Financing Sources	-	-	(18)	(18)
Net Change in Fund Balance	<u>\$ (18)</u>	<u>\$ (18)</u>	(18)	<u>\$ -</u>
Fund Balance - beginning			18	
Fund Balance - ending			<u>\$ -</u>	