

**COUNTY OF SAN BERNARDINO**

**CALIFORNIA**

**SPECIAL DISTRICTS**

**AUDIT REPORT**

**COUNTY SERVICE AREA 64 – SPRING VALLEY LAKE**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**Prepared by:  
Internal Audits Section  
Office of the Auditor-Controller/Treasurer/Tax Collector  
June 30, 2011**

**County of San Bernardino Special Districts  
County Service Area 64 – Spring Valley Lake**

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**LARRY WALKER**  
Auditor-Controller/  
Treasurer/Tax Collector

**Independent Auditor's Report**

**June 30, 2011**

**Jeffrey O. Rigney, Director**  
Office of Special Districts  
157 W. Fifth Street, Second Floor  
San Bernardino, CA 92415-0450

**SUBJECT: AUDIT OF COUNTY SERVICE AREA 64 FOR THE FISCAL YEAR ENDED  
JUNE 30, 2010**

**Introductory Remarks**

In compliance with Section 26909 of the California Government Code, we have completed an audit of County Service Area (CSA) 64 for the fiscal year ended June 30, 2010.

**Auditor's Report**

We have audited the accompanying financial statements of the business-type activities of CSA 64 (District), a component unit of the County of San Bernardino, California, as of and for the year ended June 30, 2010, which comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District'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 minimum audit requirements and reporting guidelines for California Special Districts required by the Office of the State Controller. 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.



**County of San Bernardino**  
**County Service Area 64 – Spring Valley Lake**  
**Statement of Net Assets**  
**June 30, 2010**

	<u>Enterprise Fund</u>		<u>Total</u>
	<u>Sewer</u>	<u>Water</u>	
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents - unrestricted (Note 2)	\$ 2,427,699	\$ 4,028,839	\$ 6,456,538
Cash and cash equivalents - restricted (Note 2 & 3)	50,780	-	50,780
Accounts receivable (net)	219,937	271,863	491,800
Taxes receivable	-	24,324	24,324
Special assessments receivable	1,222	258	1,480
Interest receivable	6,587	13,163	19,750
Due from other funds	-	8,074	8,074
Total current assets	<u>2,706,225</u>	<u>4,346,521</u>	<u>7,052,746</u>
Noncurrent assets:			
Capital assets (Note 4):			
Land	10,000	-	10,000
Construction in progress	-	1,783,973	1,783,973
Improvements to land	4,019,471	1,898,301	5,917,772
Structures and improvements	218,810	56,290	275,100
Equipment and vehicles	110,322	19,991	130,313
Utility plant-in-service	-	369,760	369,760
Less accumulated depreciation	<u>(2,848,783)</u>	<u>(1,570,908)</u>	<u>(4,419,691)</u>
Total noncurrent assets	<u>1,509,820</u>	<u>2,557,407</u>	<u>4,067,227</u>
Total assets	<u>4,216,045</u>	<u>6,903,928</u>	<u>11,119,973</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable and other current liabilities	138,704	113,509	252,213
Retentions payable	-	48,462	48,462
Matured bonds payable (Note 5 & 8)	30,000	-	30,000
Interest payable on matured bonds (Note 5 & 8)	20,780	-	20,780
Due to other funds	8,074	-	8,074
Due to other governments	1,300	14,491	15,791
Loans payable	79,323	-	79,323
Total current liabilities	<u>278,181</u>	<u>176,462</u>	<u>454,643</u>
Total liabilities	<u>278,181</u>	<u>176,462</u>	<u>454,643</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	1,400,497	2,557,407	3,957,904
Unrestricted	2,537,367	4,170,059	6,707,426
Total net assets	<u>\$ 3,937,864</u>	<u>\$ 6,727,466</u>	<u>\$ 10,665,330</u>

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

**County of San Bernardino**  
**County Service Area 64 – Spring Valley Lake**  
**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**For the Fiscal Year Ended June 30, 2010**

	<b>Enterprise Fund</b>		<b>Total</b>
	<b>Sewer</b>	<b>Water</b>	
<b>OPERATING REVENUES</b>			
<b>Charges for services:</b>			
Sanitation services	\$ 1,574,846	\$ -	\$ 1,574,846
Water sales	-	1,633,073	1,633,073
Permit & inspection fees	657	420	1,077
Penalties	49,521	54,785	104,306
Special assessments	27,008	24,693	51,701
Other services	-	7,696	7,696
Total operating revenues	<u>1,652,032</u>	<u>1,720,667</u>	<u>3,372,699</u>
<b>OPERATING EXPENSES</b>			
Professional services	1,009,876	819,125	1,829,001
Services and supplies	467,804	597,242	1,065,046
Water mitigation (Note 9)	-	353,285	353,285
Utilities	12,188	179,420	191,608
Rents and leases	9,385	346	9,731
Depreciation	106,943	34,793	141,736
Total operating expenses	<u>1,606,196</u>	<u>1,984,211</u>	<u>3,590,407</u>
Operating income (loss)	<u>45,836</u>	<u>(263,544)</u>	<u>(217,708)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Property taxes	200,677	189,733	390,410
Other taxes	36	6,595	6,631
State aid	-	5,005	5,005
Investment earnings	24,244	49,849	74,093
Connection fees	31,332	52,124	83,456
Other nonoperating revenues (expenses)	(11,303)	79,340	68,037
Total nonoperating revenues (expenses)	<u>244,986</u>	<u>382,646</u>	<u>627,632</u>
Change in net assets	290,822	119,102	409,924
<b>Net assets - beginning</b>	<u>3,647,042</u>	<u>6,608,364</u>	<u>10,255,406</u>
<b>Net assets - ending</b>	<u>\$ 3,937,864</u>	<u>\$ 6,727,466</u>	<u>\$ 10,665,330</u>

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

**County of San Bernardino  
County Service Area 64 – Spring Valley Lake  
Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2010**

	<b>Enterprise Fund</b>		<b>Total</b>
	<b>Sewer</b>	<b>Water</b>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 1,604,038	\$ 1,675,025	\$ 3,279,063
Payments to suppliers of goods and services	(1,535,211)	(1,973,602)	(3,508,813)
Miscellaneous receipts (expenses)	(11,303)	79,340	68,037
Net cash provided (used) by operating activities	<u>57,524</u>	<u>(219,237)</u>	<u>(161,713)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Taxes received	202,750	208,752	411,502
State aid	-	5,005	5,005
Net cash provided (used) by noncapital financing activities	<u>202,750</u>	<u>213,757</u>	<u>416,507</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Acquisition of capital assets	(110,322)	(720,236)	(830,558)
Connection fees for future expansion	31,322	52,124	83,446
Proceeds from revolving loan	79,323	-	79,323
Net cash provided (used) by capital and related financing activities	<u>323</u>	<u>(668,112)</u>	<u>(667,789)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest received	27,668	60,997	88,665
Net cash provided by investing activities	<u>27,668</u>	<u>60,997</u>	<u>88,665</u>
Net increase (decrease) in cash and cash equivalents	288,265	(612,595)	(324,330)
Cash and cash equivalents, beginning of the year	2,190,214	4,641,434	6,831,648
Cash and cash equivalents, end of the year	<u>\$ 2,478,479</u>	<u>\$ 4,028,839</u>	<u>\$ 6,507,318</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>			
Operating income (loss)	\$ 45,836	\$ (263,544)	\$ (217,708)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	106,943	34,793	141,736
Miscellaneous receipts (expenses)	(11,303)	79,340	68,037
Change in assets and liabilities:			
Accounts receivable and other receivables	(48,004)	(45,642)	(93,646)
Accounts payable and other payables	(35,958)	(24,184)	(60,142)
<b>Net cash provided (used) by operating activities</b>	<u>\$ 57,514</u>	<u>\$ (219,237)</u>	<u>\$ (161,723)</u>

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

**County of San Bernardino  
County Service Area 64 – Spring Valley Lake  
Notes to Financial Statements  
For the Fiscal Year Ended June 30, 2010**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

The County Service Area No. 64 – Spring Valley Lake (District) was established on December 30, 1968 by an act of the Board of Supervisors of the County of San Bernardino (the County) to provide sewer and water services. CSA 64 currently provides sewer services to approximately 4,200 equivalent dwelling units (EDU's) and maintains 3 lift stations. CSA 64 also provides water services to approximately 3,800 customers and maintains 5 wells, 1 booster station and 3 water tanks.

The District is a component unit of the County. Component units are legally separate organizations for which the Board is financially accountable or other organizations whose nature and significant relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and either (1) the County has the ability to impose its will on the organization, or (2) there is potential for the organization to provide a financial benefit to or impose a financial burden on the County.

The accompanying financial statements reflect only the accounts of the County Service Area No. 64 – Spring Valley Lake of the County of San Bernardino and are not intended to present the financial position of the County taken as a whole.

Because the District meets the reporting entity criteria established by the Governmental Accounting Standards Board (GASB), the District'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.

**Measurement focus, basis of accounting, and financial statement presentation**

The proprietary fund 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.

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. The principal operating revenues of the District's enterprise funds are charges to customers for water sales and sanitation services. Operating expenses for enterprise funds include the cost of salaries and benefits, services and supplies, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

**County of San Bernardino  
County Service Area 64 – Spring Valley Lake  
Notes to Financial Statements  
For the Fiscal Year Ended June 30, 2010**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued***

The Department of Special Districts allocates the cost of salaries and benefits, administrative services, and management services to the District. These costs are presented on the financial statements as professional services, an operating expense.

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.

**Receivables**

The District sends any delinquent accounts receivable to property tax to be included on the customers' property tax bills. As of June 30, 2010, accounts receivable were \$235,905 for the sewer function and \$282,511 for the water function, less allowance for doubtful accounts of \$15,968 and \$10,648, respectively.

**Property taxes**

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

**Capital assets**

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the enterprise fund. 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. 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 asset lives are expensed. Major outlays for capital assets that improve quality, efficiency, and productive output are capitalized.

**County of San Bernardino  
County Service Area 64 – Spring Valley Lake  
Notes to Financial Statements  
For the Fiscal Year Ended June 30, 2010**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued***

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

<u>Assets</u>	<u>Years</u>
Infrastructure	10-100
Structures and Improvements	up to 45
Equipment	5-15

**Net assets**

Net assets comprise the various net earnings from operating and nonoperating revenues, expenses and contribution of capital. Net assets are classified in the following three components:

- Invested in capital assets, net of related debt – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted – This component of net assets consists of net assets of the County that are not restricted for any project or other purpose.

**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.

**County of San Bernardino  
County Service Area 64 – Spring Valley Lake  
Notes to Financial Statements  
For the Fiscal Year Ended June 30, 2010**

**NOTE 2: CASH AND CASH EQUIVALENTS**

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

Cash and cash equivalents include the cash balances of all funds, which are pooled and invested by the County Treasurer to increase interest earnings through investment activities. Investment activities are governed by the California Government Code Sections 53601, 53635, and 53638 and the County's Investment Policy. Authorized investments include U. S. Government Treasury and Agency securities, bankers' acceptances, commercial paper, medium-term notes, mutual funds, repurchase agreements, and reverse repurchase agreements.

Interest income, and realized gains and losses earned on pooled investments are deposited quarterly to the District's accounts based upon the District's average daily deposit balances during the quarter. Unrealized gains and losses of the pooled investments are distributed to the District annually. Cash and cash equivalents are shown at fair value. As of June 30, 2010, Cash and cash equivalents are reported in the District's financial statement in the amount of \$6,507,318.

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

**NOTE 3: RESTRICTED CASH**

The District issued bonds under the authority of California Government Code Section 25210.1 to finance certain water and sewer improvements. The District reports the bonds according to the provisions of Governmental Accounting Standards Board Codification Section S40. All the District's bonds matured as of the fiscal year ending June 30, 2004. The portion of the matured Bonds and interest held by the Auditor-Controller/Treasurer/Tax-Collector of the County of San Bernardino amounting to \$50,780 is reported as restricted cash.

**County of San Bernardino**  
**County Service Area 64 – Spring Valley Lake**  
**Notes to Financial Statements**  
**For the Fiscal Year Ended June 30, 2010**

**NOTE 4: CAPITAL ASSETS**

Capital asset activities during the year were as follows:

	<u>Balance</u> <u>July 1, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2010</u>
<b>Sewer</b>				
Capital assets, not being depreciated:				
Land	\$ 10,000	\$ -	\$ -	\$ 10,000
Total capital assets, not being depreciated	<u>10,000</u>	<u>-</u>	<u>-</u>	<u>10,000</u>
Capital assets, being depreciated:				
Land improvements	4,019,471	-	-	4,019,471
Structures and improvements	218,810	-	-	218,810
Equipment and vehicles	-	110,322	-	110,322
Total capital assets, being depreciated	<u>4,238,281</u>	<u>110,322</u>	<u>-</u>	<u>4,348,603</u>
Less accumulated depreciation for:				
Land improvements	(2,712,260)	(95,952)	-	(2,808,212)
Structures	(29,580)	(4,862)	-	(34,442)
Equipment and vehicles	-	(6,129)	-	(6,129)
Total accumulated depreciation	<u>(2,741,840)</u>	<u>(106,943)</u>	<u>-</u>	<u>(2,848,783)</u>
Total capital assets, being depreciated, net	<u>1,496,441</u>	<u>3,379</u>	<u>-</u>	<u>1,499,820</u>
<b>Capital assets, net</b>	<b><u>\$ 1,506,441</u></b>	<b><u>\$ 3,379</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 1,509,820</u></b>
	<u>Balance</u> <u>July 1, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2010</u>
<b>Water</b>				
Capital assets, not being depreciated:				
Construction in progress	\$ 1,041,596	\$ 742,732	\$ (355)	\$ 1,783,973
Total capital assets, not being depreciated	<u>1,041,596</u>	<u>742,732</u>	<u>(355)</u>	<u>1,783,973</u>
Capital assets, being depreciated:				
Land improvements	1,898,301	-	-	1,898,301
Structures and improvements	56,290	-	-	56,290
Equipment and vehicles	19,991	-	-	19,991
Utility plant in-service	369,760	-	-	369,760
Total capital assets, being depreciated	<u>2,344,342</u>	<u>-</u>	<u>-</u>	<u>2,344,342</u>
Less accumulated depreciation for:				
Land improvements	(1,400,079)	(18,535)	-	(1,418,614)
Structures	(17,423)	(8,041)	-	(25,464)
Equipment and vehicles	(19,991)	-	-	(19,991)
Utility plant in-service	(98,622)	(8,217)	-	(106,839)
Total accumulated depreciation	<u>(1,536,115)</u>	<u>(34,793)</u>	<u>-</u>	<u>(1,570,908)</u>
Total capital assets, being depreciated, net	<u>808,227</u>	<u>(34,793)</u>	<u>-</u>	<u>773,434</u>
<b>Capital assets, net</b>	<b><u>\$ 1,849,823</u></b>	<b><u>\$ 707,939</u></b>	<b><u>\$ (355)</u></b>	<b><u>\$ 2,557,407</u></b>

**County of San Bernardino  
County Service Area 64 – Spring Valley Lake  
Notes to Financial Statements  
For the Fiscal Year Ended June 30, 2010**

**NOTE 4: CAPITAL ASSETS - *Continued***

**Construction in Progress**

Construction in progress at June 30, 2010 represents the following projects:

<u>Project Title</u>	<u>Final Budget</u>	<u>Expenses as of 06/30/2010</u>	<u>Projected Fiscal Year of Completion</u>
Service Line Replacement	\$ 1,743,983	\$ 1,248,494	2011
Two 3M Gallon Reservoirs	3,443,642	473,878	2012
Well #7	755,324	61,601	2011
<b>Total</b>	<b><u>\$ 5,942,949</u></b>	<b><u>\$ 1,783,973</u></b>	

The District has entered into several contractual agreements for the development and/or improvement of the capital projects listed above. The balance of these commitments is \$123,295 as of June 30, 2010.

**NOTE 5: SHORT-TERM DEBT**

The schedule of changes in short-term debt is as follows:

	<u>Balance 6/30/09</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/10</u>
Matured bonds payable	\$ 30,000	\$ -	\$ -	\$ 30,000
Matured interest payable	20,780	-	-	20,780
Revolving loan	-	79,323	-	79,323
<b>Total</b>	<b><u>\$ 50,780</u></b>	<b><u>\$ 79,323</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 130,103</u></b>

In November 2009 the District obtained a loan from the County Service Area Revolving Loan Program in the amount of \$79,323 for additional funding needed for the purchase of a street sweeper. The loan was to be repaid no later than ten years after the loan was received and would accrue interest on the unpaid principal balance at the current rate per annum received by the County of San Bernardino on similar types of transactions, as determined by the County Treasurer as of the date of the loan. The loan was repaid within one year with interest of \$695 (October 2010).

**County of San Bernardino  
County Service Area 64 – Spring Valley Lake  
Notes to Financial Statements  
For the Fiscal Year Ended June 30, 2010**

**NOTE 6: TRANSFERS**

Interfund transfers are used to transfer cash to fund capital projects.

**NOTE 7: PROPOSITION 111 APPROPRIATION LIMITS**

Proposition 111, which added Article XIII B to the State Constitution, established limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2009-2010 fiscal year and have found the revenue to be within the guidelines established by Proposition 111.

**NOTE 8: MATURED BONDS AND INTEREST PAYABLE**

In 1972, 1974, 1982, and 1990 the County's Board of Supervisors approved the issuance of Series A, Series B, Series C, and Series D General Obligation Bonds, respectively, to finance the acquisition of water and sewer facilities within the County Service Area 64. Authority for the issuance of the bonds is provided under the County Service Area Law, Section 25210.1 et seq. of the California Government Code.

Series A bonds matured in the fiscal year ending June 30, 2002, Series B bonds matured in the fiscal year ending June 30, 2004, Series C Bonds matured in the fiscal year ending June 30, 1997, and Series D bonds matured in the fiscal year ending June 30, 2000. At June 30, 2010, the District had Matured Bonds Payable of \$30,000 and Interest Payable of \$20,780 from the Series A, Series C, and Series D issuances.

**NOTE 9: MITIGATION EXPENDITURES**

For purposes of defining and implementing a physical solution to the high desert's overdraft of the Mojave Basin Area, a Watermaster was appointed by Riverside County Superior Court in 1996 to oversee the adjudicated area. The District is within a subarea included in the 1996 judgment. If the downstream subarea obligation is not met, producers of water in the upstream Mojave Basin Area then must provide supplemental water to the downstream subarea. To maintain proper water balances within each subarea, the judgment established a Free Production Allowance (FPA) and provides for the Court to review as appropriate. All water produced in excess of the FPA must be replaced through supplemental water, or by transfer of unused FPA from another producer at a cost per acre foot. This action has resulted in quarterly reports that are verified by the Watermaster. This action also resulted in makeup and replacement obligations determined annually by the Watermaster. All makeup and replacement obligations result in supplemental water purchases from the Mojave Water Agency.

**County of San Bernardino**  
**County Service Area 64 – Spring Valley Lake**  
**Notes to Financial Statements**  
**For the Fiscal Year Ended June 30, 2010**

**NOTE 10: RELATED PARTY TRANSACTIONS**

The Victor Valley Wastewater Reclamation Authority (VWRA) is a Joint Powers Authority, and the District is represented on the VWRA board by County Supervisor Brad Mitzelfelt. The District pays the VWRA for sewer connection fees and sewage treatment fees. For fiscal year 2010, VWRA sewer connection fees incurred were approximately \$41,250 and sewage treatment fees incurred were approximately \$544,744. Approximately \$132,010 was due to the VWRA as of June 30, 2010.

**NOTE 11: SELF INSURANCE**

The District 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 \$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 claims made from 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.

**County of San Bernardino  
County Service Area 64 – Spring Valley Lake  
Notes to Financial Statements  
For the Fiscal Year Ended June 30, 2010**

**NOTE 11: SELF INSURANCE - *Continued***

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.

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

<u>Fiscal Year</u>	<u>Beginning of Fiscal Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claims Payments</u>	<u>Balance at Fiscal Year-end</u>
2008-09	\$149,321	\$32,909	(\$32,289)	\$149,941
2009-10	\$149,941	\$40,453	(\$45,000)	\$145,394