

**EAST KERN HEALTH CARE DISTRICT**  
**AUDITED FINANCIAL STATEMENTS**  
**JUNE 30, 2008 AND 2007**

**R** E C E I V E **D**  
OCT 09 2009

**LAFCO**  
San Bernardino County

**EAST KERN HEALTH CARE DISTRICT  
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## **FINANCIAL INFORMATION**

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**INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
East Kern Health Care District  
California City, California

We have audited the accompanying basic financial statements of the East Kern Health Care District as of June 30, 2008 and 2007, and for the years then ended as listed in the Table of Contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the East Kern Health Care District as of June 30, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report thereon dated December 17, 2008, on our consideration of the East Kern Health Care District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations and contracts. The purposes of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Required Supplementary Information, shown as Management Discussion and analysis, as listed in the table of contents, is presented for the purpose of additional analysis and is not required as part of the basic financial statements, but it is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were performed for the purpose of forming an opinion on the basic financial statements of the District as taken as a whole. The accompanying Supplementary Information as listed in the table of contents is presented for purposes of additional financial analysis and is not a required part of the basic financial statements of the District.

East Kern Health Care District  
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Such additional information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Harold W. Manning, CPA*

Harold W. Manning, CPA  
Accountancy Corporation

Ridgecrest, California  
December 17, 2008

**EAST KERN HEALTH CARE DISTRICT  
MANAGEMENT DISCUSSION AND ANALYSIS  
FISCAL YEAR 2007 - 2008**

As management and directors of the East Kern Health Care District we offer the readers of the District financial statements, this narrative overview and analysis of the District for the fiscal year ended June 30 2008.

The District's net assets increased by \$100,913 in fiscal 2007-2008 as compared to \$100,757 in fiscal 2006-2007. There was an operating income for fiscal 2007-2008 of \$89,442 as compared to \$89,317 in fiscal 2006-2007. Operating results remain fairly consistent from year to year. This allows the District to continue to strive towards its long-term goal of funding a hospital facility in the California City, California area.

**Financial Statements**

The Financial Statements presented in this report are provided to readers with a broad overview of the District's finances, in a matter similar to a private sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets or net liabilities.

The statement of revenues, expenses, and changes in net assets presents information showing how net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (i.e. uncollected lease income and amounts due vendors).

Since the District's primary function is to provide an x-ray facility and lease office space to local health care providers, the financial statements only include business type activities.

The accounts of the District are organized based on fund accounting. A fund is a group of related accounts used to maintain control over resources that have been segregated for specific objectives. Because the District provides these services and recovers these costs through user fees and charges, District funds are accounted for as an enterprise fund type of the proprietary fund group.

The financial statements are located on pages 5 through 8.

**Notes to Financial Statements**

The notes provide additional information that is essential for a full understanding of the financial data provided in the financial statements. The notes to the financial statements begin on page 9 of this report.

**Other Information**

In addition to the financial statements and accompanying notes, this report also presents supplementary information regarding the District.

**Contacting the District's Financial Management**

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East Kern Health Care District

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**EAST KERN HEALTH CARE DISTRICT  
MANAGEMENT DISCUSSION AND ANALYSIS  
FISCAL YEAR 2007 - 2008**

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**EAST KERN HEALTH CARE DISTRICT  
COMPARATIVE STATEMENTS OF NET ASSETS  
JUNE 30, 2008 AND 2007**

	<u>JUNE 30, 2008</u>	<u>JUNE 30, 2007</u>
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS</b>		
Cash and Investments	\$ 546,852	\$ 415,579
Accounts Receivable	14,200	7,600
Taxes Receivable	1,962	2,324
Total Current Assets	563,014	425,503
<b>NON-CURRENT ASSETS</b>		
Capital Assets, Net of Accumulated Depreciation	767,154	791,387
Total Assets	\$ 1,330,168	\$ 1,216,890
<b><u>LIABILITIES</u></b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 12,365	\$ -
Total Current Liabilities	12,365	-
<b>LONG-TERM LIABILITIES</b>		
Note Payable	130,000	130,000
Total Liabilities	142,365	130,000
<b><u>NET ASSETS</u></b>		
Invested in Capital Assets, Net of Related Debt Unrestricted	637,154	661,387
	550,649	425,503
Total Net Assets	\$ 1,187,803	\$ 1,086,890

The accompanying Notes to Financial Statements are an integral part of these Statements.

**EAST KERN HEALTH CARE DISTRICT  
COMPARATIVE STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007**

	<u>JUNE 30, 2008</u>	<u>JUNE 30, 2007</u>
<b>OPERATING REVENUES</b>		
Donations	\$ 428	\$ 2,050
Lease Income	52,000	50,140
Property Taxes	166,567	153,815
Total Operating Revenues	218,995	206,005
<b>OPERATING EXPENSES</b>		
Administration and General	17,941	25,741
Depreciation	28,233	27,990
Services & Supplies	83,379	62,957
Total Operating Expenses	129,553	116,688
Operating Income (Loss)	89,442	89,317
<b>NON OPERATING REVENUES (Expenses)</b>		
Cancer Drive, Net of Expenses	1,740	6,417
Interest Income	10,089	6,811
Interest Expenses	(358)	(1,788)
Total Non Operating Revenues (Expenses)	11,471	11,440
Net Increase (Decrease) in Net Assets	100,913	100,757
Net Assets - Beginning of Year	1,086,890	986,133
Net Assets - End of Year	\$ 1,187,803	\$ 1,086,890

The accompanying Notes to Financial Statements are an integral part of these Statements.

**EAST KERN HEALTH CARE DISTRICT  
COMPARATIVE STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007**

	<u>JUNE 30, 2008</u>	<u>JUNE 30, 2007</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash Received from Donations	\$ 428	\$ 2,050
Cash Received from Leasing Activities	45,400	49,014
Cash Received from Taxing Authorities	166,929	151,491
Cash Payments Administration and Services	<u>(88,955)</u>	<u>(88,698)</u>
Net Cash Provided (Used) by Operating Activities	<u>123,802</u>	<u>113,857</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Disposal (Acquisition) of Capital Assets	<u>(4,000)</u>	<u>(2,000)</u>
Net Cash Provided (Used) for Capital and Related Financing Activities	<u>(4,000)</u>	<u>(2,000)</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Cancer Drive, Net of Expenses	<u>1,740</u>	<u>6,417</u>
Net Cash Provided (Used) for Non-Capital and Related Financing Activities	<u>1,740</u>	<u>6,417</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest	10,089	6,811
Payment of Interest Expense	<u>(358)</u>	<u>(1,788)</u>
Net Cash Provided (Used) by Investing Activities	<u>9,731</u>	<u>5,023</u>
Net Increase (Decrease) in Cash and Cash Equivalents	131,273	123,297
Unrestricted Cash and Cash Equivalents - Beginning of Year	<u>415,579</u>	<u>292,282</u>
Unrestricted Cash and Cash Equivalents - End of Year	<u>\$ 546,852</u>	<u>\$ 415,579</u>
<b>FINANCIAL STATEMENT PRESENTATION</b>		
Cash and Cash Equivalents - Unrestricted	<u>\$ 546,852</u>	<u>\$ 415,579</u>
Total Cash and Cash Equivalents	<u>\$ 546,852</u>	<u>\$ 415,579</u>
Interest Paid	<u>\$ 358</u>	<u>\$ 1,788</u>
Taxes Paid	<u>\$ -</u>	<u>\$ -</u>

The accompanying Notes to Financial Statements are an integral part of these Statements.

**EAST KERN HEALTH CARE DISTRICT  
COMPARATIVE STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007**

	<u>JUNE 30, 2008</u>	<u>JUNE 30, 2007</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Operating Income (Loss)	\$ 89,442	\$ 89,317
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation	28,233	27,990
Changes in Assets - (Increase)/Decrease in:		
Accounts Receivable	(6,600)	(1,126)
Taxes Receivable	362	(2,324)
Changes in Liabilites - Increase/(Decrease) in:		
Accounts Payable	12,365	-
Net Cash Provided (Used) by Operating Activities	<u>\$ 123,802</u>	<u>\$ 113,857</u>

The accompanying Notes to Financial Statements are an integral part of these Statements.

**EAST KERN HEALTH CARE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008 AND 2007**

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

East Kern Health Care District (the District) is located in California City, California. The District operates an x-ray facility and leases office space to local health care providers to facilitate the organization and delivery of comprehensive health care services to the people of East Kern County.

The East Kern Health Care District is a special district organized under the California Health and Safety Code. The District operates under an elected board of directors – administrator form of government.

The District accounts for its financial transactions in accordance with the policies and procedures of the State of California – Uniform System of Accounts for Special Districts. The accounting policies of the District conform to generally accepted accounting principles (GAAP) as prescribed by the Government Accounting Standards Board and the American Institute of Certified Public Accountants. The following is a summary of significant accounting policies:

**A. Description of the Reporting Entity**

The East Kern Health Care District is a reporting entity that consists of the District as the oversight and only component unit. Oversight responsibility is determined by such criteria as financial interdependency, selection of governing authority and designation of management, budget control and ability to significantly influence operations.

**B. Fund Accounting**

The accounts of the District are organized on the basis of fund accounting. Resources are allocated to and accounted for in individual funds based on the purpose for which they are to be spent and the means by which spending activities are controlled. The District's funds are accounted for as an enterprise fund type of the proprietary fund group.

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided periodic determination of revenues earned, expenses incurred, and/or net income is appropriated for capital maintenance, public policy, management control, accountability, or other purposes. The District distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with operating an x-ray facility and leasing office space to local health care providers.

**EAST KERN HEALTH CARE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008 AND 2007**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**C. Basis of Accounting and Measurement Focus**

The District accounts for its operation in an enterprise fund using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows.

An enterprise fund distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's principal ongoing operations. The principal operating revenues of the District 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 non-operating revenues and expenses.

**D. Classification of Revenues and Expenses**

Operating revenues are those revenues that are generated by operating an x-ray facility and leasing office space to local health care providers, while operating expenses pertain to the furnishing of those services.

Non-operating revenues and expenses are those revenues and expenses generated that are not directly associated with the normal business of operating an x-ray facility and leasing office space to local health care providers. Non-operating revenues mainly consist of investment income.

**E. Capital Assets**

All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is segregated into retained earnings. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

Depreciation of all exhaustible property, plant and equipment used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on proprietary fund balance sheets. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Buildings and Improvements	5 – 50 years
Equipment	5 – 20 years

**EAST KERN HEALTH CARE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008 AND 2007**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**F. Budgets and Budgetary Accounting**

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to June 30, the District Administrator submits to the Board of Directors a proposed operating and capital budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted for comments.
3. Prior to September 1, the budget is legally enacted.
4. Formal budgetary integration is employed as a management control device during the year for the Proprietary Funds.
5. Budgets for the Proprietary Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).
6. Budgeted amounts are as originally adopted, or as amended. Individual amendments were not material in relation to the original appropriations which were amended.

**G. Deposits and Investments**

The District adopted GASB Statement No. 40, "Deposit and Investment Risk Disclosures," as of July 1, 2004. GASB Statement No. 40 requires governmental entities to assess categories of risk associated with their deposits and investments and disclose these risks.

The District adopted GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", as of July 1, 1997. GASB Statement No. 31 establishes fair value standards for investments in participating interest earning investment contracts, external investment pools, equity securities, option contracts, stock warrants and stock rights that have readily determinable fair values. Accordingly the District reports its investments at fair value in the statement of net assets.

Investments are reported at fair value, which is determined using selected bases. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Cash deposits are reported at carrying amount which reasonably estimates fair value.

**EAST KERN HEALTH CARE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008 AND 2007**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**H. Cash and Cash Equivalents**

The District has adopted GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting". For purposes of reporting cash flows all highly liquid investments (unrestricted assets) with a maturity of three months or less are considered to be cash equivalents.

**I. Inventories**

The District does not maintain an inventory of parts and supplies.

**J. Property Tax**

Secured property taxes attach as an enforceable lien on property as of March 1. Taxes are payable in two installments on November 15 and March 15. Unsecured property taxes are payable in one installment on or before August 31. The County bills and collects the taxes for the District. The District does not receive any property tax revenues directly, however delinquent special assessments are turned over to the County for collection with regular delinquent property tax assessment.

**K. Compensated Absences**

Accumulated vacation and sick leave benefits have not been recorded as liabilities on the books of the District. This liability has been determined to be \$0 as of June 30, 2008 and \$0 as of June 30, 2007.

**L. Comparative Data**

Comparative total data for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the government's financial position of operations. However, comparative data have not been presented in all statements because their inclusion would make certain statements unduly complex and difficult to understand.

**M. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**EAST KERN HEALTH CARE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008 AND 2007**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

N. Net Assets

The financial statements utilize a net asset presentation. Net assets are categorized as investment in fixed assets (net of related debt), restricted and unrestricted.

Invested in Capital Assets (net of related debt) – is intended to reflect the portion of net assets that are associated with non-liquid capital assets less outstanding capital asset related debt.

Restricted Net Assets – represent net assets that have third party (statutory, bond covenant or granting District) limitations on their use.

Unrestricted Net Assets -- represent unrestricted net assets, while management may have categorized and segmented portions of various purposes, the District has the unrestricted authority to revisit or alter these managerial decisions.

O. Changes in Accounting Policy

For the year ended June 30, 2004, the District implemented GASB Statement No. 34 (GASB 34) *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, GASB Statement No 37 (GASB 37) *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*, and GASB Statement No. 38 (GASB 38) *Certain Financial Statement Note Disclosures*. GASB 34 significantly changes the ways state and local governments report their financial information to the public. The preparation of a Management Discussion and Analysis is to clarify the government's financial activities as required by GASB 34. Furthermore, the District notes to the financial statements incorporate modifications as required under GASB 38.

**EAST KERN HEALTH CARE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008 AND 2007**

**NOTE 2 – CASH AND INVESTMENTS**

**General**

The District has adopted Governmental Accounting Standards Board Statement 31 (GASB 31), which requires investments of governmental agencies to be reported at fair value. However, investment pools, such as a state or county treasury, may report the value of short-term investments with remaining maturities of less than 90 days at amortized costs. The majority of the State Treasury investments have a remaining maturity of approximately one and one-half months, while the Kern County Treasury investments have a maturity of approximately fifteen months. In addition, GASB 31 does not apply to immaterial cost/value differences. The District has chosen to reflect investments in the State Treasury and Kern County Treasury at cost, which approximates fair market value.

**Unrestricted**

The unrestricted cash and investments stated at cost consisted of the following at June 30, 2008 and 2007:

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Cash on Hand and in Banks	\$ 502,690	\$ 366,916
Pooled Investments-State of California	44,060	41,968
Pooled Investments-Kern County	102	6,695
Total	<u>\$ 546,852</u>	<u>\$ 415,579</u>

All cash and time deposits are entirely insured or collateralized. The California Government Code requires state banks to secure District deposits by pledging government securities as collateral. The fair value of pledged securities must equal at least 110% of the District's deposits. The District may waive collateral requirements for deposits that are fully insured up to \$100,000 by the Federal Deposit Insurance Corporation (FDIC).

The surplus funds of the District may be invested in any of the approved investments contained in the California Government code Sections 53600 et seq., limited further by the investment policy adopted by the District.

**Restricted**

The District had no restricted Cash and Investments at June 30, 2008 and 2007.

**Investments Authorized by the Entity's Investment Policy**

The District's investment policy authorizes investment in the State Investment Pool (LAIF) administered by the State of California and the County investment pool administered by Kern County. The District's investment policy does not contain any specific provisions intended to limit the District's exposure to interest rate risk, credit risk, and concentration of credit risk.

Additionally, The District may invest idle or surplus funds in accordance with California Government Code Section 53601. The following represents permissible investments per this code section:

- Local agency bonds, notes or warrants within the state
- United States Treasury instruments
- Registered state warrants or treasury notes
- Securities of the U.S. Government, or its agencies
- Bankers acceptances
- Commercial paper

**EAST KERN HEALTH CARE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008 AND 2007**

**NOTE 2 – CASH AND INVESTMENTS (continued)**

- Certificates of deposit (or time deposits) placed with commercial banks and/or savings and loan companies
- Repurchase or reverse repurchase agreements
- Medium term corporate notes
- Shares of beneficial interest issued by diversified management companies
- Certificate of Participation
- Obligations with first priority security
- Collateralized mortgage obligations

**Investments Authorized by Debt Agreements**

Investment of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the District's investment policy. The District had no debt proceeds investments as of June 30, 2008 and 2007.

**Disclosures Relating to Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. As of fiscal year-end, the weighted average maturity of the investments contained in the State of California (LAIF) Investment Pool is approximately one and one-half (1-1/2) months, and the weighted average maturity of the investments contained in the Kern County Investment Pool is approximately fifteen (15) months.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the maturity date of each investment:

	<u>Date</u>	<u>Amount</u>	<u>Adjustment *</u>	<u>Value</u>
State of California Investment Pool (LAIF) Unrestricted	1.5 month average	\$ 44,060	\$ (2)	\$ 44,058
Kern County Investment Pool Unrestricted	15 month average	<u>102</u>	<u>(1)</u>	<u>101</u>
Total Unrestricted		<u>\$ 44,162</u>	<u>\$ (3)</u>	<u>\$ 44,159</u>

\*Due to the immaterial nature of the fair market value difference, the State of California County Investment Pool (LAIF) and Kern County Investment Pool balances are reflected at their carrying amount in the financial statements.

**Disclosures Relating to Credit Risk**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The State of California (LAIF) and Kern County Investment Pools do not have a rating provided by a nationally recognized statistical rating organization.

**EAST KERN HEALTH CARE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008 AND 2007**

NOTE 2 – CASH AND INVESTMENTS (continued)

**Concentration of Credit Risk**

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code.

Investments in any one issuer that represent 5% or more of total investments by reporting unit are as follows:

As of June 30, 2008, \$44060 of the cash and investments were held in the form of a nonnegotiable unrated investment in the State of California (LAIF) Investment Pool.

**Custodial Credit Risk**

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

As of June 30, 2008, \$302,490 of the District's deposits with financial institutions were in excess of federal depository insurance limits but were held in collateralized accounts.

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools such as the State of California (LAIF) and Kern County Investment Pools.

**Investment in External Investment Pools**

The Entity is a voluntary participant in the Local Agency Investment Pool (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

The Entity is also a voluntary participant in the Kern County Investment Pool that is regulated by the California Government Code under the oversight of the Treasurer of the County of Kern. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by Kern County for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by Kern County, which are recorded on an amortized cost basis.

**Derivative Investments**

The District did not directly enter into any derivative investments.

**EAST KERN HEALTH CARE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008 AND 2007**

**NOTE 3 – CAPITAL ASSETS AND DEPRECIATION**

Capital asset activity for the years ended June 30, 2008 and 2007 is presented below:

<b>June 30, 2008</b>	<u>Balance 7/1/07</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/08</u>
Land	\$ 178,205	\$ -	\$ -	\$ 178,205
Buildings	991,501	4,000		995,501
Equipment	103,297			103,297
Furniture and Fixtures	16,677			16,677
Totals	<u>1,289,680</u>	<u>4,000</u>		<u>1,293,680</u>
Accumulated Depreciation	<u>(498,293)</u>	<u>(28,233)</u>		<u>(526,526)</u>
Net	<u>\$ 791,387</u>	<u>\$ (24,233)</u>	<u>\$ -</u>	<u>\$ 767,154</u>

<b>June 30, 2007</b>	<u>7/1/06</u>	<u>Additions</u>	<u>Deletions</u>	<u>6/30/07</u>
Land	\$ 178,205	\$ -	\$ -	\$ 178,205
Buildings	991,501			991,501
Equipment	103,297			103,297
Furniture and Fixtures	14,677	2,000		16,677
Totals	<u>1,287,680</u>	<u>2,000</u>		<u>1,289,680</u>
Accumulated Depreciation	<u>(470,303)</u>	<u>(27,990)</u>		<u>(498,293)</u>
Net	<u>\$ 817,377</u>	<u>\$ (25,990)</u>	<u>\$ -</u>	<u>\$ 791,387</u>

**NOTE 4 – CHANGES IN LONG-TERM DEBT**

A summary of changes in long-term debt for the year ended June 30, 2008 is presented below:

	<u>Balance June 30, 2007</u>	<u>Borrowings</u>	<u>Payments</u>	<u>Balance June 30, 2008</u>
Note payable City of California City Redevelopment Agency. Monthly payments of interest only at 3.30%. Principal Due February 3, 2016.	\$ 130,000	\$ -	\$ -	\$ 130,000

**EAST KERN HEALTH CARE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008 AND 2007**

**NOTE 4 – CHANGES IN LONG-TERM DEBT (Continued)**

Annual requirements to amortize long-term debt including interest are as follows:

Year Ending June 30,	Principal	Interest	TOTAL
2009	\$ -	\$ 4,290	\$ 4,290
2010		4,290	4,290
2011		4,290	4,290
2012		4,290	4,290
2013		4,290	4,290
2014-2016	130,000	11,440	141,440
Total	<u>\$ 130,000</u>	<u>\$ 32,890</u>	<u>\$ 162,890</u>

Balance Sheet Classification: At June 30, 2008	Total Amount	Current Portion	Long-Term Portion
	<u>\$ 130,000</u>	<u>\$ -</u>	<u>\$ 130,000</u>

**NOTE 5 – OPERATING LEASE REVENUES**

The District leases office space to local health care providers under non-cancelable operating leases with terms of five years. The following is a schedule by years of future minimum rentals under the leases at June 30, 2008:

Year Ending June 30,	Rental Income
2009	\$ 21,600
2010	21,600
2011	21,600
2012	1,800
Total	<u>\$ 66,600</u>

**NOTE 6 – COMMITMENTS/LEASES**

**A. Operating Leases**

The District has not entered into any operating leases for buildings or equipment with a lease term in excess of one year.

**B. Capital Leases**

The District has not entered into any capital leases, which provide for title to pass to the District upon expiration of the lease.

**EAST KERN HEALTH CARE DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008 AND 2007**

**NOTE 7 – RETIREMENT BENEFITS**

The District does not maintain any employee retirement system.

**NOTE 8 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

Excess of expenditures over appropriations were as follows:

	<u>2008</u>	<u>2007</u>
Administrator	\$ 1,600	\$ 800
Election Costs	-	3,622
Workers Comp Insurance	41	-
Bank Charges	102	36
Dues and Subscriptions	190	215
Groundskeeping	8,658	4,160
Insurance - Liability	126	-
Professional Services	15,614	-
Telephone	1,463	1,218
Transfer Tax	-	153
X-Ray Support	1,478	900

**NOTE 9 – RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year ended June 30, 2008 and 2007, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for any of the past three fiscal years.

**NOTE 10 - COMPLIANCE AND ACCOUNTABILITY**

**A. Finance-Related Legal and Contractual Provisions.**

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
None reported	Not applicable

**B. Deficit Fund Balance of Fund Net Assets of Individual Funds**

Following are funds having deficit fund balances or fund net assets at year-end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Remarks</u>
None reported	Not applicable	Not applicable

**SUPPLEMENTARY INFORMATION**

**EAST KERN HEALTH CARE DISTRICT  
BOARD OF DIRECTORS AND ADMINISTRATION  
JUNE 30, 2008 AND 2007**

June 30, 2008

MEMBER

Shirley Heathman  
Loren Burch  
Carmella Cook  
William Seibert  
Robert Smith

OFFICE

President  
Vice-President  
Secretary/Treasurer  
Member  
Member

June 30, 2007

MEMBER

Robert Smith  
Shirley Heathman  
Carmella Cook  
Loren Burch  
William Seibert

OFFICE

President  
Vice-President  
Secretary/Treasurer  
Member  
Member

Administrator

Mary Ann LeBlanc

**EAST KERN HEALTH CARE DISTRICT  
 DETAILED STATEMENT OF REVENUES AND EXPENSES  
 PROPRIETARY FUND TYPE - BUDGET AND ACTUAL  
 FOR THE YEAR ENDED JUNE 30, 2008 AND 2007**

	June 30, 2008		June 30, 2009	
	Budget	Actual	Over (Under) Budget	Budget
<b>OPERATING REVENUES</b>				
Donations	\$ -	\$ 428	\$ 428	\$ -
Lease Income	48,840	52,000	3,160	51,600
Property Taxes	151,500	166,567	15,067	151,500
Total Operating Revenues	<u>200,340</u>	<u>218,995</u>	<u>18,655</u>	<u>203,100</u>
<b>OPERATING EXPENSES</b>				
Administrative and General				
Administrator	9,600	11,200	1,600	14,400
Directors Fee	6,000	5,900	(100)	8,000
Workers Comp Insurance	800	841	41	800
Total Administration and General	<u>16,400</u>	<u>17,941</u>	<u>1,541</u>	<u>23,200</u>
Depreciation	-	28,233	28,233	-
Services and Supplies				
Bank charges	-	102	102	-
Dues and Subscriptions	-	190	190	-
Groundskeeping	-	8,658	8,658	-
Insurance - Liability	4,000	4,126	126	4,000
Legal	6,780	6,780	-	6,780
Professional Services	24,000	39,614	15,614	30,000
Repairs & Maintenance	48,000	6,131	(41,869)	48,000
Supplies - Office	3,000	1,805	(1,195)	3,000
Telephone	-	1,463	1,463	-
Travel and Conferences	2,400	1,588	(812)	2,400
Utilities	18,000	11,444	(6,556)	24,000
X-Ray Support	-	1,478	1,478	-
Total Services and Supplies	<u>106,180</u>	<u>83,379</u>	<u>(22,801)</u>	<u>118,180</u>
Total Operating Expenses	<u>122,580</u>	<u>129,553</u>	<u>6,973</u>	<u>141,380</u>
Operating Income (Loss)	<u>77,760</u>	<u>89,442</u>	<u>11,682</u>	<u>61,720</u>
<b>NON OPERATING REVENUES (EXPENSES)</b>				
Cancer Drive, Net of Expenses	-	1,740	1,740	-
Interest Income	7,200	10,089	2,889	7,200
Interest Expense	(4,296)	(358)	3,938	(4,296)
Total Non Operating Revenues(Expenses)	<u>2,904</u>	<u>11,471</u>	<u>8,567</u>	<u>2,904</u>
Net Income (Decrease) in Net Assets	<u>\$80,664</u>	<u>\$100,913</u>	<u>\$20,249</u>	<u>\$64,624</u>

**EAST KERN HEALTH CARE DISTRICT  
 DETAILED STATEMENT OF REVENUES AND EXPENSES  
 PROPRIETARY FUND TYPE - BUDGET AND ACTUAL  
 FOR THE YEAR ENDED JUNE 30, 2008 AND 2007**

	June 30, 2007		Over (Under) Budget	June 30, 2008
	Budget	Actual		Budget
<b>OPERATING REVENUES</b>				
Donations	\$ -	\$ 2,050	\$ 2,050	\$ -
Lease Income	48,840	50,140	1,300	48,840
Property Taxes	140,000	153,815	13,815	151,500
Total Operating Revenues	<u>188,840</u>	<u>206,005</u>	<u>17,165</u>	<u>200,340</u>
<b>OPERATING EXPENSES</b>				
Administrative and General				
Administrator	15,000	15,800	800	9,600
Directors Fee	6,000	5,700	(300)	6,000
Election Costs	-	3,622	3,622	-
Health Insurance	1,800	-	(1,800)	-
Workers Comp Insurance	800	619	(181)	800
Total Administration and General	<u>23,600</u>	<u>25,741</u>	<u>2,141</u>	<u>16,400</u>
Depreciation	-	27,990	27,990	-
Services and Supplies				
Bank charges	-	36	36	-
Charity	3,000	750	(2,250)	-
Dues and Subscriptions	-	215	215	-
Groundskeeping	-	4,160	4,160	-
Insurance - Liability	3,600	-	(3,600)	4,000
Legal	6,780	6,780	-	6,780
Professional Services	17,000	10,696	(6,304)	24,000
Randsburg Clinic Expense	12,000	6,900	(5,100)	-
Repairs & Maintenance	14,000	10,883	(3,117)	48,000
Supplies - Office	5,250	4,477	(773)	3,000
Telephone	-	1,218	1,218	-
Transfer Tax	-	153	153	-
Travel and Conferences	2,400	907	(1,493)	2,400
Utilities	24,000	14,882	(9,118)	18,000
X-Ray Support	-	900	900	-
Total Services and Supplies	<u>88,030</u>	<u>62,957</u>	<u>(25,073)</u>	<u>106,180</u>
Total Operating Expenses	<u>111,630</u>	<u>116,688</u>	<u>5,058</u>	<u>122,580</u>
Operating Income (Loss)	<u>77,210</u>	<u>89,317</u>	<u>12,107</u>	<u>77,760</u>
<b>NON OPERATING REVENUES (EXPENSES)</b>				
Cancer Drive, Net of Expenses	-	6,417	6,417	-
Interest Income	6,000	6,811	811	7,200
Interest Expense	(4,296)	(1,788)	2,508	(4,296)
Total Non Operating Revenues(Expenses)	<u>1,704</u>	<u>11,440</u>	<u>9,736</u>	<u>2,904</u>
Net Income (Decrease) in Net Assets	<u>\$78,914</u>	<u>\$100,757</u>	<u>\$21,843</u>	<u>\$80,664</u>

**OTHER INDEPENDENT AUDITOR'S REPORTS**

Harold W. Manning, CPA  
Accountancy Corporation

425 W. Drummond Ave.  
Ridgecrest, CA 93555-3120

Certified Public Accountant

Tele: (760) 375-1508  
Fax: (760) 375-8865

Member  
American Institute of Certified Public Accountants  
California Society of Certified Public Accountants

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

Board of Directors  
East Kern Health Care District  
California City, California

We have audited the financial statements of East Kern Health Care District as of and for the years ended June 30, 2008 and 2007, and have issued our report thereon dated December 17, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

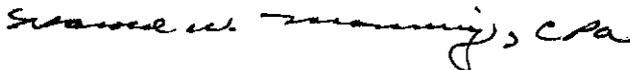
**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the East Kern Health Care District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance**

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

This report is intended solely for the information and use of management, the State of California Controller Office, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Harold W. Manning, CPA  
Accountancy Corporation

Ridgecrest, California  
December 17, 2008

EAST KERN HEALTH CARE DISTRICT													
FINAL BUDGET FISCAL YEAR ENDING JUNE 30, 2010													
Without tax revenue													
	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	YTD-08-10
STARTING CASH BALANCE	\$ 390,000	\$ 365,177	\$ 344,354	\$ 323,031	\$ 302,208	\$ 281,385	\$ 260,062	\$ 239,239	\$ 217,616	\$ 196,293	\$ 175,470	\$ 154,647	\$ 390,000
<b>REVENUES:</b>													
TAXES													\$ -
INTEREST	\$ 600	\$ 600	\$ 600	\$ 600	\$ 600	\$ 600	\$ 600	\$ 600	\$ 600	\$ 600	\$ 600	\$ 600	\$ 7,200
RENTS	\$ 4,300	\$ 4,300	\$ 4,300	\$ 4,300	\$ 4,300	\$ 4,300	\$ 4,300	\$ 4,300	\$ 4,300	\$ 4,300	\$ 4,300	\$ 4,300	\$ 51,600
<b>TOTAL REVENUES</b>	\$ 4,900	\$ 4,900	\$ 4,900	\$ 4,900	\$ 4,900	\$ 4,900	\$ 4,900	\$ 4,900	\$ 4,900	\$ 4,900	\$ 4,900	\$ 4,900	\$ 58,800
<b>EXPENDITURES</b>													
ADMINISTRATION	\$ 1,200	\$ 1,200	\$ 1,200	\$ 1,200	\$ 1,200	\$ 1,200	\$ 1,200	\$ 1,200	\$ 1,200	\$ 1,200	\$ 1,200	\$ 1,200	\$ 14,400
AUDIT	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
CONFERENCE & TRAVEL								\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
CONSULTING													\$ -
DIRECTORS FEES	\$ 500	\$ 500	\$ 1,000	\$ 500	\$ 500	\$ 1,000	\$ 500	\$ 500	\$ 1,000	\$ 500	\$ 500	\$ 1,000	\$ 8,000
INTEREST EXP. - RDA NOTE	\$ 358	\$ 358	\$ 358	\$ 358	\$ 358	\$ 358	\$ 358	\$ 358	\$ 358	\$ 358	\$ 358	\$ 358	\$ 4,296
LEGAL FEES	\$ 565	\$ 565	\$ 565	\$ 565	\$ 565	\$ 565	\$ 565	\$ 565	\$ 565	\$ 565	\$ 565	\$ 565	\$ 6,780
LIAB. INSURANCE	\$ 4,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,000
WORK. COMP. INSURANCE	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 800	\$ -	\$ -	\$ -	\$ -	\$ 800
REPAIRS/MAINTENANCE	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	\$ 6,000
OFFICE EXPENSES	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 1,200
UTILITIES	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 24,000
<b>TOTAL ADMIN. EXPENSES</b>	\$ 9,223	\$ 5,223	\$ 5,723	\$ 5,223	\$ 5,223	\$ 5,723	\$ 5,223	\$ 6,023	\$ 5,723	\$ 5,223	\$ 5,223	\$ 5,723	\$ 69,476
<b>HEALTH CARE RELATED COST</b>													
COMMUNITY PROJECTS													\$ -
MISCELLANEOUS	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	\$ 6,000
<b>TOTAL HEALTH CARE</b>	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	\$ 6,000
<b>OTHER EXPENDITURES</b>													
FACILITIES PLANNING	\$ 20,000	\$ 20,000	\$ 20,000	\$ 20,000	\$ 20,000	\$ 20,000	\$ 20,000	\$ 20,000	\$ 20,000	\$ 20,000	\$ 20,000	\$ 20,000	\$ 240,000
<b>TOTAL EXPENDITURES</b>	\$ 29,723	\$ 25,723	\$ 26,223	\$ 25,723	\$ 25,723	\$ 26,223	\$ 25,723	\$ 26,523	\$ 26,223	\$ 25,723	\$ 25,723	\$ 26,223	\$ 315,476
<b>NET CASH FLOW ALL SOURCES</b>	\$ (24,823)	\$ (20,823)	\$ (21,323)	\$ (20,823)	\$ (20,823)	\$ (21,323)	\$ (20,823)	\$ (21,623)	\$ (21,323)	\$ (20,823)	\$ (20,823)	\$ (21,323)	\$ (256,676)
<b>CASH BALANCE</b>	\$ 365,177	\$ 344,354	\$ 323,031	\$ 302,208	\$ 281,385	\$ 260,062	\$ 239,239	\$ 217,616	\$ 196,293	\$ 175,470	\$ 154,647	\$ 133,324	\$ 133,324

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OCT 09 2009

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San Bernardino County