

**COUNTY OF SAN BERNARDINO
SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 42
ORO GRANDE**

REPORT ON AUDIT

JUNE 30, 2009

County of San Bernardino Special Districts
County Service Area No. 42
Oro Grande
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ROGERS, ANDERSON, MALODY & SCOTT, LLP

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INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the major fund and the aggregate remaining fund information of the County of San Bernardino Special District County Service Area No. 42 – Oro Grande (CSA), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2009, which collectively comprise the CSA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the major fund and the aggregate remaining fund information of the County of San Bernardino Special District County Service Area No. 42 – Oro Grande, as of June 30, 2009, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

The budgetary comparison information on page 22 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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The County of San Bernardino Special District County Service Area No. 42 – Oro Grande has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

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

Rogers, Anderson, Malady & Scott, CPA

November 15, 2009

County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Statement of Net Assets
June 30, 2009

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 5,768	\$ 477,311	\$ 483,079
Accounts receivable, net	-	26,058	26,058
Interest receivable	-	2,098	2,098
Taxes receivable	2,352	-	2,352
Capital assets, net of depreciation	108,980	215,926	324,906
 Total Assets	 117,100	 721,393	 838,493
LIABILITIES			
Accounts payable	-	13,247	13,247
Salaries and benefits payable	825	-	825
Due to other governments	-	5,089	5,089
 Total Liabilities	 825	 18,336	 19,161
NET ASSETS			
Invested in capital assets	108,980	215,926	324,906
Unrestricted	7,295	487,131	494,426
 Total Net Assets	 \$ 116,275	 \$ 703,057	 \$ 819,332

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

County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Statement of Activities
For the Year Ended June 30, 2009

	Governmental Activities	Business-type Activities	Total
EXPENSES			
Professional fees	\$ -	\$ 70,897	\$ 70,897
Salaries and benefits	13,482	104,667	118,149
Services and supplies	24,820	51,471	76,291
Utilities	-	5,987	5,987
Depreciation	8,092	11,553	19,645
Total Program Expenses	<u>46,394</u>	<u>244,575</u>	<u>290,969</u>
PROGRAM REVENUE			
Charges for services	2,468	198,494	200,962
Net Program Expense	<u>(43,926)</u>	<u>(46,081)</u>	<u>(90,007)</u>
GENERAL REVENUES			
Property taxes	29,125	134	29,259
Other taxes	942	-	942
State assistance	332	3,369	3,701
Investment earnings	169	15,298	15,467
Penalties	-	4,564	4,564
Other	-	46,521	46,521
Total General Revenues	<u>30,568</u>	<u>69,886</u>	<u>100,454</u>
Change in Net Assets	(13,358)	23,805	10,447
Net Assets - beginning	<u>129,633</u>	<u>679,252</u>	<u>808,885</u>
Net Assets - ending	<u>\$ 116,275</u>	<u>\$ 703,057</u>	<u>\$ 819,332</u>

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

County of San Bernardino Special Districts
 County Service Area No. 42 - Oro Grande
 Balance Sheet
 Governmental Funds
 June 30, 2009

	SPECIAL REVENUE FUND	OTHER GOVERNMENTAL FUNDS	Total Governmental Funds
	Park (SIV)		
ASSETS			
Cash and cash equivalents	\$ 5,761	\$ 7	\$ 5,768
Taxes receivable	2,352	-	2,352
Total Assets	\$ 8,113	\$ 7	\$ 8,120
LIABILITIES AND FUND BALANCES			
Liabilities:			
Salaries and benefits payable	\$ 825	\$ -	\$ 825
Total Liabilities	825	-	825
Fund Balances:			
Reserved for:			
Imprest cash	100	-	100
Unreserved:			
Undesignated	7,188	7	7,195
Total Fund Balances	7,288	7	7,295
Total Liabilities and Fund Balances	\$ 8,113	\$ 7	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

108,980

Net Assets of Governmental Activities

\$ 116,275

County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2009

	SPECIAL REVENUE FUND	OTHER GOVERNMENTAL FUNDS	Total Governmental Funds
	Park (SIV)		
REVENUES			
Property taxes	\$ 21,560	\$ 7,565	\$ 29,125
Other taxes	942	-	942
State assistance	332	-	332
Investment earnings	33	136	169
Service fees	2,468	-	2,468
Total Revenues	<u>25,335</u>	<u>7,701</u>	<u>33,036</u>
EXPENDITURES			
Salaries and benefits	12,584	898	13,482
Services and supplies	15,016	9,804	24,820
Capital outlay:			
Improvements to land	-	397	397
Total Expenditures	<u>27,600</u>	<u>11,099</u>	<u>38,699</u>
Excess of Revenues Over (Under) Expenditures	<u>(2,265)</u>	<u>(3,398)</u>	<u>(5,663)</u>
OTHER FINANCING SOURCES (USES)			
Transfer in	1,460	300	1,760
Transfer out	(300)	(1,460)	(1,760)
Total Other Financing Sources (Uses)	<u>1,160</u>	<u>(1,160)</u>	<u>-</u>
Net Change in Fund Balances	(1,105)	(4,558)	(5,663)
Fund Balances - beginning	<u>8,393</u>	<u>4,565</u>	<u>12,958</u>
Fund Balances - ending	<u>\$ 7,288</u>	<u>\$ 7</u>	<u>\$ 7,295</u>

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

County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Funds to the
Statement of Activities
For the Year Ended June 30, 2009

Net Change in Fund Balances - Total Governmental Funds	\$	(5,663)
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures in the year an asset is purchased. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense (\$8,092) exceeded capital outlay (\$397) in the current period.

(7,695)

Change in Net Assets of Governmental Activities	\$	<u>(13,358)</u>
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The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
 County Service Area No. 42 - Oro Grande
 Statement of Net Assets
 Proprietary Fund
 June 30, 2009

	ENTERPRISE FUND
	Refuse, Water, Sewer
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 477,311
Accounts receivable, net	26,058
Interest receivable	2,098
	505,467
Total Current Assets	
Noncurrent Assets:	
Capital Assets:	
Land	44,800
Improvements to land	426,102
Structures and improvements	51,800
Construction in progress	25,510
Accumulated depreciation	(332,286)
	215,926
Total Noncurrent Assets	
	721,393
Total Assets	
LIABILITIES	
Current Liabilities:	
Accounts payable	13,247
Due to other governments	5,089
	18,336
Total Current Liabilities	
NET ASSETS	
Invested in capital assets	215,926
Unrestricted	487,131
	703,057
Total Net Assets	\$ 703,057

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

County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Fund
For the Year Ended June 30, 2009

	ENTERPRISE FUND
	Refuse, Water, Sewer
OPERATING REVENUES	
Sanitation services	\$ 75,925
Connection fees	2,513
Water sales	109,077
Other	10,979
Total Operating Revenues	198,494
OPERATING EXPENSES	
Professional fees	70,897
Salaries and benefits	104,667
Services and supplies	51,471
Utilities	5,987
Depreciation	11,553
Total Operating Expenses	244,575
Operating (Loss)	(46,081)
NONOPERATING REVENUES	
Property taxes	134
Special assessments	3,369
Investment earnings	15,298
Penalties	4,564
Other	46,521
Total Nonoperating Revenues	69,886
Change in Net Assets	23,805
Total Net Assets - beginning	679,252
Total Net Assets - ending	\$ 703,057

The accompanying notes are an integral part of these financial statements

County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2009

	ENTERPRISE FUND
	Refuse, Water, Sewer
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 190,305
Payments to suppliers	(121,560)
Payments to employees	(104,667)
Net Cash Provided by Operating Activities	(35,922)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Property taxes	134
Special assessments	3,369
Penalties	4,564
Other nonoperating revenues	46,521
Net Cash Provided by Noncapital Financing Activities	54,588
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets	(21,828)
Net Cash (Used for) Capital and Related Financing Activities	(21,828)
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment earnings	17,189
Net Cash Provided by Investing Activities	17,189
Net Increase in Cash and Cash Equivalents	14,027
Cash and Cash Equivalents - beginning of the year	463,284
Cash and Cash Equivalents - end of the year	\$ 477,311
Reconciliation of operating (loss) to net cash (used for) operating activities:	
Operating (loss)	\$ (46,081)
Adjustments to reconcile operating (loss) to net cash (used for) operating activities:	
Depreciation expense	11,553
Change in assets and liabilities:	
Increase in accounts receivable	(8,189)
Increase in accounts payable	6,549
Increase in due to other governments	246
Net Cash (Used for) Operating Activities	\$ (35,922)

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

County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Notes to Financial Statements
June 30, 2009

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The County Service Area (CSA) No. 42 - Oro Grande District is a special district located within the County of San Bernardino. The CSA has governmental powers as established by the San Bernardino County Government Charter. The County of San Bernardino (County) was established in 1852 as a legal subdivision of the State of California.

The CSA was established by an act of the Board of Supervisors of the County (Board) on December 27, 1965 to provide sewer, water, park, refuse collection and street lighting services to the community of Oro Grande. The CSA serves 154 households for sewer, 135 households for water, 123 households for park, and services 39 streetlights.

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

The accompanying financial statements reflect only the accounts of the County Service Area No. 42 – Oro Grande 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, 2009.

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, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Notes to Financial Statements
June 30, 2009

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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* as are the proprietary fund financial statements. 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.

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 taxes and 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 District reports the following major governmental fund:

The *special revenue fund* labeled "Park" is the government's primary operating fund for park services provided to the community of Oro Grande. It accounts for all financial resources of the general government related to park services, except those required to be accounted for in another fund.

The government reports the following major proprietary fund:

The *enterprise fund* labeled "Refuse, Water, Sewer" accounts for the refuse, water and sewer activities of the District.

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.

County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Notes to Financial Statements
June 30, 2009

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 revenue of the District's enterprise fund is charges to customers for 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.

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, demands 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 is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is 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."

No allowance for uncollectibles was recorded at June 30, 2009, based on management's expectation that all accounts receivable will be collected through the property tax roll.

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.

County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Notes to Financial Statements
June 30, 2009

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

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 applicable governmental or business-type 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. 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 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:

<u>Assets</u>	<u>Years</u>
Structures & improvements	5 - 45
Equipment and vehicles	6 - 15
Utility plant in service	45

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 Special Districts
County Service Area No. 42 - Oro Grande
Notes to Financial Statements
June 30, 2009

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 capital assets within each fund.

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 District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

B. Encumbrances

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

NOTE 2: CASH AND DEPOSITS

Cash and cash equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and cash equivalents are shown at the fair value as of June 30, 2009.

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. 42 - Oro Grande
Notes to Financial Statements
June 30, 2009**

NOTE 3: ACCOUNTS RECEIVABLE

At June 30, 2009, the accounts receivable were composed of the following:

	Sewer
Accounts receivable	\$ 26,058
Less: allowance for uncollectibles	-
Net Total Accounts Receivable	\$ 26,058

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2009 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 9,930	\$ -	\$ -	\$ 9,930
Construction in progress	24,713	397	-	25,110
Total capital assets, not being depreciated	34,643	397	-	35,040
Capital assets, being depreciated:				
Improvements to land	227,485	-	-	227,485
Structures and improvements	16,145	-	-	16,145
Equipment	6,493	-	-	6,493
Total capital assets, being depreciated	250,123	-	-	250,123
Less accumulated depreciation for:				
Improvements to land	(163,691)	(6,852)	-	(170,543)
Structures and improvements	(1,009)	(807)	-	(1,816)
Equipment	(3,391)	(433)	-	(3,824)
Total accumulated depreciation	(168,091)	(8,092)	-	(176,183)
Total capital assets, being depreciated, net	82,032	(8,092)	-	73,940
Governmental activities capital assets, net	\$ 116,675	\$ (7,695)	\$ -	\$ 108,980

County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Notes to Financial Statements
June 30, 2009

NOTE 4: CAPITAL ASSETS (continued)

	Beginning Balance	Additions	Deletions	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 44,800	\$ -	\$ -	\$ 44,800
Construction in progress	3,682	21,828	-	25,510
Total capital assets, not being depreciated	<u>48,482</u>	<u>21,828</u>	<u>-</u>	<u>70,310</u>
Capital assets, being depreciated:				
Improvements to land	426,102	-	-	426,102
Structures and improvements	51,800	-	-	51,800
Total capital assets, being depreciated	<u>477,902</u>	<u>-</u>	<u>-</u>	<u>477,902</u>
Less accumulated depreciation for:				
Improvements to land	(315,337)	(8,963)	-	(324,300)
Structures and improvements	(5,396)	(2,590)	-	(7,986)
Total accumulated depreciation	<u>(320,733)</u>	<u>(11,553)</u>	<u>-</u>	<u>(332,286)</u>
Total capital assets, being depreciated, net	<u>157,169</u>	<u>(11,553)</u>	<u>-</u>	<u>145,616</u>
Business-type activities capital assets, net	<u>\$ 205,651</u>	<u>\$ 10,275</u>	<u>\$ -</u>	<u>\$ 215,926</u>

NOTE 5: LONG-TERM LEASE AGREEMENT

On March 13, 2007 the Board of Supervisors approved an agreement with Oro Grande School District to lease Rainbow Park, an unused 2.92 acre parcel located on property contiguous to Oro Grande School, to the school for a period of 43 years at total cost of \$43. The purpose of the lease is to construct additional charter school facilities on the site at the cost of the school district. Oro Grande School District must relocate the existing park equipment to the Community Center Park at the expense of the school district. The lease will be for the period February 1, 2007 to January 31, 2050.

County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Notes to Financial Statements
June 30, 2009

NOTE 6: RETIREMENT PLAN

Plan Description

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the Plan) operating under the California County Employees' Retirement Act of 1937 (1937 Act). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, California State Association of Counties, South Coast Air Quality Management District (AQMD), San Bernardino Associated Governments (SANBAG), Local Agency Formation Commission (LAFCO), San Bernardino County Law Library, Barstow Fire Protection District, Hesperia Parks and Recreation, San Bernardino County Employees' Retirement Association (SBCERA), City of Chino Hills, Crest Forest Fire District, Mojave Desert Air Quality Management District (MDAQMD), California Electronic Recording Transaction Authority (CERTNA), Inland Valley Development Agency (IVDA), San Bernardino International Airport Authority (SBIAA), and the Superior Courts were later included, along with the County of San Bernardino (the County), and are collectively referred to as the "Participating Members." The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3rd floor, San Bernardino, California 92415-0014.

Fiduciary Responsibility

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, 2009.

Funding Policy

Participating members are required by statute (Sections 31621, 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 7.68% - 12.96% and safety members 9.85% - 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 2009, the County's annual pension cost of \$200,300,000 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 Section 31453 of the 1937 Act.

**County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Notes to Financial Statements
June 30, 2009**

NOTE 6: RETIREMENT PLAN (continued)

The County's annual pension cost and prepaid asset, computed in accordance with GASB 27, Accounting for Pensions by State and Local Governmental Employers, for the year ended June 30, 2009, were as follows (in thousands):

Annual Required Contribution (County fiscal year basis)	\$	200,300
Interest on Pension Assets		(7,834)
Adjustment to the Annual Required Contribution		51,805
Annual Pension Cost		244,271
Annual Contributions Made		200,300
Increase/(Decrease) in Pension Assets		(43,971)
Pension Assets, Beginning of Year		813,716
Pension Assets, End of Year	\$	769,745

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	
2007	\$ 239,857	\$ 194,130	100%
2008	\$ 241,721	\$ 203,712	100%
2009	\$ 246,232	\$ 200,300	100%

The County, along with the AQMD, issued Pension Refunding Bonds (the Bonds) in November 1995 with an aggregate amount of \$420,527,000. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan, and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266,000. The outstanding liability at June 30, 2009 is \$430,784,000.

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, 2009 is \$301,595,000.

In April 2008, the County of San Bernardino issued its \$160,900,000 in Pension Obligation Refunding Bonds (POB), Series 2008 (the Series 2008 Bonds). The outstanding liability at June 30, 2009 is \$158,889,000.

**County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Notes to Financial Statements
June 30, 2009**

NOTE 7: 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 Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority (EIA) Liability Program II. 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 Zurich 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 2.75%. It is the Risk Management's practice to obtain actuarial studies on an annual basis.

The total claims liability of \$149.9 million reported at June 30, 2009 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 2008 and 2009 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)
2007-08	\$ 129,683	\$ 51,702	\$ (32,064)	\$ 149,321
2008-09	\$ 149,321	\$ 32,909	\$ (32,289)	\$ 149,941

County of San Bernardino Special Districts
 County Service Area No. 42 - Oro Grande
 Notes to Financial Statements
 June 30, 2009

NOTE 8: FEDERAL AND STATE GRANTS

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

NOTE 9: 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, 2009, the CSA made the following interfund transfers in and out:

	Transfers in:		
	Park (SIV)	Community Center (CSS)	Total
<u>Transfers out:</u>			
Park (SIV)	\$ -	\$ 300	\$ 300
Streetlights (SIY)	1,443	-	1,443
Community Center Floor improvement (CQE)	17	-	17
	\$ 1,460	\$ 300	\$ 1,760

NOTE 10: PROPOSITION 111 APPROPRIATION LIMITS

Proposition 111, which added Article XIIIB 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 2008-2009 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

NOTE 11: CONTINGENCIES

As of June 30, 2009, in the opinion of the CSA Administration, there are no outstanding matters, which would have a significant effect on the financial position of the CSA.

**County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Budgetary Comparison Schedule
Special Revenue Fund - Park
For the Year Ended June 30, 2009**

	Special Revenue Fund			Variance with Final Budget Positive (Negative)
	Park (SIV)			
	Original Budget	Final Budget	Actual	
REVENUES				
Property taxes	\$ 16,469	\$ 16,469	\$ 21,560	\$ 5,091
Other taxes	2,050	2,050	942	(1,108)
State assistance	100,384	100,384	332	(100,052)
Investment earnings	-	-	33	33
Service fees	5,000	5,000	2,468	(2,532)
Total Revenues	<u>123,903</u>	<u>123,903</u>	<u>25,335</u>	<u>(98,568)</u>
EXPENDITURES				
Salaries and benefits	9,594	9,594	12,584	(2,990)
Services and supplies	19,526	19,526	15,016	4,510
Reserves and contingencies	2,339	2,339	-	2,339
Total Expenditures	<u>31,459</u>	<u>31,459</u>	<u>27,600</u>	<u>3,859</u>
Excess Revenues Over (Under) Expenditures	<u>92,444</u>	<u>92,444</u>	<u>(2,265)</u>	<u>(94,709)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	1,460	1,460
Transfers out	(100,000)	(100,000)	(300)	99,700
Total Other Financing Sources (Uses)	<u>(100,000)</u>	<u>(100,000)</u>	<u>1,160</u>	<u>101,160</u>
Net Change in Fund Balance	<u>\$ (7,556)</u>	<u>\$ (7,556)</u>	<u>(1,105)</u>	<u>\$ 6,451</u>
Fund Balance - beginning			<u>8,393</u>	
Fund Balance - ending			<u>\$ 7,288</u>	

County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2009

	SPECIAL REVENUE FUND	CAPITAL PROJECTS FUNDS		Total Nonmajor Governmental Funds (see Exhibit "C")
	Street Lights (SIY)	Community Center Floor Improvement (CQE)	Community Center (CSS)	
ASSETS				
Cash and cash equivalents	\$ -	\$ -	\$ 7	\$ 7
Total Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7</u>	<u>\$ 7</u>
LIABILITIES AND FUND BALANCES				
Liabilities	\$ -	\$ -	\$ -	\$ -
Fund Balances:				
Unreserved:				
Undesignated	-	-	7	7
Total Fund Balances	-	-	7	7
Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7</u>	<u>\$ 7</u>

**County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Combining Statement of Revenues, Expenditures and
Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2009**

	SPECIAL REVENUE FUND	CAPITAL PROJECTS FUNDS		Total Nonmajor Governmental Funds (see Exhibit "D")
	Street Lights (SIY)	Community Center Floor Improvement (CQE)	Community Center (CSS)	
REVENUES				
Property taxes	\$ 7,565	\$ -	\$ -	\$ 7,565
Investment earnings	115		21	136
Total Revenues	<u>7,680</u>	<u>-</u>	<u>21</u>	<u>7,701</u>
EXPENDITURES				
Salaries and benefits	898	-	-	898
Services and supplies	9,804	-	-	9,804
Capital outlay:				
Improvements to land	-	-	397	397
Total Expenditures	<u>10,702</u>	<u>-</u>	<u>397</u>	<u>11,099</u>
Excess Revenues Over (Under) Expenditures	<u>(3,022)</u>	<u>-</u>	<u>(376)</u>	<u>(3,398)</u>
OTHER FINANCING SOURCES (USES)				
Transfer in	-	-	300	300
Transfer out	(1,443)	(17)	-	(1,460)
Total Other Financing Sources (Uses)	<u>(1,443)</u>	<u>(17)</u>	<u>300</u>	<u>(1,160)</u>
Net Change in Fund Balances	(4,465)	(17)	(76)	(4,558)
Fund Balances - beginning	4,465	17	83	4,565
Fund Balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7</u>	<u>\$ 7</u>

**COUNTY OF SAN BERNARDINO
SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 42
ORO GRANDE**

REPORT ON AUDIT

JUNE 30, 2008

**County of San Bernardino Special Districts
County Service Area No. 42
Oro Grande
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Board of Supervisors
County of San Bernardino
County of San Bernardino Special
District County Service Area
No. 42 - Oro Grande

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the County of San Bernardino Special District County Service Area No. 42 - Oro Grande (CSA), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2008, which collectively comprise the CSA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the County of San Bernardino Special District County Service Area No. 42 - Oro Grande, as of June 30, 2008, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

The budgetary comparison information on page 24 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

MEMBERS

AMERICAN INSTITUTE OF
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The County of San Bernardino Special District County Service Area No. 42 - Oro Grande has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

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

Rogers, Anderson, Malady & Seall, LLP

November 26, 2008

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County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Statement of Net Assets
June 30, 2008

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 10,177	\$ 463,284	\$ 473,461
Accounts receivable, net	-	17,869	17,869
Interest receivable	-	3,989	3,989
Taxes receivable	3,674	-	3,674
Capital assets, net of depreciation	116,675	205,651	322,326
Total Assets	130,526	690,793	821,319
LIABILITIES			
Accounts payable	-	6,698	6,698
Salaries and benefits payable	893	-	893
Due to other governments	-	4,843	4,843
Total Liabilities	893	11,541	12,434
NET ASSETS			
Invested in capital assets	116,675	205,651	322,326
Unrestricted	12,958	473,601	486,559
Total Net Assets	\$ 129,633	\$ 679,252	\$ 808,885

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

**County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Statement of Activities
For the Year Ended June 30, 2008**

	Governmental Activities	Business-type Activities	Total
EXPENSES			
Salaries and benefits	\$ 11,764	\$ 110,256	\$ 122,020
Services and supplies	14,300	54,096	68,396
Utilities	-	8,987	8,987
Depreciation	8,325	11,567	19,892
Professional fees	-	38,030	38,030
Total Program Expenses	<u>34,389</u>	<u>222,936</u>	<u>257,325</u>
PROGRAM REVENUE			
Charges for services	5,082	209,453	214,535
Net Program Expense	<u>(29,307)</u>	<u>(13,483)</u>	<u>(42,790)</u>
GENERAL REVENUES			
Property taxes	29,048	3,278	32,326
Other taxes	2,197	-	2,197
State assistance	373	-	373
Investment earnings	229	19,444	19,673
Penalties	-	7,062	7,062
Intergovernmental	23,750	-	23,750
Other	-	43,726	43,726
Total General Revenues	<u>55,597</u>	<u>73,510</u>	<u>129,107</u>
Change in Net Assets	26,290	60,027	86,317
Net Assets - beginning	<u>103,343</u>	<u>619,225</u>	<u>722,568</u>
Net Assets - ending	<u>\$ 129,633</u>	<u>\$ 679,252</u>	<u>\$ 808,885</u>

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

County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Balance Sheet
Governmental Funds
June 30, 2008

	SPECIAL REVENUE FUND	CAPITAL PROJECTS FUND
	Park (SIV)	Community Center (CSS)
ASSETS		
Cash and cash equivalents	\$ 5,612	\$ 83
Taxes receivable	3,674	-
Total Assets	\$ 9,286	\$ 83
 LIABILITIES AND FUND BALANCES		
Liabilities:		
Salaries and benefits payable	\$ 893	\$ -
Total Liabilities	893	-
Fund balances:		
Reserved for:		
Imprest cash	-	-
Unreserved		
Undesignated	8,393	83
Total Fund Balances	8,393	83
Total Liabilities and Fund Balances	\$ 9,286	\$ 83

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Net Assets of Governmental Activities

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

OTHER GOVERNMENTAL FUNDS	Total Governmental Funds
\$ 4,482	\$ 10,177
-	3,674
<u>\$ 4,482</u>	<u>\$ 13,851</u>
\$ -	\$ 893
-	893
-	-
<u>4,482</u>	<u>12,958</u>
<u>4,482</u>	12,958
<u>\$ 4,482</u>	
	<u>116,675</u>
	<u>\$ 129,633</u>

**County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2008**

	SPECIAL REVENUE FUND	CAPITAL PROJECTS FUND
	Park (SIV)	Community Center (CSS)
REVENUES		
Property taxes	\$ 20,452	\$ -
Other taxes	2,197	-
State assistance	373	-
Investment earnings	-	46
Service fees	5,082	-
Intergovernmental	-	23,750
	28,104	23,796
EXPENDITURES		
Salaries and benefits	10,023	-
Services and supplies	11,163	-
Capital outlay:		
Improvements to land	-	24,713
	21,186	24,713
Excess Revenues Over (Under) Expenditures	6,918	(917)
OTHER FINANCING SOURCES (USES)		
Transfers in	-	1,000
Transfers out	(1,000)	-
	(1,000)	1,000
Net Change in Fund Balances	5,918	83
Fund Balances - beginning	2,475	-
Fund Balances - ending	\$ 8,393	\$ 83

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

OTHER GOVERNMENTAL FUNDS	Total Governmental Funds
\$ 8,596	\$ 29,048
-	2,197
-	373
183	229
-	5,082
-	23,750
<u>8,779</u>	<u>60,679</u>
1,741	11,764
3,137	14,300
-	24,713
<u>4,878</u>	<u>50,777</u>
<u>3,901</u>	<u>9,902</u>
-	1,000
-	(1,000)
-	-
<u>3,901</u>	<u>9,902</u>
<u>581</u>	<u>3,056</u>
<u>\$ 4,482</u>	<u>\$ 12,958</u>

**County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Funds to the
Statement of Activities
For the Year Ended June 30, 2008**

Net Change in Fund Balances - Total Governmental Funds	\$	9,902
--	----	-------

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

Governmental funds report capital outlays as expenditures in the year an asset is purchased. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay (\$24,713) exceeded depreciation expense (\$8,325) in the current period.

16,388

Change in Net Assets of Governmental Activities

\$ 26,290

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

**County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Statement of Net Assets
Proprietary Fund
June 30, 2008**

	ENTERPRISE FUND
	Refuse, Water, Sewer
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 463,284
Accounts receivable, net	17,869
Interest receivable	3,989
	485,142
Total Current Assets	
Noncurrent Assets:	
Capital Assets:	
Land	44,800
Improvements to land	426,102
Structures and improvements	51,800
Construction in progress	3,682
Accumulated depreciation	(320,733)
	205,651
Total Noncurrent Assets	
	690,793
Total Assets	
LIABILITIES	
Current Liabilities:	
Accounts payable	6,698
Due to other governments	4,843
	11,541
Total Current Liabilities	
NET ASSETS	
Invested in capital assets	205,651
Unrestricted	473,601
	\$ 679,252
Total Net Assets	

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

County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Fund
For the Year Ended June 30, 2008

	ENTERPRISE FUND
	Refuse, Water, Sewer
OPERATING REVENUES	
Sanitation services	\$ 72,788
Connection fees	4,650
Water sales	116,522
Other	3,179
Total Operating Revenues	197,139
OPERATING EXPENSES	
Professional fees	38,030
Salaries and benefits	110,256
Services and supplies	54,096
Utilities	8,987
Depreciation	11,567
Total Operating Expenses	222,936
Operating (Loss)	(25,797)
NONOPERATING REVENUES	
Property taxes	3,278
Special assessments	12,314
Investment earnings	19,444
Penalties	7,062
Other	43,726
Total Nonoperating Revenues	85,824
Change in Net Assets	60,027
Total Net Assets - beginning	619,225
Total Net Assets - ending	\$ 679,252

The accompanying notes are an integral part of these financial statements

**County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2008**

	<u>ENTERPRISE FUND</u> <u>Refuse, Water, Sewer</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 209,979
Payments to suppliers	(97,799)
Payments to employees	(110,256)
Net Cash Provided by Operating Activities	1,924
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Property taxes	3,278
Special assessments	12,314
Penalties	7,062
Other nonoperating revenues	43,726
Net Cash Provided by Noncapital Financing Activities	66,380
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets	(2,772)
Net Cash (Used for) Capital and Related Financing Activities	(2,772)
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment earnings	19,078
Net Cash Provided by Investing Activities	19,078
Net Increase in Cash and Cash Equivalents	84,610
Cash and Cash Equivalents - beginning of the year	378,674
Cash and Cash Equivalents - end of the year	\$ 463,284
Reconciliation of operating (loss) to net cash provided by operating activities:	
Operating (loss)	\$ (25,797)
Adjustments to reconcile operating (loss) to net cash provided by operating activities:	
Depreciation expense	11,567
Change in assets and liabilities:	
Decrease in accounts receivable	12,840
Increase in accounts payable	3,314
Net Cash Provided by Operating Activities	\$ 1,924

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

**County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Notes to Financial Statements
June 30, 2008**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The County Service Area (CSA) No. 42 - Oro Grande District is a special district located within the County of San Bernardino. The CSA has governmental powers as established by the San Bernardino County Government Charter. The County of San Bernardino (County) was established in 1852 as a legal subdivision of the State of California.

The CSA was established by an act of the Board of Supervisors of the County (Board) on December 27, 1965 to provide sewer, water, park, refuse collection and street lighting services to the community of Oro Grande. The CSA serves 147 households for sewer, 135 households for water, 300 park users, and 39 streetlights.

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

The accompanying financial statements reflect only the accounts of the County Service Area No. 42 – Oro Grande of the County of San Bernardino and are not intended to present the financial position of the County taken as a whole.

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

Government-wide and fund financial statements

The government-wide financial statements (e.g., the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the reporting entity. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. *Governmental activities* normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Notes to Financial Statements
June 30, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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* as are the proprietary fund financial statements. 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.

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 taxes and 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 District reports the following major governmental funds:

The *special revenue fund* labeled "Park" is the government's primary operating fund for park services provided to the community of Oro Grande. It accounts for all financial resources of the general government related to park services, except those required to be accounted for in another fund.

The *capital projects fund* labeled "Community Center" accounts for the project of maintaining the Community Center.

The government reports the following major proprietary fund:

The *enterprise fund* labeled "Refuse, Water, Sewer" accounts for the refuse, water and sewer activities of the District.

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.

County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Notes to Financial Statements
June 30, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 revenue of the District's enterprise fund is charges to customers for 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.

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, demands 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 is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is 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 accounts receivable are shown net of an allowance for uncollectibles when applicable.

The accounts receivable balance of the Refuse, Water, Sewer Enterprise Fund at June 30, 2008 is shown net of an allowance for doubtful accounts of \$7,146.

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.

**County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Notes to Financial Statements
June 30, 2008**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

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 applicable governmental or business-type 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. 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 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:

<u>Assets</u>	<u>Years</u>
Structures & improvements	5 - 45
Equipment and vehicles	6 - 15
Utility plant in service	45

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 Special Districts
County Service Area No. 42 - Oro Grande
Notes to Financial Statements
June 30, 2008**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 capital assets within each fund.

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 District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

B. Encumbrances

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

NOTE 2: CASH AND DEPOSITS

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

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

**County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Notes to Financial Statements
June 30, 2008**

NOTE 3: ACCOUNTS RECEIVABLE

At June 30, 2008, the accounts receivable were composed of the following:

	Sewer
Accounts	\$ 25,015
Less: allowance for uncollectibles	(7,146)
Net Total Accounts Receivable	\$ 17,869

NOTE 4: CAPITAL ASSETS

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

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 9,930	\$ -	\$ -	\$ 9,930
Construction in progress	-	24,713	-	24,713
Total capital assets, not being depreciated	9,930	24,713	-	34,643
Capital assets, being depreciated:				
Improvements to land	227,485	-	-	227,485
Structures and improvements	16,145	-	-	16,145
Equipment	11,493	-	(5,000)	6,493
Total capital assets, being depreciated	255,123	-	(5,000)	250,123
Less accumulated depreciation for:				
Improvements to land	(156,605)	(7,086)	-	(163,691)
Structures and improvements	(202)	(807)	-	(1,009)
Equipment	(7,959)	(432)	5,000	(3,391)
Total accumulated depreciation	(164,766)	(8,325)	5,000	(168,091)
Total capital assets, being depreciated, net	90,357	(8,325)	-	82,032
Governmental activities capital assets, net	\$ 100,287	\$ 16,388	\$ -	\$ 116,675

**County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Notes to Financial Statements
June 30, 2008**

NOTE 4: CAPITAL ASSETS (continued)

	Beginning Balance	Additions	Deletions	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 44,800	\$ -	\$ -	\$ 44,800
Construction in progress	910	2,772	-	3,682
Total capital assets, not being depreciated	45,710	2,772	-	48,482
Capital assets, being depreciated:				
Improvements to land	426,102	-	-	426,102
Structures and improvements	51,800	-	-	51,800
Total capital assets, being depreciated	477,902	-	-	477,902
Less accumulated depreciation for:				
Improvements to land	(306,360)	(8,977)	-	(315,337)
Structures and improvements	(2,806)	(2,590)	-	(5,396)
Total accumulated depreciation	(309,166)	(11,567)	-	(320,733)
Total capital assets, being depreciated, net	168,736	(11,567)	-	157,169
Business-type activities capital assets, net	\$ 214,446	\$ (8,795)	\$ -	\$ 205,651

NOTE 5: LONG-TERM LEASE AGREEMENT

On March 13, 2007 the Board of Supervisors approved an agreement with Oro Grande School District to lease Rainbow Park, an unused 2.92 acre parcel located on property contiguous to Oro Grande School, to the school for a period of 43 years at total cost of \$43. The purpose of the lease is to construct additional charter school facilities on the site at the cost of the school district. Oro Grande School District must relocate the existing park equipment to the Community Center Park at the expense of the school district. The lease will be for the period February 1, 2007 to January 31, 2050.

**County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Notes to Financial Statements
June 30, 2008**

NOTE 6: RETIREMENT PLAN

Plan Description

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the "Plan") operating under the California County Employees Retirement Act of 1937 ("1937 Act"). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (MDAQMD) and the South Coast Air Quality Management District (AQMD), were later included, along with the County of San Bernardino (the "County"), and are collectively referred to as the "Participating Members." The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3rd floor, San Bernardino, California 92415-0014.

Fiduciary Responsibility

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

Funding Policy

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary based on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). General members are required to contribute 8.97% - 12.84% and safety members 11.14% - 15.09% of their annual covered salaries, of which the County pays approximately 7%. County of San Bernardino employer contribution rates are 12.03% for general members and 24.84% for safety members. All employers combined are required to contribute 14.46% of the current year covered payroll. For 2008, the County's annual pension cost of \$203,712,000 was equal to the County's required and actual contributions. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

**County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Notes to Financial Statements
June 30, 2008**

NOTE 6: RETIREMENT PLAN

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

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

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

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

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

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

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

**County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Notes to Financial Statements
June 30, 2008**

NOTE 7: RISK MANAGEMENT

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

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

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

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

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

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

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

County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Notes to Financial Statements
June 30, 2008

NOTE 8: FEDERAL AND STATE GRANTS

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

NOTE 9: 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, 2008, the CSA made the following interfund transfers in and out:

	Transfer in:
	Community Center (CSS)
Transfer out:	
Park (SIV)	\$ 1,000

NOTE 10: CONTINGENCIES

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

**County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Budgetary Comparison Schedule
Special Revenue Fund
For the Year Ended June 30, 2008**

	Special Revenue Fund			Variance with Final Budget Positive (Negative)
	Park (SIV)			
	Original Budget	Final Budget	Actual	
REVENUES				
Property taxes	\$ 20,971	\$ 20,971	\$ 20,452	\$ (519)
Other taxes	2,384	2,384	2,197	(187)
State assistance	100,265	100,265	373	(99,892)
Investment earnings	100	100	-	(100)
Service fees	4,000	4,000	5,082	1,082
Total Revenues	<u>127,720</u>	<u>127,720</u>	<u>28,104</u>	<u>(99,616)</u>
EXPENDITURES				
Salaries and benefits	11,347	11,347	10,023	1,324
Services and supplies	18,667	18,667	11,163	7,504
Total Expenditures	<u>30,014</u>	<u>30,014</u>	<u>21,186</u>	<u>8,828</u>
Excess Revenues Over (Under) Expenditures	<u>97,706</u>	<u>97,706</u>	<u>6,918</u>	<u>(90,788)</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	<u>(100,000)</u>	<u>(100,000)</u>	<u>(1,000)</u>	<u>99,000</u>
Total Other Financing Sources (Uses)	<u>(100,000)</u>	<u>(100,000)</u>	<u>(1,000)</u>	<u>99,000</u>
Net Change in Fund Balance	<u>\$ (2,294)</u>	<u>\$ (2,294)</u>	5,918	<u>\$ 8,212</u>
Fund Balance - beginning			<u>2,475</u>	
Fund Balance - ending			<u>\$ 8,393</u>	

**County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2008**

	SPECIAL REVENUE FUND	CAPITAL PROJECTS FUND	Total Nonmajor Governmental Funds (see Exhibit "C")
	Street Lights (SIY)	Community Center Floor Improvement (CQE)	
ASSETS			
Cash and cash equivalents	\$ 4,465	\$ 17	\$ 4,482
Total Assets	<u>\$ 4,465</u>	<u>\$ 17</u>	<u>\$ 4,482</u>
LIABILITIES AND FUND BALANCES			
Liabilities	\$ -	\$ -	\$ -
Fund Balances:			
Unreserved:			
Undesignated	4,465	17	4,482
Total Fund Balances	<u>4,465</u>	<u>17</u>	<u>4,482</u>
Total Liabilities and Fund Balances	<u>\$ 4,465</u>	<u>\$ 17</u>	<u>\$ 4,482</u>

County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Combining Statement of Revenues, Expenditures and
Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2008

	SPECIAL REVENUE FUND	CAPITAL PROJECTS FUND	Total Nonmajor Governmental Funds (see Exhibit "D")
	Street Lights (SIY)	Community Center Floor Improvement (CQE)	
REVENUES			
Property taxes	\$ 8,596	\$ -	\$ 8,596
Investment earnings	166	17	183
Total Revenues	8,762	17	8,779
EXPENDITURES			
Salaries and benefits	1,741	-	1,741
Services and supplies	3,137	-	3,137
Total Expenditures	4,878	-	4,878
Net Change in Fund Balances	3,884	17	3,901
Fund Balances - beginning	581	-	581
Fund Balances - ending	\$ 4,465	\$ 17	\$ 4,482

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COUNTY OF SAN BERNARDINO
CALIFORNIA
SPECIAL DISTRICTS
AUDIT REPORT
COUNTY SERVICE AREA NO. 42
ORO GRANDE
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Prepared by:

Internal Audits Section
Office of the Auditor/Controller-Recorder
March 4, 2008

County of San Bernardino Special Districts
County Service Area No. 42
Oro Grande

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COUNTY OF SAN BERNARDINO

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County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

Independent Auditor's Report

March 4, 2008

Thomas Sutton, Director
Special Districts Department
157 W. Fifth Street, 2nd Floor
San Bernardino, CA 92415-0450

SUBJECT: AUDIT OF COUNTY SERVICE AREA NO. 42 – ORO GRANDE FOR THE
FISCAL YEAR ENDED JUNE 30, 2007

Introductory Remarks

In compliance with Section 26909 of the California Government Code, we have completed an audit of County Service Area No. 42 – Oro Grande for the fiscal year ended June 30, 2007.

Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the remaining aggregate fund information of the County of San Bernardino Special District County Service Area No. 42 – Oro Grande(CSA), a component unit of the County of San Bernardino, California, as of and for the year ended June 30, 2007. These basic financial statements are the responsibility of the CSA's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

AudRpt/Tom Sutton, Director
CSA No. 42
Oro Grande
March 4, 2008

the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the remaining aggregate fund information of the CSA, as of June 30, 2007, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and the state regulations governing Special Districts.

The accompanying budgetary comparison information on page 25 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

~~The GSA 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.~~

Respectfully submitted,

Larry Walker
Auditor/Controller-Recorder

By:



Howard M. Ochi, CPA
Chief Deputy Auditor

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County of San Bernardino
County Service Area No. 42 – Oro Grande
Statement of Net Assets
June 30, 2007

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 742	\$ 378,674	\$ 379,416
Account receivable, net	-	30,709	30,709
Interest receivable	-	3,623	3,623
Taxes receivable	2,985	-	2,985
Total current assets	<u>3,727</u>	<u>413,006</u>	<u>416,733</u>
Noncurrent assets			
Capital assets:			
Land	9,930	44,800	54,730
Construction in progress	-	910	910
Improvements to land	227,485	426,102	653,587
Structures and improvements	16,145	51,800	67,945
Equipment	11,493	-	11,493
Less accumulated depreciation	(164,766)	(309,166)	(473,932)
Total noncurrent assets	<u>100,287</u>	<u>214,446</u>	<u>314,733</u>
Total assets	<u>\$ 104,014</u>	<u>\$ 627,452</u>	<u>\$ 731,466</u>
LIABILITIES			
Accounts Payable	\$ -	\$ 3,384	\$ 3,384
Salaries and benefits payable	671	-	671
Due to other governments	-	4,843	4,843
Total liabilities	<u>671</u>	<u>8,227</u>	<u>8,898</u>
NET ASSETS			
Invested in capital assets	100,287	214,446	314,733
Unrestricted	3,056	404,779	407,835
Total net assets	<u>103,343</u>	<u>619,225</u>	<u>722,568</u>
Total liabilities and net assets	<u>\$ 104,014</u>	<u>\$ 627,452</u>	<u>\$ 731,466</u>

The notes to the financial statements are an integral part of this statement.

County of San Bernardino
County Service Area No. 42 – Oro Grande
Statement of Activities
For the Fiscal Year Ended June 30, 2007

	Governmental Activities	Business- type Activities	Total
EXPENSES			
Salaries and benefits	\$ 9,244	\$ -	\$ 9,244
Services and supplies	16,108	35,687	51,795
Professional services	10,408	132,547	142,955
Depreciation expense	7,722	10,671	18,393
Total program expenses	<u>43,482</u>	<u>178,905</u>	<u>222,387</u>
PROGRAM REVENUES			
Charges for services	-	204,001	204,001
Net program (expenses) revenue	<u>(43,482)</u>	<u>25,096</u>	<u>(18,386)</u>
GENERAL REVENUES			
Property taxes	32,224	2,832	35,056
State aid - homeowners' exemption	405	-	405
Investment earnings	56	15,907	15,963
Federal grant	16,145	-	16,145
Penalties	-	3,056	3,056
Other	4,156	44,861	49,017
TRANSFERS IN (OUT)	<u>590</u>	<u>(590)</u>	<u>-</u>
Total general revenues and transfers	<u>53,576</u>	<u>66,066</u>	<u>119,642</u>
Change in net assets	10,094	91,162	101,256
<hr/>			
Net Assets - beginning	<u>93,249</u>	<u>528,063</u>	<u>621,312</u>
Net Assets - ending	<u>\$ 103,343</u>	<u>\$ 619,225</u>	<u>\$ 722,568</u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
County Service Area No. 42 – Oro Grande
Balance Sheet
Governmental Funds
June 30, 2007**

	<u>MAJOR FUND</u>	<u>MAJOR FUND</u>	<u>NONMAJOR FUND</u>	
	Special Revenue Fund- Park (SIV)	Community Center Floor Improvement (CQE)	Special Revenue Fund- Streetlights (SIY)	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 161	\$ -	\$ 581	\$ 742
Taxes receivable	2,985	-	-	2,985
Total assets	<u>\$ 3,146</u>	<u>\$ -</u>	<u>\$ 581</u>	<u>\$ 3,727</u>
LIABILITIES				
Current liabilities:				
Salaries and benefits payable	\$ 671	\$ -	\$ -	\$ 671
Total liabilities	<u>671</u>	<u>-</u>	<u>-</u>	<u>671</u>
Fund Balances:				
Unreserved	2,475	-	581	3,056
Total fund balances	<u>2,475</u>	<u>-</u>	<u>581</u>	<u>3,056</u>
Total liabilities and fund balances	<u>\$ 3,146</u>	<u>\$ -</u>	<u>\$ 581</u>	

**Reconciliation of Governmental Balance Sheet
to Statement of Net Assets**

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	100,287
Net assets of governmental activities	<u>\$ 103,343</u>

The notes to the financial statements are an integral part of this statement.

County of San Bernardino
County Service Area No. 42 – Oro Grande
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2007

	<u>MAJOR FUND</u>	<u>MAJOR FUND</u>	<u>NONMAJOR</u>	
	Special Revenue Fund- Park (SIV)	Community Center Floor Improvement (CQE)	FUND Special Revenue Fund- Streetlights (SIY)	Total Governmental Funds
REVENUES				
Property taxes	\$ 27,042	\$ -	\$ 5,182	\$ 32,224
State aid - homeowners' exemption	405	-	-	405
Investment earnings	31	-	25	56
Federal grant	-	16,145	-	16,145
Service fees	4,156	-	-	4,156
Total revenues	<u>31,634</u>	<u>16,145</u>	<u>5,207</u>	<u>52,986</u>
EXPENDITURES				
Salaries and benefits	9,244	-	-	9,244
Services and supplies	13,644	-	2,464	16,108
Professional services	8,121	-	2,287	10,408
Capital outlay:				
Structures and improvements	-	16,145	-	16,145
Total expenditures	<u>31,009</u>	<u>16,145</u>	<u>4,751</u>	<u>51,905</u>
Excess of revenues over (under) expenditures	625	-	456	1,081
OTHER FINANCING SOURCES (USES)				
Transfer in	590	-	-	590
Transfer out	-	-	-	-
Net change in fund balances	1,215	-	456	1,671
Fund balances-beginning	<u>1,260</u>	<u>-</u>	<u>125</u>	<u>1,385</u>
Fund balance-ending	<u>\$ 2,475</u>	<u>\$ -</u>	<u>\$ 581</u>	<u>\$ 3,056</u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
County Service Area No. 42 – Oro Grande
Statement of Net Assets
Proprietary Funds
June 30, 2007**

	<u>Enterprise Fund Refuse, Water, Sewer</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 378,674
Account receivable, net	30,709
Interest receivable	<u>3,623</u>
Total current assets	<u>413,006</u>
Noncurrent assets	
Capital assets:	
Land	44,800
Construction in progress	910
Improvements to land	426,102
Structures and improvements	51,800
Less accumulated depreciation	<u>(309,166)</u>
Total noncurrent assets	<u>214,446</u>
Total assets	<u><u>\$ 627,452</u></u>
<hr/>	
LIABILITIES	
Account payable	\$ 3,384
Due to other governments	<u>4,843</u>
Total liabilities	<u>8,227</u>
 NET ASSETS	
Invested in capital assets	214,446
Unrestricted	<u>404,779</u>
Total net assets	<u>619,225</u>
Total liabilities and net assets	<u><u>\$ 627,452</u></u>

The notes to the financial statements are an integral part of this statement.

County of San Bernardino
County Service Area No. 42 – Oro Grande
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Fund
For the Fiscal Year Ended June 30, 2007

	Enterprise Fund Refuse, Water, Sewer
OPERATING REVENUES	
Charges for services	\$ 204,001
Total operating revenues	204,001
OPERATING EXPENSES	
Professional services	132,547
Services and supplies	35,687
Depreciation	10,671
Total operating expenses	178,905
Operating Income (Loss)	25,096
NONOPERATING REVENUES (EXPENSES)	
Property taxes	2,832
Interest & investment income	15,907
Penalties	3,056
Other nonoperating revenues	44,861
Total nonoperating revenues (expenses)	66,656
Income (loss) before transfers	91,752
Transfers out	(590)
Change in net assets	91,162
Net assets - beginning	528,063
Net assets - ending	\$ 619,225

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
County Service Area No. 42 – Oro Grande
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2007**

	Enterprise Fund Refuse, Water, Sewer
CASH FLOWS FROM OPERATING ACTIVITIES	
Received from user charges	\$ 202,183
Payments to suppliers of goods and services	(167,828)
Payments to employees for services and benefits	-
Net cash provided (used) by operating activities	<u>34,355</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Taxes received	5,889
Other nonoperating expense	(590)
Other nonoperating revenue	44,861
Net cash provided (used) by noncapital financing activities	<u>50,160</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Loss from sale of fixed assets	-
Acquisition of fixed assets	-
Net cash provided (used) by capital and related financing activities	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest revenue	<u>14,676</u>
Net cash provided by investing activities	<u>14,676</u>
<hr/>	
Net increase (decrease) in cash and cash equivalents	99,191
Balance -- beginning of the year	<u>279,483</u>
Balance -- end of the year	<u>\$ 378,674</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ 25,096
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	10,671
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(1,818)
Increase (decrease) in accounts payable	406
Net cash provided by operating activities	<u>\$ 34,355</u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
County Service Area No. 42 – Oro Grande
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The County Service Area No. 42 – Oro Grande (CSA) is a special district located within the County of San Bernardino. The CSA has governmental powers as established by the San Bernardino County Government Charter. The County of San Bernardino (County) was established in 1852 as a legal subdivision of the State of California.

The CSA was established by an act of the Board of Supervisors of the County (Board) on December 27, 1965, to provide water, sanitation, sewer, park, refuse collection and street lighting to the community of Oro Grande.

The CSA is a component unit of the County and is governed by the actions of the County Board of Supervisors. 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 (i) the County has the ability to impose its will on the organization, or (ii) 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 CSA 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, 2007.

Government-wide and fund financial statements

The government-wide financial statements (i.e., 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 shown on the government-wide financial statements. *Governmental activities* normally are supported by taxes and intergovernmental revenues.

County of San Bernardino
County Service Area No. 42 – Oro Grande
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007

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

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.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

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. 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.

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 CSA expanded its definition of "available" to within 9 months of year end. 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.

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.

**County of San Bernardino
County Service Area No. 42 – Oro Grande
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007**

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

The CSA reports the following major governmental funds:

The *special revenue fund SIV* is the government's primary operating fund for park services provided to the community of Oro Grande. It accounts for all financial resources of the general government related to park services, except those required to be accounted for in another fund.

The *capital project fund CQE* accounts for the project of improving the floor of the Community Center.

The CSA reports the following major proprietary fund:

The *enterprise fund* accounts for the refuse, water and sewer activities of the CSA.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

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 revenue of the CSA enterprise funds is charges to customers for water 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.

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.

County of San Bernardino
County Service Area No. 42 – Oro Grande
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007

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. Previously, these costs were shown as salaries and benefits.

Cash and cash equivalents

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.

Cash and cash equivalents include the cash balances of substantially all funds, which are pooled and invested by the County Treasurer to increase interest earning through investment activities.

Investment activities are governed by the California Government Code Sections 53601, 53635, 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 CSA's accounts based upon the CSA's average daily deposit balances during the quarter. ~~Unrealized gains and losses of the pooled investments are distributed to the CSA annually.~~ Cash and cash equivalents are shown at fair value as of June 30, 2007.

Capital assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental activities column 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 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 does not add to the value of the asset or materially extend asset life is not capitalized.

**County of San Bernardino
County Service Area No. 42 – Oro Grande
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007**

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

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:

<u>Assets</u>	<u>Years</u>
Structures and Improvements	Up to 45
Equipment	5 to 15

Net assets

Net assets comprise the various net earnings from operating and non-operating 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 consist of net assets of the County that are not restricted for any project or other purpose.

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.

**County of San Bernardino
County Service Area No. 42 – Oro Grande
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007**

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

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 capital assets within each fund.

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 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 INVESTMENTS

Cash and investments include the cash balances of substantially all funds which are pooled (the "pool") and invested by the County Treasurer for the purpose of increasing interest earnings through investment activities. The pool is not registered as an investment company with the Securities and Exchange Commission (SEC) nor is it an SEC Rule 2a7 – like pool. The pool does not issue a separate report. Included also are cash and investments held by certain joint powers authorities and cash held by various trustee financial institutions in accordance with the California Government Code.

State law now requires that all operating monies of the County, school districts, and board-governed special districts be held by the County Treasurer. The net asset value associated with legally mandated participants in the asset pool was \$3.94 billion at June 30, 2007.

County of San Bernardino
County Service Area No. 42 – Oro Grande
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 2: CASH AND INVESTMENTS-Continued

As of June 30, 2007, the fair value of the County Pool was \$3.96 billion. Approximately 9% of the County pool is attributable to the County General Fund, with the remainder of the balance comprised of other County funds, school districts and special districts. Additionally, as of June 30, 2007, \$27.3 million of the amounts deposited in the County pool was attributable to depositors who are not required to, but choose to, invest in the County pool. These include independent special districts, State Trial Court, and other governmental agencies. The deposits held for both involuntary and voluntary entities are reported in the Investment Trust Fund.

Investments authorized by debt agreement

Investment of debt proceeds held by bond trustees are governed by provisions of the trust agreements, created in connection with the issuance of debt rather than the general provisions of the California Government Code. Certificates of Participation and Revenue Bond indentures specify the types of securities in which proceeds may be invested as well as any related insurance, collateral, or minimum credit rating requirements. Although requirements may vary between debt issues, money market funds are all required to be investment grade. Guaranteed investment contracts are required to be acceptable to the municipal bond insurer. The fair value of investments is based on the valuation provided by trustee banks.

Investment credit risk

Investment credit risk exists when there is a possibility the issuer or other counterparty to an investment may be unable to fulfill its obligations. GASB Statement No. 40 requires the disclosure of credit quality ratings for investments in debt securities as well as investments in external investment pools, money market funds, and other pooled investments of fixed income securities.

California Law and San Bernardino County Treasury Pool Investment Policy (where more restrictive) place limitations on the purchase of investments in the County Pool. Purchases of commercial paper and negotiable certificates of deposit are restricted to the top two ratings issued by a minimum of two of three nationally recognized statistical rating organizations (NRSRO's). For an issuer of short-term debt, the rating must be no less than A-1 (S&P), P-1 (Moody's), or F-1 (Fitch) while an issuer of long-term corporate debt must have a minimum letter rating of "AA". Federal Agency notes and bonds, municipal notes and bonds, and money market mutual funds must have a minimum letter rating of "AAA". Limits are also placed on the maximum percentage investment by sector and by individual issuer (see schedule on page 19). As of June 30, 2007, all investments held by the County Pool were within policy limits.

Concentration of credit risk

An increased risk of loss occurs as more investments are acquired from one issuer (i.e. lack of diversification). This results in a concentration of credit risk.

**County of San Bernardino
County Service Area No. 42 – Oro Grande
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007**

NOTE 2: CASH AND INVESTMENTS-Continued

GASB Statement No. 40 requires disclosure of investments by amount and issuer that represent five-percent or more of total investments held. This requirement excludes investments issued or explicitly guaranteed by the United States Government, investments in mutual funds, external investment pools, and other pooled investments. As of June 30, 2007, the following issuers represented more than five-percent of the County Pool balance (amounts in thousands):

<u>Issuer</u>	<u>Fair Value</u>	<u>% of Portfolio</u>
FHLB	\$ 886,893	22.52%
FNMA	\$ 612,422	15.55%
FFCB	\$ 393,736	10.00%
FHLMC	\$ 347,172	8.81%

Interest rate risk

Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment's fair value. Generally, the longer the maturity of an investment, the greater the interest rate risk associated with that investment.

GASB Statement No. 40 requires that interest rate risk be disclosed using a minimum of one of five approved methods which are: segmented time distribution, specific identification, weighted average maturity, duration, and simulated model.

The County manages its exposure to interest rate risk by carefully matching cash flows and maturing positions to meet expenditures, limiting 40% of the County Pool to maturities of one year or less, and by maintaining an overall effective duration of 1.5 years or less. Duration is a measure of a fixed income's cash flow using present values, weighted for cash flows as a percentage of the investments full price. Effective duration makes assumptions regarding the most likely timing and amounts of variable cash flows arising from such investments as callable bonds.

California Law and where more restrictive, the San Bernardino County Pool Investment Policy, place limitations on the maximum maturity of investments to be purchased by sector (see schedule, amounts in thousands). As of June 30, 2007, all investments held by the County Pool were within policy limits.

County of San Bernardino
County Service Area No. 42 – Oro Grande
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 2: CASH AND INVESTMENTS-Continued

<u>Security Type</u>	<u>Fair Value</u>	<u>Maturity Range (Days)</u>	<u>Maturity Limits</u>	<u>Average Maturity</u>	<u>Effective Duration</u>
Certificates of Deposit	\$ 749,492	6 - 347	365 days	164	0.43
Commercial Paper	\$ 696,004	2 - 101	270 days	19	0.05
Corporate Notes	\$ 9,392	490	18 months	490	1.26
Federal Agencies	\$ 2,240,223	11 - 1059	5 years	472	1.13
Money Market Funds	\$ 25,000	1	Imm. Liq.	1	0.003
Repurchase Agreements	\$ 100,001	2	180 days	2	0.005
U.S. Treasuries	\$ 144,384	46 - 777	5 years	231	0.61
Total Securities	<u>\$3,964,496</u>			<u>311</u>	<u>0.75</u>

Custodial credit risk

Custodial Credit Risk for Deposits exists when, in the event of a depository financial institution failure, a government may be unable to recover deposits, or recover collateral securities that are in the possession of an outside party.

GASB Statement No. 40 requires the disclosure of deposits into a financial institution that are not covered by FDIC depository insurance and are uncollateralized.

California Law requires that a financial institution secure deposits made by state or local government 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 County deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2007, the carrying amount of the County's deposits was \$58.1 million and the corresponding bank balance was \$69.6 million. The difference of \$11.5 million was primarily due to outstanding warrants, wires and deposits in transit. Of the bank balance, \$200,000 was insured by the FDIC depository insurance and \$69.4 million was uncollateralized and not insured by FDIC depository insurance.

Custodial Credit Risk for Investments exists when, in the event of a 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.

In order to limit Custodial Credit Risk for Investments, San Bernardino County Pool Investment Policy requires that all investments and investment collateral be transacted on a delivery versus payment basis with a third-party custodian and registered in the County's name. All counterparties to repurchase agreements must sign a PSA Master Repurchase Agreement and/or Tri-Party Repurchase Agreement before engaging in repurchase agreement transactions.

**County of San Bernardino
County Service Area No. 42 – Oro Grande
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007**

NOTE 2: CASH AND INVESTMENTS-Continued

A summary of the investments held by the County Treasurer is as follows (amounts in thousands):

<u>Investment Type</u>	<u>Cost</u>	<u>Fair Value</u>	<u>S&P Rating</u>	<u>Moody's Rating</u>	<u>Fitch Rating</u>	<u>Maximum Allowed % of Portfolio</u>	<u>Individual Issuer Limitations</u>	<u>% of Pool 06/30/07</u>
U.S. Treasury Securities	\$ 144,635	\$ 144,384	AAA	Aaa	AAA	100%	None	3.00%
U.S. Government Agencies	2,246,987	2,240,223	AAA	Aaa	AAA	75%	None	56.90%
Negotiable Certificates of Deposit	750,144	749,492	A1+	P1	F1+	30%	\$100MM	19.00%
Commercial Paper	692,120	696,004	A1+	P1	F1+	40%	10\$	17.00%
Corporate Notes	9,478	9,392	AA	Aa1	AA+	10%	\$50MM	0.30%
Money Market Mutual Funds	25,000	25,000	AAA	Aaa	AAA	15%	10%	0.50%
Repurchase Agreements	100,000	100,001	A1	P1	F1+	40%	None	2.50%
Total Treasurer's Pooled Investments	\$ 3,968,264	\$ 3,964,496						
Investments Controlled by Fiscal Agents:								
Guaranteed Investment Contracts	35,917	35,917						
U.S. Treasury Securities	84,372	84,372						
U.S. Agency Discount Notes	6,603	6,603						
Total Investments Controlled by Fiscal Agents	\$ 126,892	\$ 126,892						
Total Investments	\$ 4,095,156	\$ 4,091,388						
Cash in Banks:								
Non-Interest Bearing Deposits		\$ 58,066						
Total Cash and Investments		\$ 4,149,454						

**County of San Bernardino
County Service Area No. 42 – Oro Grande
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007**

NOTE 2: CASH AND INVESTMENTS-Continued

As of June 30, 2007, cash and cash equivalents for the CSA are classified in the accompanying financial statements as follows:

Cash and cash equivalents	\$ 379,416
Total Cash and cash equivalents	\$ 379,416

The following represents a condensed statement of net assets and changes in net assets for the Treasurer's investment pool as of June 30, 2007 (amounts in thousands):

Statement of Net Assets	
Equity of internal pool participants	\$ 1,698,508
Equity of external pool participants:	
Voluntary	27,346
Involuntary	2,238,642
Total Net Assets held for pool participants	\$ 3,964,496

Statement of Changes in Net Assets	
Net Assets at July 1, 2006	\$ 3,335,214
Net change in investments by pool participants	629,282
Net Assets at June 30, 2007	\$ 3,964,496

NOTE 3: CAPITAL ASSETS

The costs of building and acquiring capital assets (land, buildings, vehicles and equipment) financed from the governmental funds are reported as expenditures in the year they are incurred, and the assets do not appear on the balance sheet. However, the statement of net assets includes those capital assets among the assets of the CSA as a whole, and their original costs are expensed annually over their useful lives. Capital asset activity for governmental activities for the year ended June 30, 2007 follows.

**County of San Bernardino
County Service Area No. 42 – Oro Grande
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007**

NOTE 3: CAPITAL ASSETS-Continued

Governmental activities	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007
Capital assets, not being depreciated:				
Land	\$ 9,930	\$ -	\$ -	\$ 9,930
Construction in Progress	-	-	-	-
Total capital assets, not being depreciated	9,930	-	-	9,930
Capital assets, being depreciated:				
Land Improvements	227,485	-	-	227,485
Structures	-	16,145	-	16,145
Equipment and Vehicles	11,493	-	-	11,493
Total capital assets, being depreciated	238,978	16,145	-	255,123
Less accumulated depreciation for:				
Land Improvements	(149,518)	(7,087)	-	(156,605)
Structures	-	(418)	216	(202)
Equipment and Vehicles	(7,526)	(433)	-	(7,959)
Total accumulated depreciation	(157,044)	(7,938)	216	(164,766)
Total capital assets, being depreciated, net	81,934	8,207	216	90,357
Total net capital assets	\$ 91,864	\$ 8,207	\$ 216	\$ 100,287

Business-type activities	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007
Capital assets, not being depreciated:				
Land	\$ 44,800	\$ -	\$ -	\$ 44,800
Construction in Progress	30,746	-	29,836	910
Total capital assets, not being depreciated	75,546	-	29,836	45,710
Capital assets, being depreciated:				
Land Improvements	396,266	29,836	-	426,102
Structures	51,800	-	-	51,800
Total capital assets, being depreciated	448,066	29,836	-	477,902
Less accumulated depreciation for:				
Land Improvements	(298,278)	(8,082)	-	(306,360)
Structures	(216)	(2,590)	-	(2,806)
Total accumulated depreciation	(298,494)	(10,672)	-	(309,166)
Total capital assets, being depreciated, net	149,572	19,164	-	168,736
Total net capital assets	\$ 225,118	\$ 19,164	\$ 29,836	\$ 214,446

Construction in Progress

Construction in progress represents the following project:

Project Title	Budget	YTD Expenses	Projected Completion Date
Sewer Line Replacement	\$ 484,309	\$ 910	2008
Total		\$ 910	

County of San Bernardino
County Service Area No. 42 – Oro Grande
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 4: 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.

NOTE 5: SELF INSURANCE

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

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

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

The activities related to such programs are accounted for in the County's Risk Management Fund (an Internal Service Fund), except for unemployment insurance and employee dental insurance, which are accounted for in the General Fund. The incurred but not reported (IBNR) and incurred but not settled (IBNS) liabilities stated on the Risk Management fund's balance sheet are based upon the results of actuarial studies, and include amounts for allocated and unallocated loss adjustment expenses. The liabilities for these claims are reported using a discounted rate of 4.75%. It is the County's practice to obtain actuarial studies on an annual basis.

The County has a risk management investment program agreement with the Bank of New York to finance the self-insured general liability, automobile liability, workers' compensation, and medical malpractice programs. The County's investment in the agreement totaled \$50.3 million at June 30, 2007.

The total claims liability of \$129.7 million reported on the Risk Management fund's balance sheet at June 30, 2007 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

**County of San Bernardino
County Service Area No. 42 – Oro Grande
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007**

NOTE 5: SELF INSURANCE-Continued

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 2006 and 2007 were:

Fiscal Year	Beginning of Fiscal Year Liability (in thousands)	Current-Year Claims and Changes in Estimates (in thousands)	Claims Payments (in thousands)	Balance at Fiscal Year-End (in thousands)
2005-06	\$115,714	\$46,926	(\$35,407)	\$127,233
2006-07	\$127,233	\$34,312	(\$31,862)	\$129,683

NOTE 6: LONG-TERM LEASE AGREEMENT

On March 13, 2007 the Board of Supervisors approved an agreement with Oro Grande School District to lease Rainbow Park, an unused 2.92 acre parcel located on property contiguous to Oro Grande School, to the school for a period of 43 years at a total cost of \$43. The purpose of the lease is to construct additional charter school facilities on the site at the cost of the school district. Oro Grande School District must relocate the existing park equipment to the Community Center Park at the expense of the school district. The lease will be for the period February 1, 2007 to January 31, 2050.

**Required Supplementary Information
County of San Bernardino Special Districts
County Service Area No. 42 – Oro Grande
Budgetary Comparison Schedule – Special Revenue Fund
For the Year Ended June 30, 2007**

Special Revenue Fund (S/RV)	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balance, July 1, 2006	\$ 1,260	\$ 1,260	\$ 1,260	\$ -
Resources (Inflows):				
Property taxes	33,189	33,189	27,042	6,147
State assistance	1,231	1,231	405	826
Charges for services	2,000	2,000	4,156	(2,156)
Investment earnings	200	200	31	169
Transfer In	-	-	590	(590)
Amounts available for appropriation	<u>37,880</u>	<u>37,880</u>	<u>33,484</u>	<u>4,396</u>
Charges to appropriations (outflows):				
Salaries and benefits	9,355	9,355	9,244	111
Service and supplies	15,230	15,230	13,644	1,586
Professional services	13,185	13,185	8,121	5,064
Total charges to Appropriations	<u>37,770</u>	<u>37,770</u>	<u>31,009</u>	<u>6,761</u>
Budgetary fund balance, June 30, 2007	<u>\$ 110</u>	<u>\$ 110</u>	<u>\$ 2,475</u>	<u>\$ 2,365</u>

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