

**COUNTY OF SAN BERNARDINO**  
**CALIFORNIA**  
**SPECIAL DISTRICTS**  
**AUDIT REPORT**  
**COUNTY SERVICE AREA 64 – SPRING VALLEY LAKE**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

**Prepared by:**  
**Internal Audits Section**  
**Office of the Auditor/Controller-Recorder**  
**February 24, 2010**

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

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# AUDITOR/CONTROLLER-RECORDER COUNTY CLERK



COUNTY OF SAN BERNARDINO

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County Clerk

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

## Independent Auditor's Report

**February 24, 2010**

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

**SUBJECT: AUDIT OF COUNTY SERVICE AREA 64 FOR THE FISCAL YEAR ENDED  
JUNE 30, 2009**

### Introductory Remarks

In compliance with Section 26909 of the California Government Code, we have completed an audit of County Service Area (CSA) 64 for the fiscal year ended June 30, 2009.

### Auditor's Report

We have audited the accompanying financial statements of the business-type activities of CSA 64 (District), a component unit of the County of San Bernardino, California, as of and for the year ended June 30, 2009, which comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

AudRpt/Jeffrey O. Rigney, Director  
Office of Special Districts  
February 24, 2010  
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In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District as of June 30, 2009, and the respective changes in its financial position and 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 District has not presented the *Management's Discussion and Analysis* that accounting principals generally accepted in the United States 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 64 – Spring Valley Lake**  
**Statement of Net Assets**  
**June 30, 2009**

	<u>Enterprise Fund</u>		<u>Total</u>
	<u>Sewer</u>	<u>Water</u>	
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents (Note 2)	\$ 2,139,434	\$ 4,641,434	\$ 6,780,868
Restricted cash (Note 3)	50,780	-	50,780
Accounts receivable	173,155	229,907	403,062
Due from other governments	-	4,646	4,646
Taxes receivable	2,037	36,748	38,785
Interest receivable	10,011	24,311	34,322
Total current assets	<u>2,375,417</u>	<u>4,937,046</u>	<u>7,312,463</u>
Noncurrent assets:			
Capital assets (Note 4):			
Land	10,000	-	10,000
Construction in progress	-	1,041,596	1,041,596
Improvements to land	4,019,471	1,898,301	5,917,772
Structures and improvements	218,810	56,290	275,100
Equipment and vehicles	-	19,991	19,991
Utility plant-in-service	-	369,760	369,760
Less accumulated depreciation	(2,741,840)	(1,536,115)	(4,277,955)
Total noncurrent assets	<u>1,506,441</u>	<u>1,849,823</u>	<u>3,356,264</u>
Total assets	<u>\$ 3,881,858</u>	<u>\$ 6,786,869</u>	<u>\$ 10,668,727</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	79,908	112,430	192,338
Retentions payable	-	26,321	26,321
Litigation settlement payable (Note 12)	93,899	-	93,899
Matured bonds payable (Note 5 & 8)	30,000	-	30,000
Interest payable on matured bonds (Note 5 & 8)	20,780	-	20,780
Due to other governments	10,229	39,754	49,983
Total current liabilities	<u>234,816</u>	<u>178,505</u>	<u>\$ 413,321</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	1,476,441	1,849,823	3,326,264
Unrestricted	2,170,601	4,758,541	6,929,142
Total net assets	<u>3,647,042</u>	<u>6,608,364</u>	<u>10,255,406</u>
Total liabilities and net assets	<u>\$ 3,881,858</u>	<u>\$ 6,786,869</u>	<u>\$ 10,668,727</u>

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

**County of San Bernardino**  
**County Service Area 64 – Spring Valley Lake**  
**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**For the Fiscal Year Ended June 30, 2009**

	<u>Enterprise Fund</u>		<u>Total</u>
	<u>Sewer</u>	<u>Water</u>	
<b>OPERATING REVENUES</b>			
<b>Charges for services:</b>			
Sanitation services	\$ 1,291,939	\$ -	\$ 1,291,939
Water sales	-	1,568,723	1,568,723
Permit & inspection fees	876	600	1,476
Special assessments	31,971	16,273	48,244
Other services	986	17,300	18,286
Total operating revenues	<u>1,325,772</u>	<u>1,602,896</u>	<u>2,928,668</u>
<b>OPERATING EXPENSES</b>			
Professional services	879,414	891,938	1,771,352
Services and supplies	436,699	598,664	1,035,363
Water mitigation (Note 9)	-	307,977	307,977
Utilities	8,995	183,245	192,240
Rents and leases	32,642	356	32,998
Depreciation	92,076	34,794	126,870
Total operating expenses	<u>1,449,826</u>	<u>2,016,974</u>	<u>3,466,800</u>
Operating income (Loss)	<u>(124,054)</u>	<u>(414,078)</u>	<u>(538,132)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Property taxes	200,329	248,173	448,502
Other taxes	6	8,312	8,318
State aid	-	5,206	5,206
Penalties	26,675	34,579	61,254
Investment earnings	68,738	176,864	245,602
Other nonoperating revenues	9,654	94,095	103,749
Total nonoperating revenues (expenses)	<u>305,402</u>	<u>567,229</u>	<u>872,631</u>
Income (loss) before special item and transfers	181,348	153,151	334,499
Special item - litigation settlement expense (Note 12)	(193,899)	-	(193,899)
Transfers in (out)	47,905	(47,905)	-
Change in net assets	<u>35,354</u>	<u>105,246</u>	<u>140,600</u>
<b>Net assets - beginning, as restated (Note 13)</b>	<u>3,611,688</u>	<u>6,503,118</u>	<u>10,114,806</u>
<b>Net assets - ending</b>	<u>\$ 3,647,042</u>	<u>\$ 6,608,364</u>	<u>\$ 10,255,406</u>

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

**County of San Bernardino**  
**County Service Area 64 – Spring Valley Lake**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2009**

	<b>Enterprise Fund</b>		<b>Total</b>
	<b>Sewer</b>	<b>Water</b>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 1,304,924	\$ 1,582,393	\$ 2,887,317
Payments to suppliers of goods and services	(1,314,392)	(1,870,344)	(3,184,736)
Litigation payments	(100,000)	-	(100,000)
Miscellaneous receipts	9,654	94,095	103,749
Net cash provided (used) by operating activities	<u>(99,814)</u>	<u>(193,856)</u>	<u>(293,670)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Taxes received	199,357	273,576	472,933
State aid	-	5,206	5,206
Penalties	26,675	34,579	61,254
Transfers in (out)	47,905	(47,905)	-
Net cash provided (used) by noncapital financing activities	<u>273,937</u>	<u>265,456</u>	<u>539,393</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Acquisition of capital assets	(67,459)	(486,468)	(553,927)
Net cash provided (used) by capital and related financing activities	<u>(67,459)</u>	<u>(486,468)</u>	<u>(553,927)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest revenue	79,604	204,415	284,019
Net cash provided by investing activities	<u>79,604</u>	<u>204,415</u>	<u>284,019</u>
Net increase (decrease) in cash and cash equivalents	186,268	(210,453)	(24,185)
Cash and cash equivalents, beginning of the year, as restated (Note 13)	2,003,946	4,851,887	6,855,833
Cash and cash equivalents, end of the year	<u>\$ 2,190,214</u>	<u>\$ 4,641,434</u>	<u>\$ 6,831,648</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>			
Operating income (loss)	\$ (124,054)	\$ (414,078)	\$ (538,132)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	92,076	34,794	126,870
Litigation settlement expense	(193,899)	-	(193,899)
Miscellaneous receipts	9,654	94,095	103,749
Change in assets and liabilities:			
Accounts receivable and other receivables	(20,848)	(20,503)	(41,351)
Accounts payable and other payables	137,257	111,836	249,093
<b>Net cash provided (used) by operating activities</b>	<u>\$ (99,814)</u>	<u>\$ (193,856)</u>	<u>\$ (293,670)</u>

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

**County of San Bernardino  
County Service Area 64 – Spring Valley Lake  
Notes to Financial Statements  
For the Fiscal Year Ended June 30, 2009**

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

**Reporting Entity**

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

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

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

Because the District meets the reporting entity criteria established by the Governmental Accounting Standards Board (GASB), the District's financial statements have also been included in the Comprehensive Annual Financial Report of the County as a "component unit" for the fiscal year ended June 30, 2009.

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

The proprietary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise funds are charges to customers for water sales and sanitation services. Operating expenses for enterprise funds include the cost of salaries and benefits, services and supplies, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

**County of San Bernardino  
County Service Area 64 – Spring Valley Lake  
Notes to Financial Statements  
For the Fiscal Year Ended June 30, 2009**

**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.

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.

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.

**Cash and cash equivalents**

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

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

Interest income, and realized gains and losses earned on pooled investments are deposited quarterly to the District's accounts based upon the District's average daily deposit balances during the quarter. Unrealized gains and losses of the pooled investments are distributed to the District annually. Cash and cash equivalents are shown at fair value as of June 30, 2009.

**Receivables**

The District sends any delinquent accounts receivable to property tax to be included on the customers' property tax bills. A majority of the delinquent accounts sent to property tax are paid by the customers when they receive their tax bill. Therefore, the delinquent accounts receivable are not considered doubtful and are included as a part of the total accounts receivable outstanding.

**County of San Bernardino**  
**County Service Area 64 – Spring Valley Lake**  
**Notes to Financial Statements**  
**For the Fiscal Year Ended June 30, 2009**

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

**Property taxes**

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

**Capital assets**

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the enterprise fund. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of one (1) year. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are 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>
Infrastructure	10-100
Structures and Improvements	up to 45
Equipment	5-15

**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.

**County of San Bernardino**  
**County Service Area 64 – Spring Valley Lake**  
**Notes to Financial Statements**  
**For the Fiscal Year Ended June 30, 2009**

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

- Restricted – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted – This component of net assets consists of net assets of the County that are not restricted for any project or other purpose.

**Use of estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**NOTE 2: CASH AND INVESTMENTS (Amounts reported in thousands)**

Cash and investments include the cash balances of substantially all funds which are pooled (Pool) and invested by the County Treasurer for the purpose of increasing interest earnings through investment activities. The County sponsors an external investment pool which includes 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 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 \$3,966,232 at June 30, 2009.

As of June 30, 2009, the fair value of the County Pool was \$4.18 billion. Approximately 7% 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, 2009, \$216,351 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.

The fair value of the pool is determined monthly, and depends on, among other factors, the maturities and types of investments and general market conditions. The fair value of each participant's position including both voluntary and involuntary participants is the same as the value of the pool share. The method used to determine participants' equity withdrawn is based on the daily average book value of the participants' percentage participation in the pool.

**County of San Bernardino  
County Service Area 64 – Spring Valley Lake  
Notes to Financial Statements  
For the Fiscal Year Ended June 30, 2009**

**NOTE 2: CASH AND INVESTMENTS (Amounts reported in thousands) - *Continued***

The County has not produced or provided any letters of credit or legal binding guarantees as supplemental support of Pool values during the year ended at June 30, 2009. The Pool provides monthly reporting to both the Board of Supervisors and the County Treasury Oversight Committee who also review and approve investment policy.

The County pools its external participants' investments with the County Pool. The average rate of return on investments during fiscal year 2009 was 2.54%.

A summary of the investments held by the County Treasurer is as follows:

<u>Investment Type</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Interest Rate Range</u>	<u>Maturity Range</u>	<u>Average Maturity</u>
U.S. Treasury Securities	\$ 79,721	\$ 79,841	1.25% - 1.75%	05/15/12 - 04/15/14	1,314
U.S. Government Agencies	2,868,755	2,900,027	0.79% - 5.27%	07/06/09 - 06/29/12	480
Negotiable Certificates of Deposit	340,022	340,003	0.24% - 0.54%	07/01/09 - 09/04/09	21
Commercial Paper	274,667	274,904	0.20% - 0.81%	07/01/09 - 12/01/09	39
Corporate Notes	197,310	196,808	1.23% - 3.06%	08/10/09 - 07/15/11	197
Money Market Mutual Funds	391,000	391,000	0.24%	07/01/09	1
<b>Total Treasurer's Pooled Investments</b>	<b>4,151,475</b>	<b>4,182,583</b>			
Investments Controlled by Fiscal Agents:					
Mutual Funds	17,808	17,808			
Guaranteed Investment Contracts	9,707	9,707			
U.S. Treasury Securities	79,090	79,090			
Total Investments Controlled by Fiscal Agents	<u>106,605</u>	<u>106,605</u>			
<b>Total Investments</b>	<b>\$ 4,258,080</b>	<b>\$ 4,289,188</b>			
Cash in Banks:					
Non-Interest Bearing Deposits		280,050			
<b>Total Cash and Investments</b>		<b>\$ 4,569,238</b>			

**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 contracts are recorded at cost.

**County of San Bernardino  
County Service Area 64 – Spring Valley Lake  
Notes to Financial Statements  
For the Fiscal Year Ended June 30, 2009**

**NOTE 2: CASH AND INVESTMENTS (Amounts reported in thousands) - *Continued***

**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). As of June 30, 2009, all investments held by the County Pool were within policy limits.

<u>Investment Type</u>	<u>Maximum Allowed % of Portfolio</u>	<u>Individual Issuer Limitations</u>	<u>% of Pool 06/30/09</u>
U.S. Treasury Securities	100	None	1.90
U.S. Government Agencies	100	None	69.40
Negotiable Certificates of Deposit	30	\$100MM/5%	8.10
Commercial Paper	40	5%	6.60
Corporate Notes	10/5	\$50MM/5%	3.50
TLGP Corporate Notes	30	None	1.20
Money Market Mutual Funds	15	10%	9.30

**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*.

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.

**County of San Bernardino  
County Service Area 64 – Spring Valley Lake  
Notes to Financial Statements  
For the Fiscal Year Ended June 30, 2009**

**NOTE 2: CASH AND INVESTMENTS (Amounts reported in thousands) - *Continued***

As of June 30, 2009, the following issuers represented more than five-percent of the County Pool balance:

<u>Issuer</u>	<u>Fair Value</u>	<u>% of Portfolio</u>
FHLB	\$ 924,634	22.11
FNMA	830,708	19.86
FHLMC	644,259	15.41
FFCB	500,426	11.97

**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). As of June 30, 2009, all investments held by the County Pool were within policy limits. A summary of investments for Maturity Range, Limits, and effective duration is as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity Range (Days)</u>	<u>Maturity Limits</u>	<u>Effective Duration</u>
U.S. Treasury Securities	\$ 79,841	1,050 - 1,749	5 Years	3.54
U.S. Government Agencies	2,900,027	6 - 1,095	5 Years	0.83
Negotiable Certificates of Deposit	340,003	1 - 66	365 days	0.06
Commercial Paper	274,904	1 - 154	270 days	0.11
Corporate Notes	146,570	41 - 127	18 months	0.20
TLGP Corporate Notes**	50,238	395 - 745	5 Years	1.53
Money Market Mutual Funds	391,000	1	Daily Liq.	0.003
Total Securities	<u>\$ 4,182,583</u>			

\*\*Fully insured and issued through the FDIC's Temporary Liquidity Guarantee Program.

**County of San Bernardino  
County Service Area 64 – Spring Valley Lake  
Notes to Financial Statements  
For the Fiscal Year Ended June 30, 2009**

**NOTE 2: CASH AND INVESTMENTS (Amounts reported in thousands) - *Continued***

**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, 2009, the carrying amount of the County's deposits was \$280,050 and the corresponding bank balance was \$139,953. The difference of \$140,097 was primarily due to outstanding warrants, wires and deposits in transit. Of the bank balance, \$138,078 was insured by the FDIC depository insurance through the Transaction Account Guarantee Program.

*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 TBMA Master Repurchase Agreement and/or Tri-Party Repurchase Agreement before engaging in repurchase agreement transactions.

**County of San Bernardino  
County Service Area 64 – Spring Valley Lake  
Notes to Financial Statements  
For the Fiscal Year Ended June 30, 2009**

**NOTE 2: CASH AND INVESTMENTS (Amounts reported in thousands) - Continued**

The following represents a condensed statement of net assets and changes in net assets for the Treasurer's investment pool as of June 30, 2009:

<b>Statement of Net Assets</b>	
Equity of internal pool participants	\$ 1,588,613
Equity of external pool participants:	
Voluntary	216,351
Involuntary	2,377,619
Total Net Assets held for pool participants	\$ 4,182,583
<b>Statement of Changes in Net Assets</b>	
Net Assets at July 1, 2008	\$ 4,335,079
Net change in investments by pool participants	(152,496)
Net Assets at June 30, 2009	\$ 4,182,583

As of June 30, 2009, Cash and Investments are classified in the accompanying financial statements as follows (amounts reported in dollars):

	<b>Total Business-type Activities</b>
Cash and cash equivalents	\$ 6,780,868
Restricted cash and cash equivalents	50,780
Total cash and cash equivalents	\$ 6,831,648

**NOTE 3: RESTRICTED CASH**

The District issued bonds under the authority of California Government Code Section 25210.1 to finance certain water and sewer improvements. The District reports the bonds according to the provisions of Governmental Accounting Standards Board Statement No. 6. All the District's bonds matured as of the fiscal year ending June 30, 2004. The portion of the matured Bonds and interest held by the Treasurer/Tax-Collector of the County of San Bernardino amounting to \$50,780 is reported as restricted cash.

**County of San Bernardino**  
**County Service Area 64 – Spring Valley Lake**  
**Notes to Financial Statements**  
**For the Fiscal Year Ended June 30, 2009**

**NOTE 4: CAPITAL ASSETS**

Capital asset activities during the year were as follows:

	(Note 13) Restated Balance				Balance
	July 1, 2008	Additions	Deletions	Transfers	June 30, 2009
<b>Sewer</b>					
Capital assets, not being depreciated:					
Land	\$ 10,000	\$ -	\$ -	\$ -	\$ 10,000
Construction in progress	401,801	-	-	(401,801)	-
Total capital assets, not being depreciated	<u>411,801</u>	<u>-</u>	<u>-</u>	<u>(401,801)</u>	<u>10,000</u>
Capital assets, being depreciated:					
Land improvements	3,582,538	35,132	-	401,801	4,019,471
Structures and improvements	218,810	-	-	-	218,810
Total capital assets, being depreciated	<u>3,801,348</u>	<u>35,132</u>	<u>-</u>	<u>401,801</u>	<u>4,238,281</u>
Less accumulated depreciation for:					
Land improvements	(2,625,047)	(87,213)	-	-	(2,712,260)
Structures	(24,717)	(4,863)	-	-	(29,580)
Total accumulated depreciation	<u>(2,649,764)</u>	<u>(92,076)</u>	<u>-</u>	<u>-</u>	<u>(2,741,840)</u>
Total capital assets, being depreciated, net	<u>1,151,584</u>	<u>(56,944)</u>	<u>-</u>	<u>401,801</u>	<u>1,496,441</u>
<b>Capital assets, net</b>	<b><u>\$ 1,563,385</u></b>	<b><u>\$ (56,944)</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 1,506,441</u></b>

	(Note 13) Restated Balance				Balance
	July 1, 2008	Additions	Deletions	June 30, 2009	
<b>Water</b>					
Capital assets, not being depreciated:					
Construction in progress	\$ 528,807	\$ 512,789	\$ -	\$ 1,041,596	
Total capital assets, not being depreciated	<u>528,807</u>	<u>512,789</u>	<u>-</u>	<u>1,041,596</u>	
Capital assets, being depreciated:					
Land improvements	1,898,301	-	-	1,898,301	
Structures and improvements	56,290	-	-	56,290	
Vehicles	10,157	-	-	10,157	
Equipment	9,834	-	-	9,834	
Utility Plant In-Service	369,760	-	-	369,760	
Total capital assets, being depreciated	<u>2,344,342</u>	<u>-</u>	<u>-</u>	<u>2,344,342</u>	
Less accumulated depreciation for:					
Land improvements	(1,381,544)	(18,535)	-	(1,400,079)	
Structures	(9,381)	(8,042)	-	(17,423)	
Vehicles	(10,157)	-	-	(10,157)	
Equipment	(9,834)	-	-	(9,834)	
Utility Plant In-Service	(90,405)	(8,217)	-	(98,622)	
Total accumulated depreciation	<u>(1,501,321)</u>	<u>(34,794)</u>	<u>-</u>	<u>(1,536,115)</u>	
Total capital assets, being depreciated, net	<u>843,021</u>	<u>(34,794)</u>	<u>-</u>	<u>808,227</u>	
<b>Capital assets, net</b>	<b><u>\$ 1,371,828</u></b>	<b><u>\$ 477,995</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 1,849,823</u></b>	

**County of San Bernardino  
County Service Area 64 – Spring Valley Lake  
Notes to Financial Statements  
For the Fiscal Year Ended June 30, 2009**

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

**Construction in Progress**

Construction in progress at June 30, 2009 represents the following projects:

<u>Project Title</u>	<u>Final Budget</u>	<u>Expenses as of 06/30/2009</u>	<u>Projected Fiscal Year of Completion</u>
Service Line Replacement	\$ 1,248,683	\$ 516,774	2011
Field Office Addition	142,038	354	2010
Two 3M Gallon Reservoirs	3,938,942	468,327	2012
Well #7	755,324	56,141	2011
<b>Total</b>	<b>\$ 6,084,987</b>	<b>\$ 1,041,596</b>	

The District has entered into several contractual agreements for the development and/or improvement of the capital projects listed above. The balance of these commitments is \$100,732 as of June 30, 2009.

**NOTE 5: SHORT-TERM DEBT**

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

	<u>Balance 6/30/08</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/09</u>
Matured bonds payable	\$ 30,000	\$ -	\$ -	\$ 30,000
Matured interest payable	20,780	-	-	20,780
Total matured bonds & interest payable	<u>\$ 50,780</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 50,780</u>

**NOTE 6: TRANSFERS**

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

**NOTE 7: PROPOSITION 111 APPROPRIATION LIMITS**

Proposition 111, which added Article XIII B to the State Constitution, established limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2008-2009 fiscal year and have found the revenue to be within the guidelines established by Proposition 111.

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

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

**County of San Bernardino  
County Service Area 64 – Spring Valley Lake  
Notes to Financial Statements  
For the Fiscal Year Ended June 30, 2009**

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

Series A bonds matured in the fiscal year ending June 30, 2002, Series B bonds matured in the fiscal year ending June 30, 2004, Series C Bonds matured in the fiscal year ending June 30, 1997, and Series D bonds matured in the fiscal year ending June 30, 2000. At June 30, 2009, the District had Matured Bonds Payable of \$30,000 and Interest Payable of \$20,780 from the Series A, Series C, and Series D issuances.

**NOTE 9: MITIGATION EXPENDITURES**

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

**NOTE 10: RELATED PARTY TRANSACTIONS**

The Victor Valley Wastewater Reclamation Authority (VWRA) is a Joint Powers Authority, and the District is represented on the VWRA board by County Supervisor Brad Mitzelfelt. The District pays the VWRA for sewer connection fees and sewage treatment fees. For fiscal year 2009, VWRA sewer connection fees incurred were approximately \$149,980 and sewage treatment fees incurred were approximately \$380,923. Approximately \$72,833 was due to the VWRA as of June 30, 2009.

**NOTE 11: SELF INSURANCE**

The District is insured through the County's self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability, and workers' compensation claims. Public liability claims are self-insured for up to \$2 million per occurrence. Excess insurance coverage over the Self-Insured Retention (SIR) up to \$50 million is provided through a 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.

**County of San Bernardino  
County Service Area 64 – Spring Valley Lake  
Notes to Financial Statements  
For the Fiscal Year Ended June 30, 2009**

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

The County supplements its self-insurance for medical malpractice claims with Zurich Ins. Co., which provides annual coverage on a claims made form 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 (amounts in thousands):

<u>Fiscal Year</u>	<u>Beginning of Fiscal Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claims Payments</u>	<u>Balance at Fiscal Year-end</u>
2007-08	\$129,683	\$51,702	(\$32,064)	\$149,321
2008-09	\$149,321	\$32,909	(\$32,289)	\$149,941

**NOTE 12: LITIGATION SETTLEMENT**

The District reached a settlement agreement for litigation involving a claim that a sewer pipe was located outside of its easement area. The terms of the settlement involved a \$475,000 payment (\$375,000 of which was covered by insurance). In addition, the District is required to relocate the sewer pipe at its own expense. The estimate for the sewer pipe relocation is \$93,899 and is recorded as a litigation settlement payable as of June 30, 2009.

**County of San Bernardino  
County Service Area 64 – Spring Valley Lake  
Notes to Financial Statements  
For the Fiscal Year Ended June 30, 2009**

**NOTE 13: RESTATEMENT OF NET ASSETS, CASH AND CASH EQUIVALENTS,  
AND CONSTRUCTION IN PROGRESS**

Net assets, cash and cash equivalents, and construction in progress as of June 30, 2008 were restated due to a fund previously included in the water activity being correctly moved to the sewer activity. The effect on the results of operations for the fiscal year ending June 30, 2008 was not material.

<b><u>Net Assets – Water Activity</u></b>	Balance at 6/30/2008
Beginning net assets, as previously reported	\$ 6,941,937
Decrease	(438,819)
Beginning net assets, as restated	<u>\$ 6,503,118</u>
<b><u>Net Assets – Sewer Activity</u></b>	
Beginning net assets, as previously reported	\$ 3,172,869
Increase	438,819
Beginning net assets, as restated	<u>\$ 3,611,688</u>
<b><u>Cash and Cash Equivalents – Water Activity</u></b>	
Beginning cash, as previously reported	\$ 4,925,596
Decrease	(73,709)
Beginning cash, as restated	<u>\$ 4,851,887</u>
<b><u>Cash and Cash Equivalents – Sewer Activity</u></b>	
Beginning cash, as previously reported	\$ 1,930,237
Increase	73,709
Beginning cash, as restated	<u>\$ 2,003,946</u>
<b><u>Construction in Progress – Water Activity</u></b>	
Beginning construction in progress, as previously reported	\$ 930,608
Decrease	(401,801)
Beginning construction in progress, as restated	<u>\$ 528,807</u>
<b><u>Construction in Progress – Sewer Activity</u></b>	
Beginning construction in progress, as previously reported	\$ -
Increase	401,801
Beginning construction in progress, as restated	<u>\$ 401,801</u>