

**COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 64
SPRING VALLEY LAKE
FINANCIAL STATEMENTS
June 30, 2012**

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An Independent CPA Firm

Board of Supervisors
County of San Bernardino
County of San Bernardino Special
District County Service Area
No. 64 – Spring Valley Lake

Independent Auditors' Report

We have audited the accompanying financial statements of the business-type activities of the County of San Bernardino Special District County Service Area No. 64 – Spring Valley Lake (District), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2012, which collectively 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 an opinion 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 *States Controller's Minimum Audit Requirement and Reporting Guidelines 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 of 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 financial position of the business-type activities of the County of San Bernardino Special District County Service Area No. 64 – Spring Valley Lake as of June 30, 2012, and the respective changes in 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 state regulations governing special districts.

Management has not presented Management's Discussion and Analysis that government accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

David L. Gruber and Associates, Inc.

David L. Gruber and Associates, Inc.

Huntington Beach, California
December 05, 2012

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
COUNTY SERVICE AREA NO. 64 - SPRING VALLEY LAKE
Statement of Net Assets

June 30, 2012

	Enterprise Funds		Total Business- Type Activities
	Sewer	Water	
Assets:			
Cash and investments (note 2)	\$ 2,596,145	3,835,199	6,431,344
Restricted Cash and investments (notes 2 and 3)	50,780		50,780
Accounts receivable	233,856	340,382	574,238
Taxes receivable	504	11,807	12,311
Special assessment receivable	4,848	718	5,566
Due from other governments	321,354	-	321,354
Interest receivable	2,946	4,840	7,786
Capital assets (note 4):			
Capital assets not being depreciated	101,693	2,732,510	2,834,202
Capital assets being depreciated, net of accumulated depreciation	1,283,483	760,380	2,043,863
Total assets	\$ 4,595,609	7,685,836	12,281,445
Liabilities:			
Accounts payable and accrued liabilities	\$ -	89,591	89,591
Retentions payable	2,525	2,338	4,863
Matured unredeemed bonds payable	30,000		30,000
Interest payable on matured unredeemed bonds	20,780		20,780
Due to County of San Bernardino	5,996	10,886	16,882
Due to other governments	168,632		168,632
Long-term liabilities (notes 7):			
Portion due within one year:			
Compensated absences	55,185	112,461	167,646
Portion due beyond one year:			
Compensated absences	38,636	78,735	117,371
Total liabilities	321,754	294,011	615,766
Net assets:			
Invested in capital assets	1,385,176	3,492,889	4,878,066
Unrestricted	2,888,679	3,898,935	6,787,613
Total net assets	\$ 4,273,855	7,391,824	\$ 11,665,679

See accompanying notes to basic financial statements.

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
COUNTY SERVICE AREA NO. 64 - SPRING VALLEY LAKE
Statement of Activities

Year ended June 30, 2012

	Enterprise Funds		Total Business- Type Activities
	Sewer	Water	
<u>Operating Revenues:</u>			
Sanitation services	\$ 1,704,262	-	1,704,262
Water sales	-	2,111,880	2,111,880
Connection fees	6,637	5,320	11,957
Permit and inspection fees	-	450	450
Penalties	300	-	300
Other services	87	1,919	2,005
	<hr/>	<hr/>	<hr/>
Total operating revenues	1,711,286	2,119,569	3,830,855
<u>Operating Expenses:</u>			
Professional services	683,663	1,064,458	1,748,121
Services and supplies	915,771	532,903	1,448,674
Water replacement (note 8)	-	269,135	269,135
Utilities	12,365	213,660	226,025
Depreciation	108,169	37,835	146,004
	<hr/>	<hr/>	<hr/>
Total operating expenses	1,719,968	2,117,991	3,837,959
Operating income (loss)	(8,683)	1,578	(7,104)
<u>Non-operating Revenues (Expenses)</u>			
Property taxes	139,438	230,094	369,532
Special assessment and other taxes	23,350	15,446	38,796
State aid	-	4,759	4,759
Investment earnings	15,679	21,540	37,219
Other revenues (expenses)	55,330	260,769	316,099
	<hr/>	<hr/>	<hr/>
Total nonoperating revenues	233,798	532,608	766,406
Change in net assets	225,115	534,186	759,301
Net assets at beginning of year	<hr/>	<hr/>	<hr/>
Net assets at end of year	\$ 4,273,855	7,391,824	\$ 11,665,679

See accompanying notes to basic financial statements.

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
COUNTY SERVICE AREA NO. 64 - SPRING VALLEY LAKE
Statement of Cash Flows
Year ended June 30, 2012

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total Business-Type Activities-</u>
Cash flows from operating activities:			
Cash received from customers and others	\$ 1,407,482	2,078,543	3,486,025
Cash payments to suppliers for goods and services	(875,414)	(1,072,702)	(1,948,116)
Cash payments to employees for services	(659,981)	(1,004,103)	(1,664,084)
	<u>(127,913)</u>	<u>1,738</u>	<u>(126,175)</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(91,694)	(409,598)	(501,292)
Net cash provided by (used for) capital related and financing activities	<u>(91,694)</u>	<u>(409,598)</u>	<u>(501,292)</u>
Cash flows from non-capital related and financing activities:			
Cash received from (paid to) other funds	(2,078)	18,960	16,882
Taxes, special assessments and state aid received	213,507	514,116	727,623
Net cash provided by (used for) non-capital related and financing activities	<u>211,428</u>	<u>533,076</u>	<u>744,505</u>
Cash flows from investing activities-interest income	<u>17,812</u>	<u>25,075</u>	<u>42,887</u>
Net increase (decrease) in cash and cash equivalents	9,633	150,291	159,924
Cash and cash equivalents, beginning of year	<u>2,637,291</u>	<u>3,684,908</u>	<u>6,322,199</u>
Cash and cash equivalents, end of year	<u>\$ 2,646,924</u>	<u>3,835,199</u>	<u>6,482,123</u>
Reconciliation of operating income (loss) to net cash used for operating activities:			
Operating income (loss)	(8,683)	1,578	(7,104)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
Depreciation	108,169	37,835	146,004
(Increase) decrease in accounts receivable	17,550	(41,026)	(23,476)
(Increase) decrease in due from other governments	(321,354)	-	(321,354)
Increase (decrease) in accounts payable and other liabilities	(7,242)	(45,359)	(52,601)
Increase (decrease) in compensated absences	23,682	60,355	84,037
Increase (decrease) in due to other governments	59,964	(11,646)	48,318
Net cash provided by (used for) operating activities	<u>\$ (127,913)</u>	<u>\$ 1,738</u>	<u>\$ (126,175)</u>

See accompanying notes to basic financial statements.

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 64 – SPRING VALLEY LAKE
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the County Service Area No. 64, Spring Valley Lake (District) conform to generally accepted accounting principles as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Reporting Entity

The 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 a 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, 2012.

Measurement focus, basis of accounting, and financial statements 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 revenues as soon as all eligibility requirements imposed by the provider have been met.

Proprietary funds distinguish operating revenues and expenses from non operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with 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 non operating revenues and expenses.

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 64 – SPRING VALLEY LAKE
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

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 District has elected not to follow subsequent private sector guidance.

Receivables

The District sends any delinquent accounts receivable to property tax to be included on the customer's property tax bills. As of June 30, 2012, accounts receivable were \$242,925 for the sewer function and \$354,932 for the water function, less an allowance for doubtful accounts of \$9,069 and \$14,550 respectively.

Revenues

The District reports revenues net of the change in the allowance for doubtful accounts. In the current fiscal year the allowance was reduced, which resulted in a \$1,118 increase to revenues in sewer function and a \$1,235 decrease to revenues in water function.

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 1 and become delinquent with penalties on August 31.

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental 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 do not add to the value of the assets or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvement are capitalized as projects are constructed.

**COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 64 – SPRING VALLEY LAKE
NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

<u>Assets</u>	<u>Years</u>
Infrastructure	10-100
Structure and improvements	up to 45
Equipment and vehicles	5-15

Employee Compensated Absences

Liabilities for vacation, holiday benefits, sick pay and compensatory time are accrued when incurred. In the event of retirement or termination, an employee is paid 100% of accumulated vacation pay, and those with ten or more years of continuous services are paid approximately 30% to 60% of their accumulated sick leave. Up to two times the annual vacation accrual rate may be carried over from one year to the next.

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 consist 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, contributions, or laws or regulations of other governments or constraints imposed by law through constitutional provision or enabling legislation.
- *Unrestricted* – This component of net assets consists of net assets of the District that are not restricted for any project or other purpose.

Use of Estimates

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

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 64 – SPRING VALLEY LAKE
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 2: CASH AND DEPOSITS

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

Cash and cash equivalents include the cash balances of all funds, which are pooled and invested by the County Treasurer to increase interest earnings through investments activities. Investment activities are governed by the California Government Code Sections 53601, 53635, and 53638 and the County's Investment Policy. Authorizes 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, 2012, Cash and cash equivalents are reported in the District's financial statement as unrestricted cash of \$6,431,344 and restricted cash of \$50,780 for a total amount of \$6,482,124.

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.

NOTE 3: RESTRICTED CASH

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

**COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 64 – SPRING VALLEY LAKE
NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

NOTE 4: CAPITAL ASSETS

Capital asset activity during the year ended June 30, 2012 was as follows:

Sewer:	<u>Balance at June 30, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2012</u>
Capital assets not being depreciated:				
Land	\$10,000	-	-	10,000
Construction in process	<u>-</u>	<u>91,693</u>	<u>-</u>	<u>91,963</u>
Total capital assets not being depreciated	<u>\$10,000</u>	<u>91,693</u>	<u>-</u>	<u>101,963</u>
Capital assets being depreciated:				
Land improvements	4,019,471	-	-	4,019,471
Structures and improvements	218,810	-	-	218,810
Equipment and vehicles	<u>110,322</u>	<u>-</u>	<u>-</u>	<u>110,322</u>
Total capital assets being depreciated	<u>4,348,603</u>	<u>-</u>	<u>-</u>	<u>4,348,603</u>
Less accumulated depreciation for:				
Land improvements	(2,904,164)	(95,951)	-	(3,000,115)
Structures and improvements	(39,304)	(4,862)	-	(44,166)
Equipment and vehicles	<u>(13,484)</u>	<u>(7,354)</u>	<u>-</u>	<u>(20,838)</u>
Total accumulated depreciation	<u>(2,956,952)</u>	<u>(108,167)</u>	<u>-</u>	<u>(3,065,119)</u>
Total capital assets being depreciated, net	<u>1,391,651</u>	<u>(108,867)</u>	<u>-</u>	<u>1,283,483</u>
Total capital assets, net of accumulated depreciation	<u>\$1,401,651</u>	<u>(16,474)</u>	<u>-</u>	<u>1,385,177</u>

**COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 64 – SPRING VALLEY LAKE
NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

NOTE 4: CAPITAL ASSETS

Water:

	<u>Balance at June 30, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2012</u>
Capital assets not being depreciated:				
Construction in process	\$2,322,912	409,597	-	2,732,510
Capital assets being depreciated:				
Land improvement	1,959,143	-	-	1,959,143
Structures and improvements	56,290	-	-	56,290
Equipment and vehicles	19,991	-	-	19,991
Utility plant in service	369,760	-	-	369,760
Total capital assets being depreciated	<u>2,405,184</u>	<u>-</u>	<u>-</u>	<u>2,405,182</u>
Less accumulated depreciation for:				
Land improvement	(1,438,416)	(21,577)	-	(1,459,993)
Structures and improvements	(33,505)	(8,041)	-	(41,546)
Equipment and vehicles	(19,991)	-	-	(19,991)
Utility plant in service	(115,056)	(8,216)	-	(123,272)
Total accumulated depreciation	<u>(1,606,968)</u>	<u>(37,834)</u>	<u>-</u>	<u>(1,644,802)</u>
Total capital assets being depreciated, net	<u>798,216</u>	<u>(37,834)</u>	<u>-</u>	<u>760,380</u>
Total capital assets, net of accumulated depreciation	<u>\$3,121,128</u>	<u>371,763</u>	<u>-</u>	<u>3,492,892</u>

Construction in Progress

Construction in progress at June 30, 2012 represents the following projects:

	<u>Final Budget</u>	<u>Capital Outlay Through June 30, 2012</u>	<u>Remaining Commitment</u>	<u>Projected Year Completion</u>
Service line replacement	\$2,234,691	2,078,305	156,386	2013
Two 3M gallon reservoirs	2,179,869	543,640	1,636,229	2013
Manhole project	230,676	91,692	138,984	2013
Water well #7 rehabilitation	<u>755,050</u>	<u>110,564</u>	<u>644,486</u>	2013
Total capital assets being depreciated	<u>5,400,286</u>	<u>2,824,201</u>	<u>2,576,085</u>	

The District has entered into several contractual agreements for the development and/or improvement of the capital projects listed above.

**COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 64 – SPRING VALLEY LAKE
NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

NOTE 5: MATURED AND UNREDEEMED BONDS AND INTEREST PAYABLE

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

	<u>Balance at June 30, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2012</u>
Matured unredeemed bonds	\$30,000	-	-	30,000
Matured interest	<u>20,780</u>	<u>-</u>	<u>-</u>	<u>20,780</u>
Total capital assets being depreciated	<u>\$ 50,780</u>	<u>-</u>	<u>-</u>	<u>50,780</u>

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 2521.1 et seq. of the California Government Code.

Series A bonds matured in the fiscal year ending June 30, 2002, Series B bonds matured in the fiscal year ending June 30, 2004, Series C Bonds matured in the fiscal year ending June 30, 1997, and Series D bonds matured in the fiscal year ending June 30, 2000. At June 30, 2012, the District had Matured and Unredeemed Bonds Payable of \$30,000 and Interest Payable of \$20,780 from the Series A, Series C, and Series D issuances.

NOTE 6: 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 2011-2012 fiscal year and have found the revenue to be within the guidelines established by Proposition 111.

NOTE 7: COMPENSATED ABSENCES

The schedule of changes in compensated absences is as follows:

	<u>Balance June 30, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2012</u>	<u>Amount due within one year</u>
Compensated absences Sewer	\$ 70,139	74,460	50,778	93,821	55,185
Compensated absences Water	<u>130,841</u>	<u>163,835</u>	<u>103,480</u>	<u>191,196</u>	<u>112,461</u>
Total	<u>\$ 200,980</u>	<u>238,295</u>	<u>154,258</u>	<u>285,017</u>	<u>167,646</u>

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 64 – SPRING VALLEY LAKE
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 8: WATER REPLACEMENT 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 and private Water Purveyors.

NOTE 9: RELATED PARTY TRANSACTIONS

The Victor Valley Wastewater Reclamation Authority (VWVRA) is a Joint Powers Authority, and the District is represented on the VWVRA board by the First Supervisorial District. The District collects fees on behalf of VWVRA from new development to connect to the sewer system, and pays the VWVRA for sewage treatment fees. For fiscal year 2012, sewage treatment fees incurred were \$756,029. As of June 30, 2012, \$168,632 of treatment fees was due to the VWVRA and was recorded as due to other governments on the statement of activities.

NOTE 10: 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 Law of 1937 (the 1937 Act). It provides retirement, death and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, California State Association of Counties, South Coast Air Quality Management District (SCAQMD), San Bernardino Associated Governments (SANBAG), Local Agency Formation Commission (LAFCO), San Bernardino County Law Library, Barstow Fire Protection District, Hesperia Recreation and Park District, SBCERA, City of Chino Hills, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (MDAQMD), California Electronic Recording Transaction Network Authority (CERTNA), Inland Valley Development Agency (IVDA), San Bernardino International Airport Authority (SBIAA), the San Bernardino County Superior Court, Inland Library system (ILS), Rim of the World Recreation and Park

District (RIM-REC), Department of Water and Power for the City of Big Bear Lake and Crestline Sanitation District were later included, along with the County, and are collectively referred to as the "Plan Sponsors" or "employers". The plan is governed by the SBCERA Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years of service credit.

SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of retirement, 348 W Hospitality Lane - 3rd Floor, San Bernardino, California 92415-0014.

**COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 64 – SPRING VALLEY LAKE
NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

NOTE 10: RETIREMENT PLAN (continued)

Fiduciary Responsibility

SBCERA is controlled by its own board, the Board of Retirement, which acts as a fiduciary agent for the accounting and control of employer 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.

Funding Policy

Participating members are required by statute (Sections 31621.6 and 31639.25 of the California Government Code) to contribute a percentage of covered salary based on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 7.42% - 12.95% for general members and 9.54% - 15.32% for safety members (refundable rates), of their annual covered salary of which the County pays approximately 7% (for certain employee units). County of San Bernardino employer contribution rates are as follows: County General 14.50%, County Safety 30.89%. All employers combined are required to contribute an average 17.85% of the current year covered payroll. 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 and 31454 of the 1937 Act.

The County's annual pension cost and prepaid asset, computed in accordance with GASB 27, *Accounting for Pensions by State and Local Governmental Employers*, for the year ended June 30, 2012, were as follows (in thousands):

Annual Required Contribution (County fiscal year basis)	\$ 229,169
Interest on Pension Assets	(55,733)
Adjustment to the Annual Required Contribution	<u>73,086</u>
Annual Pension Cost	246,522
Annual Contributions Made	<u>229,169</u>
Increase/(Decrease) in Pension Assets	(17,353)
Pension Assets, Beginning of Year	<u>719,134</u>
Pension Assets, End of Year	<u>\$ 701,781</u>

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

Year Ended <u>June 30,</u>	Annual Contributions Made (in thousands)		Percentage Contributed
	<u>SBCERA</u>	<u>County</u>	
2010	\$ 243,773	\$ 197,097	100%
2011	258,128	213,311	100%
2012	278,091	229,169	100%

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NOTE 10: RETIREMENT PLAN (continued)

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

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 a respective aggregate principal amounts of \$189,070, \$149,825, and \$125,000. 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.

In April 2008, the County of San Bernardino issued its \$160,900 in Pension Obligation Refunding Bonds (POB), Series 2008 (Series 2008 Bonds).

NOTE 11: FEDERAL AND STATE GRANTS

From time to time the District 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 12: 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 \$2.5 million per occurrence. Excess insurance coverage over the Self-Insured Retention (SIR) up to \$100 million is provided through a combination of insurance policies as recommended by Arthur J. Gallagher & Co., Broker of Record, as follows: Primary Liability coverage \$25 million excess of \$2.5 million self-insured retention with Starr Indemnity & Liability Co.; Excess Liability coverage of \$10 million, excess of \$25 million with Allied World Assurance Co.; and

Excess Liability coverage \$15 million, excess of \$35 million with Great American Insurance Company of New York. In addition, Ironshore Specialty Ins. Co. provides excess liability coverage of \$10 million, excess of \$50 million; Allied World Assurance Co. provides \$15 million, excess of \$60 million; and Arch Insurance Co. provides \$25 million in excess of \$75 million. Workers' compensation claims are self-insured up to \$10 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.

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NOTE 12: RISK MANAGEMENT (continued)

The County supplements its self-insurance for medical malpractice claims with a \$10 million policy with Illinois Union Ins. Co., which provides annual coverage on a claim made form basis with a SIR of \$2 million for each claim. Additional coverage of \$15 million, excess of \$10 million is provided by Steadfast 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 0.493%. It is Risk Management’s practice to obtain actuarial studies on an annual basis.

The total claims liability of \$167 million reported at June 30, 2012 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 2011 and 2012 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>Current Year Claim Payments (in thousands)</u>	<u>End of Fiscal Year Liability (in thousands)</u>
2010-11	\$ 145,394	\$ 40,832	\$ (35,275)	\$ 150,951
2011-12	\$ 150,951	\$ 58,008	\$ (42,010)	\$ 166,589

NOTE 13: CONTINGENCIES

The District is subject to other legal proceedings, claims, and assessments that arise in the ordinary course of its business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect MHAIA’s financial position, changes in net assets and cash flows.

NOTE 14: SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 5, 2012, which is the date the financial statements were available to be issued, and has determined that there are no transactions that will have a significant impact on the CSA.