

**COUNTY OF SAN BERNARDINO SPECIAL DISTRICT
COUNTY SERVICE AREA No. 64 SPRING VALLEY LAKE
FINANCIAL STATEMENTS
June 30, 2017**

**COUNTY OF SAN BERNARDINO SPECIAL DISTRICT
COUNTY SERVICE AREA No. 64
SPRING VALLEY LAKE
FINANCIAL STATEMENTS
June 30, 2017**

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Board of Supervisors
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 County of San Bernardino Special District County Service Area No. 64 Spring Valley Lake (CSA), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise CSA's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.



Eadie + Payne, LLP

3880 Lemon St., Ste. 300
Riverside, CA 92501

P.O. Box 1529
Riverside, CA 92502-1529

Office: 951-241-7800

www.eadiepaynellp.com

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the County of San Bernardino Special District County Service Area No. 64 Spring Valley Lake as of June 30, 2017 and the changes in financial position and its cash flows thereof for the year then ended in accordance 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.

Other Matters

Prior-Year Comparative Information

Prior year data has been included with the basic financial statements for comparative purposes only. The financial statements of the County of San Bernardino Special District County Service Area No. 64 Spring Valley Lake as of June 30, 2016, were audited by other auditors whose report dated November 28, 2016 expressed unmodified opinions on those statements.

Required Supplementary Information

Management has omitted Management's Discussion and Analysis and the Schedules of Pension Plan Contribution and Proportionate Share of Net Pension Liability that accounting principles generally accepted in the United States of America require 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.

Eadie and Payne, LLP

November 22, 2017
Riverside, California

COUNTY OF SAN BERNARDINO SPECIAL DISTRICT
COUNTY SERVICE AREA NO. 64 - SPRING VALLEY LAKE
Statement of Net Position
Proprietary Funds
June 30, 2017

	2017		
	Enterprise Funds		Total
	Sewer	Water	
Assets			
Cash and investments	\$ 4,438,846	\$ 3,965,250	\$ 8,404,096
Restricted cash and investments	50,780	-	50,780
Accounts receivable	535,891	321,411	857,302
Taxes receivable	10	10,932	10,942
Special assessment receivable	578	780	1,358
Interest receivable	13,785	15,135	28,920
Capital assets			
Capital assets not being depreciated	50,294	1,886,925	1,937,219
Capital assets being depreciated, net of accumulated depreciation	789,358	3,746,814	4,536,172
Total assets	<u>5,879,542</u>	<u>9,947,247</u>	<u>15,826,789</u>
Deferred outflows of resources			
Pension	<u>430,968</u>	<u>402,141</u>	<u>833,109</u>
Liabilities			
Current:			
Accounts payable and accrued liabilities	-	267,011	267,011
Matured unredeemed bonds payable	30,000	-	30,000
Interest payable on matured unredeemed bonds	20,780	-	20,780
Due to other governments	131,641	-	131,641
Due to other funds	688	22,189	22,877
Customer deposits	-	13,222	13,222
Long-term			
Net pension liability	<u>873,401</u>	<u>814,981</u>	<u>1,688,382</u>
Total liabilities	<u>1,056,510</u>	<u>1,117,403</u>	<u>2,173,913</u>
Deferred inflows of resources			
Pension	<u>196,269</u>	<u>183,141</u>	<u>379,410</u>
Net position			
Net investment in capital assets	839,652	5,633,739	6,473,391
Unrestricted	<u>4,218,079</u>	<u>3,415,105</u>	<u>7,633,184</u>
Total net position	<u>\$ 5,057,731</u>	<u>\$ 9,048,844</u>	<u>\$ 14,106,575</u>

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

COUNTY OF SAN BERNARDINO SPECIAL DISTRICT
COUNTY SERVICE AREA NO. 64 - SPRING VALLEY LAKE
Statement of Net Position
Proprietary Funds
June 30, 2017

	For Comparative Purposes Only		
	2016		
	Enterprise Funds		
	Sewer	Water	Total
Assets			
Cash and investments	\$ 3,773,804	\$ 4,438,930	\$ 8,212,734
Restricted cash and investments	50,780	-	50,780
Accounts receivable	349,197	292,552	641,749
Taxes receivable	-	11,047	11,047
Special assessment receivable	1,070	493	1,563
Interest receivable	65,860	49,435	115,295
Capital assets			
Capital assets not being depreciated	45,699	1,048,033	1,093,732
Capital assets being depreciated, net of accumulated depreciation	893,772	3,938,508	4,832,280
Total assets	<u>5,180,182</u>	<u>9,778,998</u>	<u>14,959,180</u>
Deferred outflows of resources			
Pension	<u>83,524</u>	<u>76,998</u>	<u>160,522</u>
Liabilities			
Current:			
Accounts payable and accrued liabilities	-	27,468	27,468
Matured unredeemed bonds payable	30,000	-	30,000
Interest payable on matured unredeemed bonds	20,780	-	20,780
Due to other governments	43,803	-	43,803
Due to other funds	121	19,419	19,540
Customer deposits	-	11,622	11,622
Long-term:			
Net pension liability	<u>664,566</u>	<u>612,642</u>	<u>1,277,208</u>
Total liabilities	<u>759,270</u>	<u>671,151</u>	<u>1,430,421</u>
Deferred inflows of resources			
Pension	<u>232,533</u>	<u>214,365</u>	<u>446,898</u>
Net position			
Net investment in capital assets	939,471	4,986,541	5,926,012
Unrestricted	<u>3,332,432</u>	<u>3,983,939</u>	<u>7,316,371</u>
Total net position	<u>\$ 4,271,903</u>	<u>\$ 8,970,480</u>	<u>\$ 13,242,383</u>

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

COUNTY OF SAN BERNARDINO SPECIAL DISTRICT
COUNTY SERVICE AREA NO. 64 - SPRING VALLEY LAKE
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2017

	2017		
	Enterprise Funds		
	Sewer	Water	Total
Operating Revenues			
Sanitation services	\$ 2,431,422	\$ -	\$ 2,431,422
Water sales	-	2,081,147	2,081,147
Connection fees	44,029	42,628	86,657
Permit and inspection fees	1,950	3,300	5,250
Penalties	42,699	37,190	79,889
Other services	-	54,355	54,355
	<u>2,520,100</u>	<u>2,218,620</u>	<u>4,738,720</u>
Operating Expenses			
Salaries and benefits	1,162,718	1,069,171	2,231,889
Services and supplies	1,061,325	711,405	1,772,730
Water replacement	-	301,950	301,950
Utilities	9,280	138,603	147,883
Depreciation	104,162	191,694	295,856
	<u>2,337,485</u>	<u>2,412,823</u>	<u>4,750,308</u>
Total operating revenues	2,520,100	2,218,620	4,738,720
Total operating expenses	2,337,485	2,412,823	4,750,308
Operating income (loss)	182,615	(194,203)	(11,588)
Non-operating Revenues (Expenses)			
Property taxes	400,409	37,785	438,194
Special assessment and other taxes	23,095	23,002	46,097
Investment earnings	21,643	23,636	45,279
Transfers in	615,222	446,676	1,061,898
Transfers outs	(615,222)	(446,676)	(1,061,898)
Loss on disposal of capital assets	(252)	-	(252)
Other revenues (expenses)	22,982	63,382	86,364
	<u>467,877</u>	<u>147,805</u>	<u>615,682</u>
Total non operating revenues	467,877	147,805	615,682
Change in net position	650,492	(46,398)	604,094
Net position at beginning of year as previously reported	4,271,903	8,970,480	13,242,383
Prior-Period Adjustment	135,336	124,762	260,098
Net assets at beginning of year as restated	<u>4,407,239</u>	<u>9,095,242</u>	<u>13,502,481</u>
Net position at end of year	<u>\$ 5,057,731</u>	<u>\$ 9,048,844</u>	<u>\$ 14,106,575</u>

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

COUNTY OF SAN BERNARDINO SPECIAL DISTRICT
COUNTY SERVICE AREA NO. 64 - SPRING VALLEY LAKE
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2017

For Comparative Purposes Only
2016

	Enterprise Funds		Total
	Sewer	Water	
Operating Revenues:			
Sanitation services	\$ 2,497,245	\$ -	\$ 2,497,245
Water sales	-	2,095,658	2,095,658
Connection fees	53,793	20,687	74,480
Permit and inspection fees	1,200	2,550	3,750
Penalties	33,679	29,908	63,587
Other services	624	16,594	17,218
	<u>2,586,541</u>	<u>2,165,397</u>	<u>4,751,938</u>
Total operating revenues			
Operating Expenses:			
Professional Services	1,164,690	1,037,974	2,202,664
Services and supplies	1,106,949	577,926	1,684,875
Water replacement	-	137,340	137,340
Utilities	11,911	142,029	153,940
Depreciation	104,278	191,694	295,972
	<u>2,387,828</u>	<u>2,086,963</u>	<u>4,474,791</u>
Total operating expenses			
Operating income (loss)	198,713	78,434	277,147
Non-operating Revenues (Expenses)			
Property taxes	285	414,028	414,313
Special assessment and other taxes	23,102	23,859	46,961
Investment earnings	31,664	36,857	68,521
Transfers in	1,112,576	2,364,801	3,477,377
Transfers outs	(1,112,576)	(2,364,801)	(3,477,377)
Loss on disposal of capital assets	-	-	-
Other revenues (expenses)	16,623	55,176	71,799
	<u>71,674</u>	<u>529,920</u>	<u>601,594</u>
Total non operating revenues			
Change in net position	270,387	608,354	878,741
Net position at beginning of year	<u>4,001,516</u>	<u>8,362,126</u>	<u>12,363,642</u>
Net position at end of year	<u>\$ 4,271,903</u>	<u>\$ 8,970,480</u>	<u>\$ 13,242,383</u>

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

COUNTY OF SAN BERNARDINO SPECIAL DISTRICT
COUNTY SERVICE AREA NO. 64 - SPRING VALLEY LAKE
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2017

	2017		
	Sewer Fund	Water Fund	Total
Cash flows from operating activities:			
Cash received from customers and others	\$ 2,392,143	\$ 2,231,072	\$ 4,623,215
Cash payments to suppliers for goods and services	(982,767)	(910,815)	(1,893,582)
Cash payments to employees for services	<u>(1,202,255)</u>	<u>(1,098,437)</u>	<u>(2,300,692)</u>
Net cash provided by (used for) operating activities	<u>207,121</u>	<u>221,820</u>	<u>428,941</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets	<u>(4,595)</u>	<u>(838,892)</u>	<u>(843,487)</u>
Net cash provided by (used for) capital related and financing activities	<u>(4,595)</u>	<u>(838,892)</u>	<u>(843,487)</u>
Cash flows from non-capital related and financing activities:			
Cash received from (paid to) other funds	557	2,770	3,327
Taxes, special assessments and other revenues	<u>446,978</u>	<u>123,997</u>	<u>570,975</u>
Net cash provided by (used for) non-capital related and financing activities	<u>447,535</u>	<u>126,767</u>	<u>574,302</u>
Cash flows from investing activities-interest income	<u>14,981</u>	<u>16,625</u>	<u>31,606</u>
Net increase (decrease) in cash and investments	665,042	(473,680)	191,362
Cash and investments, beginning of year	<u>3,824,584</u>	<u>4,438,930</u>	<u>8,263,514</u>
Cash and investments, end of year	<u><u>\$ 4,489,626</u></u>	<u><u>\$ 3,965,250</u></u>	<u><u>\$ 8,454,876</u></u>
FINANCIAL STATEMENT PRESENTATION:			
Cash and investments	\$ 4,438,846	\$ 3,965,250	\$ 8,404,096
Restricted cash and investments	50,780	-	50,780
Total cash, cash equivalents, and investments	<u><u>\$ 4,489,626</u></u>	<u><u>\$ 3,965,250</u></u>	<u><u>\$ 8,454,876</u></u>
Reconciliation of operating income (loss) to net cash used for operating activities:			
Operating income (loss)	\$ 182,615	(194,203)	(11,588)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
Depreciation	104,162	191,694	295,856
(Increase) decrease in accounts receivable	(127,957)	12,452	(115,505)
Increase (decrease) in customer deposits	-	1,600	1,600
Increase (decrease) in accounts payable and other liabilities	-	239,543	239,543
Increase (decrease) in due to other governments	87,838	-	87,838
Decrease in net pension liability, net of deferred outflows and inflows	<u>(39,537)</u>	<u>(29,266)</u>	<u>(68,803)</u>
Net cash provided by (used for) operating activities	<u><u>\$ 207,121</u></u>	<u><u>\$ 221,820</u></u>	<u><u>\$ 428,941</u></u>

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

COUNTY OF SAN BERNARDINO SPECIAL DISTRICT
COUNTY SERVICE AREA NO. 64 - SPRING VALLEY LAKE
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2017

	For Comparative Purposes Only 2016		
	Sewer Fund	Water Fund	Total
Cash flows from operating activities:			
Cash received from customers and others	\$ 2,482,600	\$ 2,079,710	\$ 4,562,310
Cash payments to suppliers for goods and services	(1,218,122)	(860,236)	(2,078,358)
Cash payments to employees for services	<u>(1,232,711)</u>	<u>(1,120,155)</u>	<u>(2,352,866)</u>
Net cash provided by (used for) operating activities	<u>31,767</u>	<u>99,319</u>	<u>131,086</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets	<u>(35,699)</u>	<u>(879,318)</u>	<u>(915,017)</u>
Net cash provided by (used for) capital related and financing activities	<u>(35,699)</u>	<u>(879,318)</u>	<u>(915,017)</u>
Cash flows from non-capital related and financing activities:			
Cash received from (paid to) other funds	(354,997)	(341,235)	(696,232)
Taxes, special assessments and other revenues	<u>40,008</u>	<u>492,421</u>	<u>532,429</u>
Net cash provided by (used for) non-capital related and financing activities	<u>(314,989)</u>	<u>151,186</u>	<u>(163,803)</u>
Cash flows from investing activities-interest income	<u>7,568</u>	<u>27,920</u>	<u>35,488</u>
Net increase (decrease) in cash and cash equivalents	(311,353)	(600,893)	(912,246)
Cash and cash equivalents, beginning of year	<u>4,135,937</u>	<u>5,039,823</u>	<u>9,175,760</u>
Cash and cash equivalents, end of year	<u>\$ 3,824,584</u>	<u>\$ 4,438,930</u>	<u>\$ 8,263,514</u>
FINANCIAL STATEMENT PRESENTATION:			
Cash and investments	\$ 3,773,804	\$ 4,438,930	\$ 8,212,734
Restricted cash and investments	50,780	-	50,780
Total cash, cash equivalents, and investments	<u>\$ 3,824,584</u>	<u>\$ 4,438,930</u>	<u>\$ 8,263,514</u>
Reconciliation of operating income (loss) to net cash used for operating activities:			
Operating income (loss)	\$ 198,713	78,434	277,147
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
Depreciation	104,278	191,694	295,972
(Increase) decrease in accounts receivable	(103,941)	(85,687)	(189,628)
Increase (decrease) in customer deposits	-	(1,522)	(1,522)
Increase (decrease) in accounts payable and other liabilities	(143,065)	(1,419)	(144,484)
Increase (decrease) in due to other governments	43,803	-	43,803
Decrease in net pension liability, net of deferred outflows and inflows	<u>(68,021)</u>	<u>(82,181)</u>	<u>(150,202)</u>
Net cash provided by (used for) operating activities	<u>\$ 31,767</u>	<u>\$ 99,319</u>	<u>\$ 131,086</u>

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

COUNTY OF SAN BERNARDINO SPECIAL DISTRICT
COUNTY SERVICE AREA No. 64 SPRING VALLEY LAKE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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, 2017.

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.

COUNTY OF SAN BERNARDINO SPECIAL DISTRICT
COUNTY SERVICE AREA No. 64 SPRING VALLEY LAKE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement focus, basis of accounting, and financial statements presentation (continued)

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.

The County of San Bernardino Special Districts Department 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.

The government reports the following types of major funds:

The *enterprise fund* labeled "Sewer" currently provides sewer services to approximately 4,200 equivalent dwelling units (EDU's) and maintains 3 lift stations.

The *enterprise fund* labeled "Water" currently provides water services to approximately 3,800 customers and maintains 5 wells, 1 booster station and 3 water tanks.

The County has established a materiality level for recording year-end accruals. For Special Districts with appropriations of less than \$500,000, individual items of less than \$1,000 are not accrued at year end. For Special Districts with appropriations over \$500,000, individual items of less than \$5,000 are not accrued at year end.

Financial reporting is based upon all GASB pronouncements including the Codification of Accounting and Financial Reporting Guidelines.

Receivables

No allowance for uncollectibles was recorded at June 30, 2017 based on management's expectation that all accounts receivable will be collected through the property tax roll.

**COUNTY OF SAN BERNARDINO SPECIAL DISTRICT
COUNTY SERVICE AREA No. 64 SPRING VALLEY LAKE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

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 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 acquisition value at the date of donation in accordance with GASB Statement No. 72.

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. 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

**COUNTY OF SAN BERNARDINO SPECIAL DISTRICT
COUNTY SERVICE AREA No. 64 SPRING VALLEY LAKE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Position

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

- Net investment in capital assets – This component of net position 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 position 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 position consists of net position 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.

Deferred Outflows/ Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow or resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

**COUNTY OF SAN BERNARDINO SPECIAL DISTRICT
COUNTY SERVICE AREA No. 64 SPRING VALLEY LAKE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Long-Term Debt and Interest Payable

In the Government-Wide Financial Statements, long-term debt and other long-term obligations are reported as liabilities in the appropriate activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are immediately expensed when incurred in the Government- Wide Financial Statements in addition to the Proprietary and Fiduciary Fund Statements in accordance with GASB No. 65. In the Fund Financial Statements, with the exception of advances from other funds, long-term liabilities are not presented. Consequently, long term debt is shown as a reconciling item in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position. In the Government-Wide Financial Statements, interest payable on long-term debt is recognized as the liability is incurred for governmental activities and business-type activities. In the Fund Financial Statements, only propriety fund types recognize the interest payable when the liability is incurred.

Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

In the Government-Wide Financial Statements, net position are classified in the following categories: *Net Investment in Capital Assets* consists of capital assets net of accumulated depreciation and reduced by outstanding debt that attributed to the acquisition, construction, or improvement of the assets. Restricted Net position is restricted by external creditors, grantors, contributors, laws or regulations of other governments. Unrestricted Net position is all net position that does not meet the definition of “net investment in capital assets” or “restricted net position.”

Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the CSA’s plan and additions to/deductions from the plans’ fiduciary net position have been determined on the same basis as they are reported by SBCERA. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

COUNTY OF SAN BERNARDINO SPECIAL DISTRICT
COUNTY SERVICE AREA No. 64 SPRING VALLEY LAKE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 2: CASH AND INVESTMENTS

Cash and investments include balances 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 CSA's account based upon the CSA's average daily deposit balance during the allocation period. Cash and investments are shown at the fair value as of June 30, 2017. Changes in fair value that occur during a fiscal year are recognized as *investment earnings* reported for that fiscal year. *Investment earnings* reports interest earnings, changes in fair value, and any gains or losses realized upon the liquidation, maturity, or sale of investments. The County's practice is to hold investments until maturity.

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, 2017, Cash and cash equivalents are reported in the District's financial statement as unrestricted cash of \$8,333,592 and restricted cash of \$50,780 for a total amount of \$8,384,372.

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, and fair value hierarchy disclosures required by GASB Statement No. 72. The County of San Bernardino's CAFR may be obtained from their website <http://sbcounty.gov/ATC>.

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 as of June 30, 2017.

**COUNTY OF SAN BERNARDINO SPECIAL DISTRICT
COUNTY SERVICE AREA No. 64 SPRING VALLEY LAKE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

Note 4: CAPITAL ASSETS

Capital asset activity during the year ended June 30, 2017 was as follows:

Sewer:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 10,000	\$ -	\$ -	\$ 10,000
Development in progress	<u>35,699</u>	<u>4,595</u>	<u>-</u>	<u>40,294</u>
Total capital assets, not being depreciated	<u>45,699</u>	<u>4,595</u>	<u>-</u>	<u>50,294</u>
Capital assets, being depreciated:				
Improvements to land	4,054,874	-	(4,651)	4,050,223
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>4,384,006</u>	<u>-</u>	<u>(4,651)</u>	<u>4,379,355</u>
Less accumulated depreciation for:				
Improvements to land	(3,376,360)	(91,945)	4,400	(3,463,905)
Structures and improvements	(63,617)	(4,862)	-	(68,479)
Equipment and vehicles	<u>(50,258)</u>	<u>(7,355)</u>	<u>-</u>	<u>(57,613)</u>
Total accumulated depreciation	<u>(3,490,235)</u>	<u>(104,162)</u>	<u>4,400</u>	<u>(3,589,997)</u>
Total capital assets, being depreciated, net	<u>893,771</u>	<u>(104,162)</u>	<u>(251)</u>	<u>789,358</u>
Total capital assets, net	<u>\$ 939,470</u>	<u>\$ (99,567)</u>	<u>\$ (251)</u>	<u>\$ 839,652</u>

**COUNTY OF SAN BERNARDINO SPECIAL DISTRICT
COUNTY SERVICE AREA No. 64 SPRING VALLEY LAKE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

Note 4: CAPITAL ASSETS (continued)

Water:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 71,000	\$ -	\$ -	\$ 71,000
Development in progress	977,033	838,892	-	1,815,925
Total capital assets, not being depreciated	<u>1,048,033</u>	<u>838,892</u>	<u>-</u>	<u>1,886,925</u>
Capital assets, being depreciated:				
Improvements to land	5,775,230	-	-	5,775,230
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>6,221,271</u>	<u>-</u>	<u>-</u>	<u>6,221,271</u>
Less accumulated depreciation for:				
Improvements to land	(2,050,341)	(183,477)	-	(2,233,818)
Structures and improvements	(56,290)	-	-	(56,290)
Equipment and vehicles	(19,991)	-	-	(19,991)
Utility plant in-service	(156,141)	(8,217)	-	(164,358)
Total accumulated depreciation	<u>(2,282,763)</u>	<u>(191,694)</u>	<u>-</u>	<u>(2,474,457)</u>
Total capital assets, being depreciated, net	<u>3,938,508</u>	<u>(191,694)</u>	<u>-</u>	<u>3,746,814</u>
Total capital assets, net	<u>\$ 4,986,541</u>	<u>\$ 647,198</u>	<u>\$ -</u>	<u>\$ 5,633,739</u>

**COUNTY OF SAN BERNARDINO SPECIAL DISTRICT
COUNTY SERVICE AREA No. 64 SPRING VALLEY LAKE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

Note 4: CAPITAL ASSETS (continued)

Development in progress at June 30, 2017 represents the following projects:

	Final Budget	Capital Outlay		Projected Year Completion
		Through June 30, 2017	Remaining Commitment	
Archway renovations	\$ 150,000	\$ 49,981	\$ 64,241	2018
Chlorinators	180,000	0	180,000	2019
Pebble Beach reservoir #1	30,000	94	24,362	2018
Sewer line replacement	381,116	475	344,942	2019
Well pump #1	87,150	57,098	29,743	2018
Well #7	1,985,471	731,719	319,026	2018
Lakeview lift station	<u>330,000</u>	<u>4,120</u>	<u>325,880</u>	2019
Total	<u>\$ 3,143,737</u>	<u>\$ 843,487</u>	<u>\$ 1,288,194</u>	

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

Note 5: MATURED AND UNREDEEMED BONDS AND INTEREST PAYABLE

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

	Balance at June 30, 2016	Additions	Deletions	Balance at June 30, 2017
Matured unredeemed bonds	\$30,000	-	-	\$ 30,000
Matured interest	<u>20,780</u>	<u>-</u>	<u>-</u>	<u>20,780</u>
Total short-term debt	<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, 2017, 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.

COUNTY OF SAN BERNARDINO SPECIAL DISTRICT
COUNTY SERVICE AREA No. 64 SPRING VALLEY LAKE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 6: 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 7: 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 2017, sewage treatment fees incurred were \$601,619. As of June 30, 2017, \$131,641 of treatment fees was due to the VWVRA and was recorded as due to other governments on the statement of net position.

Note 8: RETIREMENT PLAN

Plan Description. Employees of the CSA participate in the County of San Bernardino's (County) cost-sharing multiple-employer defined benefit retirement plan (the Plan) administered by the San Bernardino County Employee's Retirement Association (SBCERA). The Plan is governed by the San Bernardino Board of Retirement (Board) under the California County Employees' Retirement Law of 1937 (CERL) and the California Public Employees' Pension Reform Act of 2013 (PEPRA). The Plan's authority to establish and amend the benefit terms are set by the CERL and PEPRA, and may be amended by the California state legislature and in some cases require approval by the County of San Bernardino Board of Supervisors and/or the SBCERA Board. 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 DISTRICT
COUNTY SERVICE AREA No. 64 SPRING VALLEY LAKE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

Note 8: RETIREMENT PLAN (continued)

Benefits Provided. SBCERA provides retirement, disability, death and survivor benefits. SBCERA administers the Plan which provides benefits for two membership classifications, General and Safety, and those benefits are tiered based upon date of SBCERA membership. Safety membership is extended to those involved in active law enforcement and fire suppression. All other members, including the CSA’s employees, are classified as General members. Generally, those who become members prior to January 1, 2013 are Tier 1 members. All other members are Tier 2. An employee who is appointed to a regular position, whose service is greater than fifty percent of the full standard of hours required are members of SBCERA, and are provided with pension benefits pursuant to Plan requirements.

The CERL and PEPRRA establish benefit terms. Retirement benefits for the General Tier 1 and General Tier 2 Plans are calculated on the basis of age, average final compensation and service credit as follows:

	General – Tier 1	General – Tier 2
Final Average Compensation	Highest 12 months	Highest 36 consecutive months
Normal Retirement Age	Age 55	Age 55
Early Retirement: Years of service required and/or eligible for	Age 70 any years	Age 70 any years
	10 years age 50	5 years age 52
	30 years any age	N/A
Benefit percent per year of service for normal retirement age	2% per year of final average compensation for every year of service credit	At age 67, 2.5% per year of final average compensation for every year of service credit
Benefit Adjustments	Reduced before age 55, increased after 55 up to age 65	Reduced before age 67
Final Average Compensation Limitation	Internal Revenue Code section 401(a)(17)	Government Code section 7522.10

COUNTY OF SAN BERNARDINO SPECIAL DISTRICT
COUNTY SERVICE AREA No. 64 SPRING VALLEY LAKE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 8: RETIREMENT PLAN (continued)

Contributions. Participating employers and active members, including the CSA and the CSA's employees, are required by statute to contribute a percentage of covered salary to the Plan. This requirement is pursuant to Government Code sections 31453.5 and 31454, for participating employers and Government Code sections 31621.6, 31639.25 and 7522.30 for active members. The contribution requirements are established and may be amended by the SBCERA Board pursuant to Article 1 of the CERL, which is consistent with the Plan's actuarial funding policy. The contribution rates are adopted yearly, based on an annual actuarial valuation, conducted by an independent actuary, that requires actuarial assumptions with regard to mortality, expected future service (including age at entry into the Plan, if applicable and tier), and compensation increases of the members and beneficiaries. The combined active member and employer contribution rates are expected to finance the costs of benefits for employees that are allocated during the year, with an additional amount to finance any unfunded accrued liability. Participating employers may pay a portion of the active members' contributions through negotiations and bargaining agreements.

Employee contribution rates for the fiscal year ended June 30, 2017 ranged between 7.89% and 14.22% for Tier 1 General members and between 7.73% and 8.37% for Tier 2 General members.

Employer contribution rates for fiscal year ended June 30, 2017 were 22.33% and 19.2% for Tier 1 and Tier 2, respectively.

Actuarial Assumptions and Discount Rates

See the County of San Bernardino's Comprehensive Annual Financial Report (CAFR) for details of actuarial assumptions and discount rates for the year ended June 30, 2016.

Pension Liabilities, Pension Expense/Benefit, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the CSA reported a liability of \$1,688,382 which represents 22.38% of the County of San Bernardino Special District's proportionate share of the County's net pension liability. The CSA's proportion was allocated based on FY 2017 total salaries and benefits relative to the total salaries and benefits of the County of San Bernardino Special Districts as a whole.

The County of San Bernardino Special District's proportionate share of the County's net pension liability was based on its contributions to the pension plan relative to the County's contributions for FY 2016 as a whole. The County's net pension liability was allocated by SBCERA based on the actual employer contributions in each cost group.

The Plan's net pension liability was measured as of June 30, 2016 based upon the results of an actuarial valuation as of the same date. Plan fiduciary net position and the total pension liability were valued as of the measurement dates.

**COUNTY OF SAN BERNARDINO SPECIAL DISTRICT
COUNTY SERVICE AREA No. 64 SPRING VALLEY LAKE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

Note 8: RETIREMENT PLAN (continued)

Sensitivity of the Proportionate Share of the Net Pension Liability/Asset to Changes in the Discount Rate

The following presents the CSA's proportionate share of the net pension liability of the Plan as of the measurement date, calculated using the discount rate of 7.5 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.5 percent) or 1 percentage-point higher (8.5 percent) than the current rate:

1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
\$ 2,820,295	\$ 1,688,382	\$ 750,418

Pension benefits recognized amounted to \$68,803 for the year ended June 30, 2017.

At June 30, 2017, the CSA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Deferred Outflows of Resources*</u>	<u>Deferred Inflows of Resources**</u>
<u>\$ 833,109</u>	<u>\$ (379,410)</u>

* Total deferred outflows includes change in assumptions, change in proportion and differences between share of contributions, and contributions after measurement date.

* Total deferred inflows includes differences in expected and actual expense, and net difference between projected and actual earnings on pension plan investments,.

The deferred outflows of resources related to pensions, resulting from the CSA's contributions to the plan subsequent to the measurement date of \$241,345, will be recognized as a reduction of the net pension liability in the following year. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in future pension expense as follows:

Year Ended June 30,	
2018	\$ (12,235)
2019	\$ 47,023
2020	\$ 107,954
2021	\$ 75,238
2022	\$ (5,996)
Thereafter	<u>\$ 370</u>
Total	\$ 212,354

COUNTY OF SAN BERNARDINO SPECIAL DISTRICT
COUNTY SERVICE AREA No. 64 SPRING VALLEY LAKE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 9: 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 \$3.0 million per occurrence. Excess insurance coverage over the Self-Insured Retention (SIR) up to \$54 million is provided through a combination of insurance policies as recommended by Alliant Insurance Services Inc., Insurance Broker as follows: Primary Liability coverage \$10 million excess of \$3.0 million self-insured retention with Security National Insurance Company (AM TRUST); Excess Liability coverage for \$4 million, excess of \$13 million with Evanston Insurance Company (Markel); and Excess Liability coverage of \$15 million, excess of \$17 million with National Casualty. Allied World Assurance Co. (AWAC) provides excess liability coverage of \$25 million, excess of \$32 million. No settlements related to these programs have exceeded insurance coverage in the last three years.

The Workers' Compensation program was restructured by joining CSAC-EIA (California State Association of Counties – Excess Insurance Authority) Excess Workers' Compensation Program and purchasing a policy with a \$2 million SIR and statutory limits with National Union Fire Insurance Company of Pittsburgh, PA. Property damage claims are insured on an occurrence basis over a \$25 thousand deductible, and insured through CSAC-EIA and reinsured with Lexington Insurance Co. and with several insurers like AWAC, Ironshore, Partner RE, and Lloyd's of London, among others.

The County supplements its self-insurance for medical malpractice claims with a \$25 million policy (\$35 million aggregate) with BETA Risk Management Authority, which provides annual coverage on a claim made form basis with a SIR of \$1 million for each claim.

All public officials and County employees are insured under a blanket Comprehensive Disappearance, Destruction, and Dishonesty policy covering County monies and securities, with Berkley Regional Insurance Co. with a \$100 thousand deductible, and excess limits up to \$10 million per occurrence.

The activities related to such programs are accounted for in the Risk Management Department's internal service funds ("Funds"), except for unemployment insurance, and employee dental insurance, which are accounted for in the General Fund. The liabilities recorded in these Funds are based on 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 0.615% and an actuarially-determined 80% confidence level. It is the County's practice to obtain actuarial studies on an annual basis.

See the County of San Bernardino's Comprehensive Annual Financial Report (CAFR) for details of their claims liability in accordance with GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, at June 30, 2017.

COUNTY OF SAN BERNARDINO SPECIAL DISTRICT
COUNTY SERVICE AREA No. 64 SPRING VALLEY LAKE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 10: 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 the CSA's financial position, changes in net position and cash flows.

Note 11: SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 22, 2017, 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.

Note 12: PRIOR-PERIOD ADJUSTMENT

The net position as of the beginning of the year was adjusted to correct an error made in recording the pension expense for the year ended June 30, 2016. The deferred outflow of resources for pension contributions of \$260,098 made subsequent to the measurement date was not recognized. Had the error not been made, the change in net position would have decreased by \$260,098.