COUNTY OF SAN BERNARDINO

CALIFORNIA

AUDIT REPORT

SOLID WASTE MANAGEMENT DIVISION

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

Prepared by:

Internal Audits Section
Office of the Auditor/Controller-Recorder
December 14, 2009

County of San Bernardino
Solid Waste Management Division

Table of Contents

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Auditor/Controller-Recorder
County Clerk

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

Independent Auditor's Report

December 14, 2009

Peter H. Wulfman, Division Manager
Solid Waste Management Division
222 W. Hospitality Lane, 2nd Floor
San Bernardino, CA 92415-0017

SUBJECT: AUDIT OF SOLID WASTE MANAGEMENT DIVISION FOR THE FISCAL YEAR ENDED JUNE 30, 2009

Auditor's Report

We have audited the accompanying financial statements of the Solid Waste Management Division Enterprise Fund of the County of San Bernardino, California, as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the Solid Waste Management Division'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. 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.

The financial statements of the Solid Waste Management Division Enterprise Fund, are intended to present the financial position, and the changes in financial position and, where applicable, cash flows of only that portion of the business-type activities of the County of San Bernardino that is attributable to the transactions of the Solid Waste Management Division Enterprise Fund. They do not purport to, and do not, present fairly the financial position of the County of San Bernardino as of June 30, 2009, the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Solid Waste Management Division Enterprise Fund of the County of San Bernardino, California, as of June 30, 2009, and the 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.

The Division has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Respectfully submitted,

Larry Walker
Auditor/Controller-Recorder

By:

Howard M. Ochi, CPA
Chief Deputy Auditor

Quarterly copies to:

County Administrative Office
Board of Supervisors
Grand Jury (2)

Audit File (2)
Date Report Distributed: 12/15/09

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COUNTY OF SAN BERNARDINO
SOLID WASTE MANAGEMENT DIVISION
STATEMENT OF NET ASSETS
JUNE 30, 2009

ASSETS	
Current assets:	
Unrestricted assets:	
Cash and cash equivalents (Note 2)	$ 59,608,326
Receivables:	
Accounts receivable	5,794,690
Land use fees (Note 4)	914,690
Interest	738,854
Due from other funds	24,382
Other	309,503
Due from other governments	1,978,417
Prepaid items (Note 5)	1,630,175
Total unrestricted assets	70,999,037
Restricted assets:	
Cash and cash equivalents (Note 2)	25,119,710
Deferred charges - current	64,534
Total restricted assets	25,184,244
Total current assets	96,183,281
Noncurrent assets:	
Restricted assets:	
Deferred charges, net of amortization	430,225
Cash and cash equivalents (Note 2)	83,725,347
Customer deposits (Note 2)	449,151
Total restricted assets	84,604,723
Unrestricted assets:	
Prepaid items (Note 5)	2,116,241
Capital assets:	
Land	17,828,389
Construction in progress	5,135,879
Structures and structures/land improvements	146,496,791
Equipment and vehicles	1,541,038
Capitalized software	155,208
Less accumulated depreciation	(100,051,703)
Total capital assets, net (Note 3)	71,105,602
Total noncurrent assets	157,826,566
Total assets	254,009,847

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

COUNTY OF SAN BERNARDINO
SOLID WASTE MANAGEMENT DIVISION
STATEMENT OF NET ASSETS
JUNE 30, 2009

LIABILITIES	
Current liabilities:	
Accounts payable	$ 2,852,827
Salaries and benefits payable	524,981
Retirement incentive program (Note 11)	6,050
Retentions payable	778,582
Litigation settlement payable (Note 13)	2,477,207
Due to other funds	530,887
Due to trust	754,636
Certificates of participation (Notes 6)	6,405,000
Interest payable	39,659
Due to other governments	1,392,387
Closure costs payable (Note 7)	7,816,000
Postclosure costs payable (Note 7)	1,488,000
Pollution remediation obligations (Note 12)	2,704,465
Other payables	208,375
Total current liabilities	27,979,056
Noncurrent liabilities:	
Employee compensated absences	756,792
Retirement incentive program (Note 11)	24,200
Retentions payable	463,781
Due to other governments	1,854,927
Customer deposits	449,151
Litigation settlement payable (Note 13)	159,069
Certificates of participation (Notes 6)	58,677,252
Closure costs payable (Note 7)	22,141,105
Postclosure costs payable (Note 7)	68,234,614
Pollution remediation obligations (Note 12)	30,498,275
Total noncurrent liabilities	183,259,166
Total liabilities	211,238,222
NET ASSETS	
Invested in capital assets, net of related debt	6,023,350
Restricted	50,209,719
Unrestricted	(13,461,444)
Total net assets (Note 8)	$ 42,771,625

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

COUNTY OF SAN BERNARDINO
SOLID WASTE MANAGEMENT DIVISION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2009

Operating revenues:	
Gate fees	$ 48,531,759
Landfill contract revenue	982,252
Land use fees	7,896,518
Septic waste	486,894
Other permits	2,565,927
Royalties	269,848
Other revenue	22,438
Total operating revenues	60,755,636
Operating expenses:	
Salaries and employee benefits	7,433,840
Professional services	28,605,552
Services and supplies:	
Special departmental	328,269
Insurance	1,307,755
Rents and leases	33,738
Other operating expense:	
Closure costs (Note 7)	(245,916)
Postclosure costs (Note 7)	984,686
Integrated waste management fee	1,755,455
Environmental and infrastructure mitigation fee	2,667,988
Other	8,090,998
Depreciation and amortization	2,322,499
Total operating expenses	53,284,864
Operating income (loss)	7,470,772
Nonoperating revenues (expenses):	
Interest and investment revenue	5,728,140
Gain (loss) on sale of fixed assets	56,187
Aide from Other Governments	2,767,525
Other revenue	184,393
Interest expense	(1,418,179)
Total nonoperating revenues (expenses)	7,318,066
Income (loss) before special items and transfers	14,788,838
Special Items:	
Litigation Settlement Expense (Note 13)	(2,724,328)
Income before transfers	12,064,510
Transfers in (out)	(67,204)
Change in net assets	11,997,306
Total net assets - beginning, as restated (Note 14)	30,774,319
Total net assets - ending	$ 42,771,625

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

COUNTY OF SAN BERNARDINO
SOLID WASTE MANAGEMENT DIVISION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2009

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from Solid Waste Management Services	63,513,018
Cash payments to suppliers of goods and services	(50,475,047)
Cash payments to employees for services	(7,303,062)
Net cash provided by operating activities	5,734,909
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES	
Operating transfers to General Fund	(67,204)
Other non operating revenues/expense	3,103,873
Principal paid on bonds and notes	(6,430,000)
Interest paid on bonds and notes	(1,576,847)
Net cash provided by noncapital and related financing activities	(4,970,178)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from sale of Equipment/Vehicles	57,700
Acquistion of fixed assets	(3,814,152)
Net cash used by capital and related financing activities	(3,756,452)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest Revenue	6,400,397
Net cash provided by investing activities	6,400,397
Net increase in cash and cash equivalents	3,408,676
Cash and cash equivalents - beginning	165,493,858
Cash and cash equivalents - ending	168,902,534

Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	7,470,772
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	2,322,499
Change in assets and liabilities:	
Receivables	3,151,981
Prepaid items	3,996,803
Customer Deposits	(394,599)
Accounts and other payables	(6,231,369)
Estimated liabilities for closure/postclosure care costs pollution remediation	(4,581,178)
Total adjustments	(1,735,863)
Net cash provided by operating activities	5,734,909

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Reporting Entity

The County of San Bernardino ("County") was established by an act of the State Legislature on April 26, 1853 and, is a legal subdivision of the State of California charged with governmental powers. The Department of Public Works, Solid Waste Management Division (Solid Waste) operates as an Enterprise Fund of the County. Solid Waste was created by the San Bernardino County Board of Supervisors to account for refuse disposal services provided to the public at six active landfill sites, five community collection centers and eight transfer stations. The waste disposal program is financed by funds derived from gate fees at all sites. In addition, land use fees are charged to unincorporated improved residential parcels in the mountain and desert areas. For the Baker and Trona areas, unincorporated improved residential and commercial parcels are charged land use fees. Solid Waste is a component unit of the County of San Bernardino for financial reporting purposes. Accordingly, its financial statements are incorporated into the County's Comprehensive Annual Financial Report as a major fund.

The Inland Empire Public Facilities Corporation (IEPFC) is a nonprofit public benefit corporation, formed on May 30, 1986, to serve the County by financing, refinancing, acquiring, constructing, improving, leasing and selling buildings, building improvements, equipment, land, land improvements, and any other real or personal property for the benefit of residents of the County. IEPFC issued Certificates of Participation dated May 1, 2003 in the amount of $93,875,000 (the "2003 B Solid Waste Financing Certificates") which were subsequently refunded (See note 6). Beginning with fiscal year ended June 30, 2003, Solid Waste's financial statements incorporated the portion of the financial statements of IEPFC that is related to Solid Waste.

Basis of Presentation and Accounting

Basis of accounting refers to the point when revenues and expenses are recognized in the accounts and reported in the financial statements.

The accrual basis of accounting is used to account for Solid Waste's activities. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when incurred.

Solid Waste's financial statements are presented using the economic resources measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with the activity are included on the statement of net assets.

Enterprise funds are used to account for business-type activities, which are financed mainly by fees and charges to users of the services provided by the funds' operations. Enterprise 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 an enterprise fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

Amounts paid to acquire capital assets are capitalized as assets in the enterprise fund financial statements, rather than reported as expenditure. Proceeds of long-term debt are recorded as a liability in the enterprise fund financial statements, rather than other financing source and amounts paid to reduce long-term indebtedness of the enterprise fund are reported as reduction of the related liability, rather than as expenditure.

Accounting Standards

GASB Statement No. 20

Solid Waste has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, not to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989.

Cash and Cash Equivalents

For purposes of the statement of cash flows, Solid Waste considers all pooled investments and other highly liquid investments with maturity of three months or less when purchased to be cash equivalents.

Deferred Charges

Deferred charges consist of the refunded revenue bond and newly issued certificates of participation unamortized issuance costs, which are being amortized over the shorter life of the previous refunding or the current refunding. The issuance costs will be fully amortized in FY 2017.

Deferred Loss on Refunding

The deferred losses represents the excess of the amount placed in escrow (reacquisition price) over the carrying amount of the refunded bonds and is amortized as a component of interest expense. The deferred loss on refunding will be fully amortized in FY 2017.

Capital Assets

Capital assets (including infrastructure) are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Contributed fixed assets are valued at their estimated fair market value at the date of the contribution. Solid Waste defines capital assets as assets with an initial, individual cost of more than $5,000, and an estimated useful life in excess of one year. Capital assets used in operations, except for heavy equipment, are depreciated over their estimated useful lives using the straight-line method. Heavy equipment is depreciated by productive hours of use. Capital assets used exclusively for landfills are either depreciated by the percentage of landfill used, until the landfill is at 100% capacity, or the straight-line method based on the estimated remaining life of the landfill or the life of the individual asset, whichever is shorter.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

Depreciation is charged as an expense against operations, and accumulated depreciation is reported on the statement of net assets. The estimated useful lives for each fixed asset class are as follows:

Infrastructure	10 to 100 years
Structures and improvements	5 to 45 years
Equipment and vehicles	5 to 15 years
Heavy equipment	Productive hours

Maintenance and repairs are charged to operations when incurred. Betterments and major improvements, which significantly increase values, change capacities or extend useful lives, are capitalized. Upon sale or retirement of fixed assets, the cost and related accumulated depreciation are removed from the respective accounts, and any resulting gain or loss is included in the results of operations.

Claims and Judgments

These events and obligations are recorded on the accrual basis, when the event occurs and the obligation arises.

Employee Compensated Absences

Accumulated vacation, holiday benefits, sick pay, and compensatory time are recorded as an expense and liability as the benefits are earned. The compensated absence liabilities are recorded as a non-current liability. In the event of retirement or termination, an employee is paid 100% of accumulated vacation, holiday, and compensatory time.

The Board of Supervisors has established a Retirement Medical Trust Fund. Upon separation from employment with the County for reasons, other than death or disability retirement, all eligible employees will be required to contribute the cash value of their unused sick leave balances to the Trust Fund. Requirements for 1) eligibility which is based on participation in the San Bernardino County Employees' Retirement Association, and 2) the contributed cash value which is between 30% and 75% of their accumulated sick leave, are outlined in the applicable Memorandums of Understanding. The Division is not obligated to pay for any unused sick leave if an employee terminates or retires with less than ten years of service.

Long Term Obligations and Costs

Long-term obligations are reported at face value, net of applicable premiums and discounts. Bond premiums, discounts and issuance costs are deferred and amortized over the life of the bonds.

Use of Estimates

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

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:

i) 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 principal balance of any leases, bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

ii) Restricted – This component of net assets consists of assets whose use is subject to constraints that are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

iii) Unrestricted – This component of net assets consists of net assets that are not restricted for any particular project or purpose. These net assets can be designated internally as reserves, and are controlled, modified, and removed by management.

Accrued Closure and Postclosure Care Costs

Accrued closure and postclosure care costs are recorded in accordance with GASB Statement No. 18, "Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs" (GASB 18). GASB 18 requires Solid Waste to provide for closure and postclosure care costs over the life of the operating landfills as the permitted airspace of the landfills is consumed. The entire closure and postclosure care cost is recognized as an expense by the time the landfills are completely filled.

Accrued Pollution Remediation Costs

In accordance with GASB 49, "Accounting and Financial Reporting for Pollution Remediation Obligations," pollution remediation costs are accrued and recorded. GASB 49 requires Solid Waste to estimate cash outlays to remediate the effects of a pollution event. Those outlays include remedial investigation, site assessment, corrective measures feasibility studies, remediation work, equipment and monitoring of the site until released by the governing regulatory agency.

2. CASH AND INVESTMENTS

Unrestricted Cash

Cash and cash equivalents include the cash balance of monies deposited with the County Treasurer, which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on the pooled investments is deposited to Solid Waste's account based upon Solid Waste's average daily deposit balance during the allocation period. Unrestricted cash and cash equivalents at the fair value as of June 30, 2009 was $59,608,326.

2. CASH AND INVESTMENTS (*Continued)*

Restricted Cash

Solid Waste recorded $108,845,057 as restricted cash and cash equivalents and includes the following:

Site Closure, Maintenance and Corrective Action	$100,471,138
Site Clean-up	663,642
Environmental Mitigation	88,018
Sales Tax Deposits	2,976
Cash Held at IEPFC	5,764,356
Insurance recoveries due to State	1,854,927
Total Restricted Cash and Cash Equivalents	$108,845,057

Customer Deposits

Solid Waste records customer deposits as assets and records a corresponding liability to demonstrate the fiduciary relationship with the customer. Customer deposits at June 30, 2009 total $449,151.

Cash and Investments

Cash and investments include the cash balances of substantially all funds which are pooled (the "pool") and invested by the County Treasurer for the purpose of increasing interest earnings through investment activities. The 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 now requires that all operating monies of the County, school districts, and board-governed special districts be held by the County Treasurer. The net asset value associated with legally mandated participants in the asset pool was $3,966,232 at June 30, 2009. As of June 30, 2009, the fair value of the County Pool was $4.44 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.

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.

2. CASH AND INVESTMENTS (*Continued*)

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 (in thousands):

Investment Type	Cost	Fair Value	Interest Rate Range	Maturity Range	Average Maturity
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
Total Treasurer's Pooled Investments	4,151,475	4,182,583			
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	106,605	106,605			
Total Investments	**$ 4,258,080**	**$ 4,289,188**			
Cash in Banks:					
Non-Interest Bearing Deposits		282,895			
Total Cash and Investments		**$ 4,572,083**			

Investments Authorized By Debt Agreement

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

Investment Credit Risk

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

California Law and San Bernardino County Treasury Pool Investment Policy (where more restrictive) place limitations on the purchase of investments in the County Pool. Purchases of commercial paper and negotiable certificates of deposit are restricted to the top two ratings issued by a minimum of two of three nationally recognized statistical rating organizations (NRSRO's). For an issuer of short-term debt, the rating must be no less than A-1 (S&P), P-1 (Moody's), or F-1

2. CASH AND INVESTMENTS *(Continued)*

(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

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

Issuer	Fair Value (in thousands)	% of Portfolio
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

2. CASH AND INVESTMENTS (*Continued*)

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 (in thousands):

Investment Type	Fair Value	Maturity Range (Days)	Maturity Limits	Effective Duration
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	$ 4,182,583			

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

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 $282,895 and the corresponding bank balance was $139,953. The difference of $142,942 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.

2. CASH AND INVESTMENTS (*Continued)*

Investment Type	S&P Rating	Moody's Rating	Fitch Rating	Maximun Allowed % of Portfolio	Individual Issuer Limitations	% of Pool 06/30/09
U.S. Treasury Securities	AAA	Aaa	AAA	100	None	1.90
U.S. Government Agencies	AAA	Aaa	AAA	100	None	69.40
Negotiable Certificates of Deposit	A1+	P1	F1+	30	$100MM/5%	8.10
Commercial Paper	A1/A1+	P1	F1+	40	5%	6.60
Corporate Notes	AA/AA+	Aa2/Aa1	AA/AA+	10/5	$50MM/5%	3.50
TLGP Corporate Notes	AAA	Aaa	AAA	30	None	1.20
Money Market Mutual Funds	AAA	Aaa	AAA	15	10%	9.30

As of June 30, 2009, Cash and Investments are classified in the accompanying financial statements as follows:

	Total Business-type Activities
Unrestricted cash and cash equivalents	$ 59,608,326
Restricted cash and cash equivalents	108,845,057
Total cash and cash equivalents	**$ 168,453,383**

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 (in thousands):

Statement of Net Assets	
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

Statement of Changes in Net Assets	
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

COUNTY OF SAN BERNARDINO
SOLID WASTE MANAGEMENT DIVISION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

3. CAPITAL ASSETS

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

	(Note 14) RESTATED BALANCE 6/30/08	ADDITIONS	REDUCTIONS	BALANCE 6/30/09
Capital assets not being depreciated:				
Land	$17,771,510	$56,879	-	$17,828,389
Construction in progress	13,481,607	1,462,292	(9,808,020)	5,135,879
Total assets not being depreciated	31,253,117	1,519,171	(9,808,020)	22,964,268
Capital assets being depreciated:				
Improvements to land	125,142,007	12,050,580	-	137,192,587
Structures and improvements	9,304,204	-	-	9,304,204
Vehicles	320,611	25,778	-	346,389
Equipment	487,531	26,644	(7,894)	506,281
Heavy equipment	982,377	-	(294,009)	688,368
Capitalized Software	-	155,208	-	155,208
Total assets being depreciated	136,236,730	12,258,210	(301,903)	148,193,037
Total capital assets	167,489,847	13,777,381	(10,109,923)	171,157,305
Less: Accumulated depreciation for:				
Improvements to land	(92,275,401)	(1,507,635)	-	(93,783,036)
Structures and improvements	(4,889,274)	(260,466)	-	(5,149,740)
Vehicles	(94,636)	(50,211)	-	(144,847)
Equipment	(294,186)	(43,483)	6,381	(331,288)
Heavy equipment	(934,231)	(2,570)	294,009	(642,792)
Total accumulated depreciation	(98,487,728)	(1,864,365)	300,390	(100,051,703)
Total capital assets being depreciated, net	37,749,002	10,393,845	(1,513)	48,141,334
Total capital assets, net	$69,002,119	$11,913,016	($9,809,533)	$71,105,602

3. CAPITAL ASSETS *(Continued)*

At June 30, 2009 construction in progress represents the following projects:

Project Title	BUDGET	YTD EXPENSES	Projected Fiscal Year of Completion
Heaps Peak Parking Area	$501,802	$496,477	2009/2010
Heaps Peak Scalehouse	$355,000	$33,953	2009/2010
Twentynine Palms Scalehouse	100,000	6,800	2009/2010
Victorville Scalehouse	425,000	83,356	2009/2010
Victorville Entrance and Access Roads	350,000	73,793	2009/2010
Milliken Perimeter Landscaping	337,324	4,406	2009/2010
Barstow Unit 2 Expansion Phase 1, Stage 1	965,160	945,044	2009/2010
Mid-Valley Expansion, Unit 3, Phase 6 Liner	146,277	106,242	2009/2010
Colton Scale Area Liner	674,077	351,011	2009/2010
Landers Ponds and Landfarm Facility	364,021	152,210	2009/2010
Victorville Expansion Liner, Phase 1B, Stage 2	282,445	56,619	2009/2010
Barstow Perimeter Gas Monitoring Probes	15,653	15,683	2009/2010
Barstow Extraction & Gas Treatment System	25,425	23,659	2009/2010
Colton Gas Extraction System	1,120,536	556,498	2009/2010
Mid-Valley Groundwater Monitoring Wells	388,110	364,767	2009/2010
San Timoteo Gas Extraction & Treatment system	1,057,464	484,237	2009/2010
San Timoteo Perimeter Gas Monitoring Probes	553,888	7,753	2009/2010
Yucaipa Gas Extraction/Treatment System	1,430,777	1,368,940	2009/2010
LED Lights	8,863	4,431	2009/2010
Total	$9,101,822	$5,135,879	

4. LAND USE FEES

Land use fees are an assessment applied to improved parcels in the desert and mountain areas that are charged in lieu of a disposal fee at the landfill gates. The total amount for Land Use Fees Receivable recorded by Solid Waste at June 30, 2009 includes the uncollected special assessment fees billed for fiscal years 2007/08 and 2008/09. The $914,690 balance outstanding as of June 30, 2009 includes: (1) an uncollected amount of $687,790 and (2) $226,900 that has been collected but not apportioned to Solid Waste.

5. PREPAID ITEMS

Effective August 6, 1998, Solid Waste entered into a 40 year Development Agreement with the City of Rialto. An initial payment of $14 million was made as a prepayment of tonnage charge. The prepayment was paid in two installments; $1.5 million was paid on July 27, 1998 and $12.5 million was paid on April 27, 2000. The prepayment is being amortized according to the Development Agreement guidelines and is adjusted for inflation. The prepayment balance for the City of Rialto agreement is $3,746,416 as of June 30, 2009.

6. CERTIFICATES OF PARTICIPATION

Changes to the Certificates of Participation balance (net of loss on defeasances) includes the following:

Balance 6/30/2008	Amortize Deferred Loss	Debt Payments	Balance 6/30/2009
$71,118,650	$393,603	$6,430,000	$65,082,253

Debt service principal requirements of the 2008 B Certificates of Participation to maturity at June 30, 2009 are as follows:

	2008 Series B Certificates of Participation	
Year ending June 30:	Principal	Interest
2010	$6,405,000	$420,439
2011	6,915,000	412,780
2012	7,470,000	362,734
2013	8,045,000	306,606
2014	8,700,000	247,105
2015-2017	30,425,000	335,677
	$67,960,000	$2,085,341

Using a variable "Weekly Rate Mode," interest is evaluated weekly and paid monthly. The rate at June 30, 2009 was 0.70%

In order to provide a source of repayment and security for the certificates of participation, the County has leased certain properties to the Inland Empire Public Facilities Corporation (IEPFC), which, in turn, has leased these properties back to the County for the period that the certificates of participation are outstanding.

The 2008B certificates of participation payable are stated at par, net of the unamortized loss on bond defeasance resulting from the 2003B and 1999A defeasance, as follows:

	2008 Series B
Principal outstanding at June 30, 2009	$ 67,960,000
Loss on defeasance, net of accumulated amortization	(2,877,748)
Less current payable	(6,405,000)
Long-term portion of debt at June 30, 2009	$ 58,677,252

7. CLOSURE AND POSTCLOSURE CARE COST

State Financial Assurance Mechanism regulations require landfill operators to set aside funds, or provide alternative funding mechanisms, to fund the closure and postclosure maintenance of landfills. The funding must be completed prior to the final date of closure. These regulations apply only to those landfills operating prior to 1989. The closure and postclosure care costs of other landfills not subject to these State regulations is funded separately in the Site Closure and Maintenance Fund.

7. CLOSURE AND POSTCLOSURE CARE COST *(Continued)*

Closure and postclosure care costs include, but are not limited to, such items as final cover, groundwater monitoring, well installations and landfill gas monitoring systems.

The twenty (20) landfills listed below (with their capacity used and estimated remaining lives) are those currently subject to State and federal regulations:

Landfill	Capacity Used	Years Remaining	Landfill	Capacity Used	Years Remaining
Apple Valley	100%	Inactive	Milliken	100%	Inactive
Baker	100%	Inactive	Morongo Valley	100%	Inactive
Barstow	4%	65	Needles	100%	Inactive
Big Bear	100%	Inactive	Newberry Springs	100%	Inactive
Colton	82%	7	Phelan	100%	Inactive
Hesperia	100%	Inactive	San Timoteo	38%	37
Landers	60%	5	Trona-Argus	100%	Inactive
Lenwood-Hinkley	100%	Inactive	Twentynine Palms	100%	Inactive
Lucerne Valley	100%	Inactive	Victorville	14%	39
Mid-Valley	32%	25	Yermo	100%	Inactive

The landfill closure and postclosure care cost estimate of $188,894,204 and $135,293,333, respectively, are based upon the most recently submitted Closure/Postclosure Maintenance Plan documents filed with the State and Federal permitting agencies. If, at some future date, these closure cost estimates are adjusted (due to changes in inflation, technology, regulations, etc.), the County is required to make corresponding changes in the amount of funds deposited for closure.

Each year a portion of each landfill's estimated closure and postclosure cost is recognized as an expense and liability based upon the amount of capacity used during the year. Colton Landfill capacity was increased by 2,200,000 cubic yards due to a scalehouse area liner expansion. As of June 30, 2009 the cumulative liability recorded by the County based upon individual landfill capacity usage was $189,856,355. The remaining $134,331,182 of estimated closure and postclosure costs will be recorded and funded as landfill capacity is used. Closure and postclosure related expenditures of $83,175,131 and $7,001,505 have been incurred through June 30, 2009, which reduced the landfill closure and postclosure liabilities to $29,957,105 and $69,722,614

The current and noncurrent closure and postclosure activity for the year ended June 30, 2009 includes the following:

	Balance 6/30/2008	Increase/ Decrease	Balance 6/30/2009
Current closure costs payable	$6,800,468	$1,015,532	$7,816,000
Noncurrent closure costs payable	23,561,480	(1,420,375)	22,141,105
Current postclosure costs payable	1,413,682	74,318	1,488,000
Noncurrent postclosure costs payable	68,812,390	(577,776)	68,234,614
	$100,588,020	($908,301)	$99,679,719

7. CLOSURE AND POSTCLOSURE CARE COST *(Continued)*

In accordance with a Pledge of Revenue Mechanism adopted by the County of San Bernardino Board of Supervisors on August 30, 1994, Solid Waste has pledged tipping fees and interest revenue to fund the post-closure maintenance costs as needed. Total tipping fees received in the current year were $48,531,759 and postclosure expenditures were $1,488,144. Each landfill site's maintenance costs are budgeted annually following the Closure and Post-Closure Maintenance Plan as approved by the California Integrated Waste Management Board (CIWMB). The term for each landfill site funding requirements is 30 years starting with the date of closure as certified by the State.

8. NET ASSETS

Net assets at June 30, 2009 total $42,771,625. Net assets represent the difference between assets and liabilities and are categorized as invested in capital assets (net of related debt), restricted and unrestricted

	Balance 6/30/2009
Net assets invested in capital assets, net of related debt:	
Property, plant and equipment in service	$ 171,157,305
Less: Accumulated depreciation	(100,051,703)
Less: Outstanding principal of related debt	(65,082,252)
Total net assets invested in capital assets, net of related debt	6,023,350
Restricted net assets	50,209,719
Unrestricted net assets	(13,461,444)
Total net assets	$ 42,771,625

Restricted Net Assets

This category presents restrictions imposed by creditors and state regulatory agencies. The Solid Waste Management Division has restricted net assets of $50,209,719 consisting of $44,445,363 restricted to provide financial assurance for landfill closure costs as required by the California Integrated Waste Management Board and $5,764,356 restricted as a debt service reserve for the San Bernardino County 2008B Certificates of Participation.

Unrestricted Net Assets

This category represents net assets of the Solid Waste Management Division, not restricted for any project or other purpose. Deficit unrestricted net assets of $13,461,444 are a result of the implementation of GASB 49, which required beginning net assets to be restated by ($48,168,718).

9. RETIREMENT PLAN

Plan Description

The San Bernardino County Employees' Retirement Association ("SBCERA") is a cost-sharing multiple-employer defined benefit pension plan (the "Plan") operating under the California County Employees Retirement Act of 1937 ("1937 Act"). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, California State Association of Counties, South Coast Air Quality Management District

9. RETIREMENT PLAN *(Continued)*

(AQMD), San Bernardino Associated Governments (SANBAG), Local Agency Formation Commission (LAFCO), San Bernardino County Law Library, Barstow Fire Protection District, Hesperia Parks and Recreation, San Bernardino County Employees' Retirement Association (SBCERA), City of Chino Hills, Crest Forest Fire District, Mojave Desert

Air Quality Management District (MDAQMD), California Electronic Recording Transaction Authority (CERTNA), Inland Valley Development Agency (IVDA), San Bernardino International Airport Authority (SBIAA), and the Superior Courts were later included, along with the County of San Bernardino (the "County"), and are collectively referred to as the "Participating Members". The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3rd floor, San Bernardino, California 92415-0014.

Fiduciary Responsibility

SBCERA is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. SBCERA publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. SBCERA is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes SBCERA pension trust fund as of June 30, 2009.

Funding Policy

Participating members are required by statute (Sections 31621, 31621.6 and 31639.25 of the California Government Code) to contribute a percentage of covered salary based on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 7.68% - 12.96% for general members and 9.85% - 15.29% for safety members, of their annual covered salary of which the County pays approximately 7%. County of San Bernardino employer contribution rates are as follow: County General 11.25%, County Safety 24.46%. All employers combined are required to contribute 13.95% of the current year covered payroll. For 2009, the County's annual pension cost of $200,300 was equal to the County's required and actual contributions. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

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

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

9. RETIREMENT PLAN *(Continued)*

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

Year Ended June 30	SBCERA	County	Percentage Contributed
2007	239,857	194,130	100%
2008	241,721	203,712	100%
2009	246,232	200,300	100%

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

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. The outstanding liability at June 30, 2009 is $301,595.

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

10. INSURANCE

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability, and workers' compensation claims. Public liability claims are self-insured for up to $2 million per occurrence. Excess insurance coverage over the Self-Insured Retention (SIR) up to $50 million is provided through a Risk Pool Agreement with California State Association of Counties ((CSAC) Excess Insurance Authority (EIA) Liability Program II. Workers' compensation claims are self-insured up to $5 million per occurrences, 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 $25,000 deductible, and insured with several insurers like Lexington Ins. Co., Affiliated FM, and Lloyd's of London, among others.

The County supplements its self-insurance for medical malpractice claims with Zurich Ins. Co., which provides annual coverage on a claims made form basis with a 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.

10. INSURANCE *(Continued)*

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 $100,000 deductible, and excess limits up to $10 million per occurrence.

The activities related to such programs are accounted for in the Risk Management Department (an internal service fund) except for unemployment insurance, and employee dental insurance, which are accounted for in the General Fund. The liabilities stated on the Risk Management's balance sheet are based upon the results of actuarial studies using a discounted rate of 2.75%. It is the County's practice to obtain actuarial studies on an annual basis.

11. RETIREMENT INCENTIVE PROGRAM

In response to the state of the economy, in fiscal year 2008-2009 the County of San Bernardino offered a Retirement Incentive Program to bargaining unit employees who retire between March 3, 2009 and June 30, 2009 and eligible exempt compensation employees who retire between March 17, 2009 and June 30, 2009. Eligible employees will receive $250 for each completed quarter of a year of current continuous service in a regular position in the County, payable annually over a five year period. SWMD had one eligible employee qualify for this program for the year ending June 30, 2009

12. POLLUTION REMEDIATION OBLIGATIONS

GASB 49, "Accounting and Financial Reporting for Pollution Remediation Obligations," addresses pollution remediation obligations. GASB 49 was implemented for the fiscal year ending June 30, 2009. Governments are required to estimate expected cash outlays for the various components of expected remediation activities related to current or potential detrimental effects of existing pollution. SWMD has been named as a discharger in orders issued by a state regulator for the perchlorate and volatile organic compounds in the groundwater at the Mid-Valley Sanitary Landfill and has been named in lawsuits to compel it to participate in pollution remediation in the Rialto-Colton Basin alleged to be related to activities at the Mid-Valley Sanitary Landfill.

In accordance with the requirements of GASB 49, current and future cash outlays for pollution remediation events are estimated and accrued as an adjustment to beginning net assets (see Note 14 for Restated Net Assets).

SWMD is currently managing a remediation project related to the Mid-Valley Landfill, which is adjacent to land formerly used in various manufacturing operations. Perchlorate and volatile organic compounds have been detected in the soils and groundwater.

In 2002 to 2004, directives were issued by the Regional Water Quality Control Board (RWQCB) to Solid Waste Management Division (SWMD) requesting samples for levels of perchlorate. SWMD conducted additional tests for perchlorate and volatile organic compounds (VOC) in soils groundwater. The findings led to a remediation plan approved by the RWQCB.

Current and future remediation costs are based on actual component costs adjusted for inflation in the post FY 2008/09 years. Future estimates may be revised to reflect changes to equipment and service costs as well as any changes in technology and regulations. Testing and remediation

12. POLLUTION REMEDIATION OBLIGATIONS *(Continued)*

outlays in FY 2008/09 totaled $3,672,877. Outlays expected to be incurred in FY2009/10 are $2,704,465. No recoveries were received and no recoveries are anticipated. The presence of perchlorate and VOC will continue to be remediated and monitored with an expected outlay of $30,498,275 from FY 2010/11 through FY 2038/39.

	Balance 6/30/2008 As Restated	Increase/ Decrease	Balance 6/30/2009
Pollution remediation obligation	$ 36,875,617	$ (3,672,877)	$ 33,202,740

13. COMMITMENTS AND CONTINGENCIES-POLLUTION MITIGATION EFFORTS

Background

Sanitary Landfills can pose a pollution threat due to the materials that were disposed of in the landfill (the typical source of this type of threat is from hydrocarbons) and the bi-products that are created by the decomposition of the organics in the waste, such as methane gas. Regulations require landfill owners to provide systems that contain potential contaminants (e.g., landfill liners, closure caps, and landfill gas extraction systems) and systems that monitor the effectiveness of these containment systems (e.g., landfill gas migration probes, and ground water monitoring probes). Prior to 1989 these systems were not required and thus municipal solid waste disposal sites that closed prior to this date typically lack these mitigation measures. When a landfill is found to be the source of ground, water, or air contaminants, the owner is required by law to perform pollution monitoring and mitigation efforts to correct the problem, as necessary.

Perchlorate Contamination

On September 26, 2002, the Regional Water Quality Control Board (RWQCB) issued a directive to Solid Waste to submit a Work Plan and conduct additional perchlorate investigations in the vicinity of the Mid-Valley Sanitary Landfill (MVSL). The directive required Solid Waste to submit the Work Plan by October 26, 2002. Solid Waste requested and was granted an extension to the submittal deadline from October 26, 2002 to November 15, 2002.

On November 15, 2002, Solid Waste prepared and submitted to the RWQCB a work plan for additional soil and groundwater investigation of perchlorate in the vicinity of the MVSL. Subsequently, the RWQCB adopted and issued Cleanup and Abatement Order (CAO) No. R8-2003-0013 to the County. The RWQCB approved Solid Waste's work plan on January 30, 2003.

In accordance with Item 2 of CAO No. R8-2003-0013, the RWQCB directed the County to submit a work plan for the installation of at least five (5) additional monitoring wells at the leading edge of the plume and along the easterly boundary of the plume. In addition, the RWQCB also directed the County to submit a work plan to develop a conceptual remedial action plan. Solid Waste submitted the work plans to the RWQCB on February 17, 2004 and February 26, 2004. Per their letter dated March 25, 2004, the RWQCB approved the work plans as submitted.

The drilling program within the RWQCB-approved work plan consists of the installation of up to thirty (30) temporary and six (6) permanent groundwater monitoring wells; the collection of groundwater samples; the setting of pumps within three installed wells to be used for hydraulic aquifer testing; the containment of well development water; and securing all necessary permits.

13. COMMITMENTS AND CONTINGENCIES-POLLUTION MITIGATION EFFORTS *(Continued)*

Installation of the monitoring wells commenced on May 1, 2004 and was completed in August 2004.

On September 17, 2004, the RWQCB issued Order No. R-2004-0072 amending Cleanup and Abatement Order No. R8-2003-0013 and requiring the County to take action necessary to provide replacement water to the City of Rialto by April 1, 2005, to replace the water extracted from Rialto Well No. 3, which is threatened by the perchlorate plume apparently emanating from the expansion property located at the County's Mid-Valley Sanitary Landfill. Solid Waste has an agreement with the San Bernardino Water Company to provide the necessary water when needed.

On September 14, 2004, prior to and in anticipation of the September 17, 2004, RWQCB meeting, the County held a hearing to inform the public about the alternatives available to provide replacement water to Rialto and to accept public comment on same. The preferred alternative identified at that time was a groundwater treatment system that would intercept the perchlorate plume, treat the water, and make the treated water available to Rialto for beneficial use. On December 21, 2004, the Board of Supervisors approved the installation of a groundwater treatment system for perchlorate and volatile organic compounds (VOCs).

In fiscal year 2005/2006, extraction wells were installed and became operational. The treatment system was installed and turned over to the City of Rialto to operate and maintain with the SWMD covering most of the on-going cost.

Financial Impacts of Mitigation Efforts

Through June 2006, the SWMD had perchlorate-related expenditures of $9,198,220. Fiscal year 2005/2006 revenues include $490,815 from a $0.69/ton perchlorate surcharge approved by the Board of Supervisors in October 2005 with collection starting on February 1, 2006, and an insurance rebate from the SWMD insurance carrier for $100,000.

In FY 2006/2007, the SWMD spent a total of $2,256,055 relating to the perchlorate issue. Of the total amount, $233,826 was issued to the City of Rialto for the operation and maintenance of the treatment system at Rialto Well #3; $780,540 was spent on continuing the work plan and groundwater treatment system near the Mid Valley Landfill; $14,824 was spent for RWQCB oversight; and, $1,226,865 was spent for litigation. Revenues from the perchlorate surcharge generated $1,506,331. Through FY 2006/07, the SWMD has spent $11,252,307 and has received $2,031,146 in revenues and insurance rebates.

In FY 2007/2008, the SWMD spent a total of $6,702,227 on perchlorate related issues, including $775,000 as a good faith effort towards a perchlorate lawsuit settlement (referred to as 'independent settlement' below) with the City of Rialto and the City of Colton. Of the total spent on perchlorate related issues, $3,740,232 was spent on continuing the work plan and groundwater treatment system near the Mid Valley Landfill and $2,186,995 was spent for litigation.

In FY 2008/2009, SWMD implemented GASB 49 to report current and future estimated costs of remediation further explained in Note 12. The current and estimated costs do not include the litigation costs of $1,523,526 incurred in FY 2008/09.

13. COMMITMENTS AND CONTINGENCIES-POLLUTION MITIGATION EFFORTS *(Continued)*

Related Litigations

Leachate Contamination of ground water: On November 10, 1998, the County approved a settlement agreement with the San Gabriel Valley Water Company (SGVWC). This agreement settles the claim that Leachate from the Mid-Valley Landfill has negatively impacted some of SGVWC's wells. This agreement requires the County to pay for the annual operation and maintenance cost of the treatment system for as long as necessary. As security for each annual payment, the County must annually post a letter of credit for 125% of the year's operations and maintenance costs, based upon an estimated budget submitted by the water company. When the agreement was approved, the then current estimate for the annual operations and maintenance costs was $500,000 per year. The agreement does not state a specified number of years over which these annual costs may be incurred; therefore, a reasonable estimate of the contingent liability cannot be determined.

Perchlorate Contamination of ground water: The following lawsuits have at their core the operative events of perchlorate water contamination alleged to arise from the Mid-Valley Sanitary Landfill operated by the SWMD or collateral matters related to that contamination.

City of Rialto and City of Colton lawsuits involving perchlorate at the Mid-Valley Landfill: The County entered into a settlement of $5 Million, of which the County's portion of $775,000 was paid in FY2007/2008, for the federal and state perchlorate lawsuits filed by the City of Rialto and the City of Colton ("independent settlement"). The effectiveness of the independent settlement is subject to certain conditions, including that the County reach a settlement regarding perchlorate with the Regional Water Quality Control Board, Santa Ana Region and that the federal court makes a determination that the proposed independent settlement is in good faith. While these conditions are believed to be achievable, in light of the possibility of a settlement of the federal court perchlorate lawsuits involving all parties ("global settlement"), the County and Cities had temporarily deferred further action on their independent settlement. The global settlement discussions failed to result in a settlement and so in October 2009, the federal court perchlorate lawsuits were refiled. In addition to the lawsuits refiled by the Cities, two additional lawsuits were filed by Goodrich Corporation and by Emhart Industries Inc., both of which name the County as a defendant. Since the mediation for global settlement was not successful, the County and Cities are proceeding with satisfying the conditions necessary to make their independent settlement effective. An estimate of the potential liability for perchlorate-related lawsuits cannot be made at this time

San Gabriel Valley Water Company lawsuit involving perchlorate at the Mid-Valley Landfill: On July 1, 2008, San Gabriel Valley Water Company filed a claim alleging that perchlorate from the County's Mid Valley Landfill, including the expansion portion of the property where aggregate mining is taking place, has impacted its wells in the Rialto-Colton Basin. It is too early to determine the potential liability of the County.

Current Fiscal Year Perchlorate Settlements:

Breach of contract lawsuit for indemnity: A settlement agreement of $2 Million was signed by all parties as of November 19, 2009. Pursuant to the settlement, the lawsuit will be dismissed within 10 days. Additional costs may be incurred. The lawsuit concerned the County's duty to defend the sellers of land adjacent to the Mid-Valley Sanitary Landfill which the County purchased for expansion purposes. A term of the sale was the County's agreement to indemnify the former owners against claims arising from the presence of hazardous materials discovered on the

13. COMMITMENTS AND CONTINGENCIES-POLLUTION MITIGATION EFFORTS *(Continued)*

property after the close of escrow. When Rialto filed its federal lawsuit, it named the former landowners as defendants. The County agreed to defend and indemnify the former owners pursuant to the terms of the sales agreement. However, this offer was rejected as the former owners claimed that a conflict of interest existed relative to the attorney chosen by the County to provide the defense. The former landowners filed suit seeking recovery from the County of their attorneys' fees and costs in defending themselves in the federal perchlorate action.

Waste Disposal Agreement (WDA) Cities lawsuit regarding the perchlorate surcharge: At the October 25, 2005 SWMD Financial Status Report presentation to the Board, the Board adopted the perchlorate surcharge of a flat $0.69/ton to recover the 30-year projected costs for clean up. The SWMD began collecting the new fee on February 1, 2006. Eleven WDA cities filed a state lawsuit against the County alleging that the County had no authority, under the WDA contracts, to impose the perchlorate surcharge. The cities received a favorable ruling in the state court, and the matter is currently on appeal. If the appeal is unsuccessful, SWMD's loss will be approximately $600,000 per year (866,000 tons @ $0.69/ton). The County and the WDA cities engaged in discussions to settle this matter without further litigation. A settlement agreement was signed on May 19, 2009 that provided for reimbursement to the litigants of the perchlorate fees collected by the County since February 2006. The reimbursement was to take place over the next eighteen months. In June 2009, the County began an eighteen-month reimbursement process to repay $724,328.45 of perchlorate fees to the litigants. The $636,276 remaining balance will be refunded FY 2009/10 and FY 2010/11.

14. RESTATEMENT OF NET ASSETS

Net assets as of July 1, 2008 have been decreased by $48,168,718 in accordance with the implementation of GASB 49 (also see Note 12 related to Pollution Remediation Obligations). The pollution remediation outlays previously capitalized are also reflected as an adjustment to the beginning balance of capital assets, not being depreciated – construction in progress as shown in Note 3.

	Balance 7/1/08
Beginning net assets as previously reported	$78,943,037
GASB 49 liability	(36,875,617)
Pollution remediation outlays previously capitalized	(11,293,101)
Beginning net assets restated	$30,774,319