COUNTY OF SAN BERNARDINO

CALIFORNIA

SPECIAL DISTRICTS

AUDIT REPORT

COUNTY SERVICE AREA NO. 70

IMPROVEMENT ZONE CG

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

Prepared by:

Internal Audits Section
Office of the Auditor/Controller-Recorder
February 24, 2010

County of San Bernardino Special Districts
County Service Area No. 70
Improvement Zone CG

Table of Contents

AUDITOR/CONTROLLER-RECORDER COUNTY CLERK

COUNTY OF SAN BERNARDINO

AUDITOR/CONTROLLER • 222 West Hospitality Lane, Fourth Floor
San Bernardino, CA 92415-0018 • (909) 387-8322 • Fax (909) 386-8830
RECORDER • COUNTY CLERK • 222 West Hospitality Lane, First Floor
San Bernardino, CA 92415-0022 • (909) 387-8306 • Fax (909) 386-9050

LARRY WALKER
Auditor/Controller-Recorder
County Clerk

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

Independent Auditor's Report

February 24, 2010

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

SUBJECT: AUDIT OF COUNTY SERVICE AREA NO. 70 – IMPROVEMENT ZONE CG FOR THE FISCAL YEAR ENDED JUNE 30, 2009

Introductory Remarks

In compliance with Section 26909 of the California Government Code, we have completed an audit of County Service Area No. 70- Improvement Zone CG for the fiscal year ended June 30, 2009.

Auditor's Report

We have audited the accompanying financial statements of the business-type activities of the County of San Bernardino Special District County Service Area No. 70 – Improvement Zone CG (District), a component unit of the County of San Bernardino, California, as of and for the year ended June 30, 2009. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District as of June 30, 2009, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and the state regulations governing Special Districts.

The District has not presented the Management's Discussion and Analysis that 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 (5)
Grand Jury (2)

Audit File (2)
Date Report Distributed: 3/4/10

LDW:HMO:LL:mah

County of San Bernardino
County Service Area No. 70 – Improvement Zone CG
Statement of Net Assets
June 30, 2009

		Enterprise Fund
ASSETS		
Current assets		
Cash and cash equivalents	$	281,292
Account receivable		182,834
Interest receivable		1,729
Due from other governments (Note 3)		896,414
Total current assets		1,362,269
Noncurrent assets:		
Capital assets:		
Land		65,242
Construction in progress		1,590,010
Permanent water rights		257,607
Total noncurrent assets		1,912,859
Total assets	$	3,275,128
LIABILITIES		
Current liabilities		
Accounts payable	$	155,458
Retentions payable		106,191
Due to other governments		26,029
Total current liabilities		287,678
Noncurrent liabilities		
Interest payable		124,224
Loans payable (Note 5)		1,250,000
Total noncurrent liabilities		1,374,224
Total liabilities		1,661,902
NET ASSETS		
Invested in capital assets		1,912,859
Unrestricted		(299,633)
Total net assets		1,613,226
Total liabilities and net assets	$	3,275,128

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

County of San Bernardino
County Service Area No. 70 – Improvement Zone CG
Statement of Revenues, Expenses, and Changes in Fund Net Assets
For the Fiscal Year Ended June 30, 2009

	Enterprise Fund
OPERATING REVENUES	
Charges for services	$ 178,492
Total operating revenues	178,492
OPERATING EXPENSES	
Professional services	130,822
Services and supplies	86,955
Utilities	18,357
Rents and leases	1,479
Total operating expenses	237,613
Operating income (loss)	(59,121)
NONOPERATING REVENUES (EXPENSES)	
Intergovernmental revenue (Note 3)	1,222,134
Interest and investment income	17,051
Contributions (Note 9)	460,520
Interest expense	(44,224)
Other nonoperating revenues	113,921
Total nonoperating revenues (expenses)	1,769,402
Change in net assets before special item	1,710,281
Special Item (Note 6)	(910,520)
Change in net assets	799,761
Total net assets - beginning	813,465
Total net assets - ending	$ 1,613,226

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

County of San Bernardino
County Service Area No. 70 – Improvement Zone CG
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2009

CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from user charges	$	97,903
Cash payments to suppliers of goods and services		(89,837)
Miscellaneous cash receipts		113,921
Net cash provided (used) by operating activities		121,987
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Special item (Note 6)		(910,520)
Proceeds from loan (Note 5)		450,000
Contributions received (Note 9)		460,520
Net cash provided (used) by noncapital financing activities		-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of fixed assets		(1,401,780)
Cash received from other governments		820,600
Net cash provided (used) by capital and related financing activities		(581,180)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest revenue		22,482
Net cash provided by investing activities		22,482
Net increase (decrease) in cash and cash equivalents		(436,711)
Balance -- beginning of the year		718,003
Balance -- end of the year	$	281,292
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	$	(59,121)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Increase (decrease) in due to other governments		26,029
Increase (decrease) in accounts payable		121,747
(Decrease) increase in accounts receivable		(80,589)
Miscellaneous cash receipts		113,921
Net cash provided by operating activities	$	121,987

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The County Service Area No. 70 – Improvement Zone Cedar Glen (District) – is a special district located within the County of San Bernardino. The District has governmental powers as established by the San Bernardino County Government Charter (County). The County was established in 1852 as a legal subdivision of the State of California. The District was established by an act of the Board of Supervisors of the County of San Bernardino on July 12, 2005 for the purpose of providing water and road maintenance service in the community of Cedar Glen.

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 (i) the County has the ability to impose its will on the organization, or (ii) there is potential for the organization to provide a financial benefit to or impose a financial burden on the County.

The accompanying financial statements reflect only the accounts of County Service Area No. 70 – Improvement Zone CG and are not intended to present the financial position of the County taken as a whole.

Measurement focus, basis of accounting, and financial statement presentation

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's ongoing operations. The principal operating revenue of the enterprise fund is charges to customers for residential sales, meter installations and permit fees. Operating expenses for enterprise funds include the cost of professional services, services and supplies, utilities and rents and leases. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

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

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

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Cash and cash equivalents

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

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

Investment activities are governed by the California Government Code Sections 53601, 53635, and 53638 and the County's Investment Policy. Authorized investments include U. S. Government Treasury and Agency securities, bankers' acceptances, commercial paper, medium-term notes, mutual funds, repurchase agreements, and reverse repurchase agreements.

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

Capital assets

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the Enterprise Fund. Capital assets are defined by the government as assets with an initial, individual cost of

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

more than $5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of one year. Structures with an initial cost of $100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset life is not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

Assets	Years
Infrastructure	10 - 100
Structures and improvements	Up to 45
Equipment and vehicles	5 - 15

Net assets

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

- Invested in capital assets, net of related debt – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors, grantors, contributors, or laws or regulations, of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted – This component of net assets consist of net assets of the District that are not restricted for any project or other purpose.

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

Use of estimates

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

NOTE 2: CASH AND INVESTMENTS (amounts in thousands)

Cash and investments include the cash balances of substantially all funds which are pooled (Pool) and invested by the County Treasurer for the purpose of increasing interest earnings through investment activities. The County sponsors an external investment pool which includes cash and investments held by certain joint powers authorities and cash held by various trustee financial institutions in accordance with the California Government Code.

State law requires that all operating monies of the County, school districts, and board-governed special districts be held by the County Treasurer. The net asset value associated with legally mandated participants in the asset pool was $3,966,232 at June 30, 2009.

As of June 30, 2009, the fair value of the County Pool was $4.18 billion. Approximately 7% of the County pool is attributable to the County General Fund, with the remainder of the balance comprised of other County funds, school districts and special districts. Additionally, as of June 30, 2009, $216,351 of the amounts deposited in the County pool was attributable to depositors who are not required to, but choose to, invest in the County pool. These include independent special districts, State Trial Court, and other governmental agencies. The deposits held for both involuntary and voluntary entities are reported in the Investment Trust Fund.

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

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

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

NOTE 2: CASH AND INVESTMENTS (amounts in thousands) – *Continued*

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

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		280,050			
Total Cash and Investments		$ 4,569,238			

Investments authorized by debt agreement

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

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.

NOTE 2: CASH AND INVESTMENTS (amounts in thousands) – *Continued*

California Law and San Bernardino County Treasury Pool Investment Policy (where more restrictive) place limitations on the purchase of investments in the County Pool. Purchases of commercial paper and negotiable certificates of deposit are restricted to the top two ratings issued by a minimum of two of three nationally recognized statistical rating organizations (NRSRO's). For an issuer of short-term debt, the rating must be no less than A-1 (S&P), P-1 (Moody's), or F-1 (Fitch) while an issuer of long-term corporate debt must have a minimum letter rating of "AA". Federal Agency notes and bonds, municipal notes and bonds, and money market mutual funds must have a minimum letter rating of "AAA". Limits are also placed on the maximum percentage investment by sector and by individual issuer (see schedule). As of June 30, 2009, all investments held by the County Pool were within policy limits.

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

Concentration of credit risk

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

GASB Statement No. 40 requires disclosure of investments by amount and issuer that represent five-percent or more of total investments held. This requirement excludes investments issued or explicitly guaranteed by the United States Government, investments in mutual funds, external investment pools, and other pooled investments. As of June 30, 2009, the following issuers represented more than five-percent of the County Pool balance:

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

NOTE 2: CASH AND INVESTMENTS (amounts in thousands) – *Continued*

Interest rate risk

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

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

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

California Law and where more restrictive, the San Bernardino County Pool Investment Policy, place limitations on the maximum maturity of investments to be purchased by sector (see schedule). As of June 30, 2009, all investments held by the County Pool were within policy limits. A summary of investments for Maturity Range, Limits, and effective duration is as follows:

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.

NOTE 2: CASH AND INVESTMENTS (amounts in thousands) – *Continued*

California Law requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure County deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2009, the carrying amount of the County's deposits was $280,050 and the corresponding bank balance was $139,953. The difference of $140,097 was primarily due to outstanding warrants, wires and deposits in transit. Of the bank balance, $138,078 was insured by the FDIC depository insurance through the Transaction Account Guarantee Program.

Custodial Credit Risk for Investments exists when, in the event of a failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

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

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:

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

NOTE 2: CASH AND INVESTMENTS (amounts in thousands) – *Continued*

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

	Total Business-type Activities
Cash and Investments	$ 281,292

NOTE 3: DUE FROM OTHER GOVERNMENTS

The District received notification in July 2007 that the District was approved for reimbursements up to $2,998,531 from a Community Development Block Grant (CDBG) for improvements and upgrades to the District. For fiscal year 2008-2009, the District has incurred $1,222,134 in expenses that would be eligible for reimbursement through this grant, of which $896,414 is outstanding as due from other governments.

NOTE 4: CAPITAL ASSETS

Capital assets activities during the year were as follows:

	Balance July 1, 2008	Additions	Deletions	Transfers	Balance June 30, 2009
Land	$ -	$ 65,242	$ -	$ -	$ 65,242
Permanent water rights	-	257,607	-	-	257,607
Construction in Progress	404,888	1,185,122	-	-	1,590,010
Totals	$ 404,888	$ 1,507,971	$ -	$ -	$ 1,912,859

Construction in Progress

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

Project Title	Budget	Total costs through June 30, 2009	Projected Fiscal Year of Completion
Phase 1 Road & Water Design	$ 500,000	$ 433,395	2010
Water System Improvements	4,334,459	1,156,615	2010
		$ 1,590,010	

The district entered into several contractual agreements for the development and/or improvement of the Water System Improvement project listed above. The balance of these commitments is $897,483 as of June 30, 2009.

NOTE 5: LOAN PAYABLE

County General Fund Loan
On July 1, 2006, the District received an $800,000 loan from the County's General Fund. The $800,000 loan will be used to initiate various road and water improvements that include the purchase of the Arrowhead Manor Water Company (AMWC). To the extent that funds are available, the County loan will also be used by the District to (i) provide funds to cover any defaulted amount or amounts AMWC may owe the State of California for outstanding bond transactions; (ii) provide initial funding for the upgrade of road and AWMC water systems within the Cedar Glen Project Area; (iii) for any Special Districts Department administrative and environmental-related expenses, either direct or outsourced, with respect to the formation of the district and acquisition of AMWC and any legal or consultant costs related to the acquisition. The term of the loan is 10 years with a simple interest rate of 5%. The payments are deferred during the first five years, payment of interest only is due the next four years, and then an interest and balloon payment of the principal amount will be due on July 1, 2016.

Fiscal Year Ending June 30,	Principal	Interest Payments	Total
2009	$ -	$ -	$ -
2010	-	-	-
2011	-	-	-
2012	-	40,000	40,000
2013	-	40,000	40,000
2014-2016	800,000	320,000	1,120,000
Total	$ 800,000	$ 400,000	$ 1,200,000

County Service Area Revolving Loan
On January 6, 2009, the District received a $450,000 loan from the County Service Area Revolving Loan Fund for additional funding needed to fully repay the outstanding loan balance to the California Department of Water Resources (DRW) relative to the acquisition of the AMWC (see note 6). The term of the loan is 10 years. Interest accrues on the unpaid principle of each increment of the loan and must be repaid within 10 years at the current rate per annum received by the County of San Bernardino on similar types of transactions, as determined by the County Treasurer as of the date of each disbursement. Interest payable as of June 30, 2009 is $4,224. The rate as of June 30, 2009 was 1.70 percent.

The following is a summary of long-term liabilities transactions for the year ended June 30, 2009:

	Principal Balance July 1, 2008	Additions	Retirements	Principal Balance June 30, 2009	Amounts Due Within One Year
County General Fund	$ 800,000	$ -	$ -	$ 800,000	$ -
CSA Revolving	-	450,000	-	450,000	-
Total long-term liabilities	$ 800,000	$ 450,000	$ -	$ 1,250,000	$ -

NOTE 6: ASSET ACQUISITION AGREEMENT

On October 17, 2006, the District and the court-appointed receiver for AMWC (Receiver) entered into an asset acquisition agreement for the purchase of AMWC. The agreement states that the District will purchase AMWC for $305,000. Additionally, the District will assume a State Safe Drinking Water Bond Act (SDWBA) Loan that AMWC previously received. The balance of the loan was $910,520 after the passing of Assembly Bill Number 2680 on September 30, 2008, which went into effect January 1, 2009. The asset acquisition agreement is effective as of the close of the escrow. Escrow for the purchase of the AMWC closed January 30, 2009. The $910,520 is shown as a Special Item on the Statement of Revenues, Expenses and Changes in Fund Net Assets because it was a one time expense incurred as part of the asset acquisition agreement. To cover the cost of the Special Item the district received a loan for $450,000 (see note 5) and board elective funding for $460,520 (see note 9). This special item contributed to the deficit in unrestricted net assets as of June 30, 2009.

NOTE 7: OPERATIONS AND MANAGEMENT AGREEMENT

On October 17, 2006, the District and the Receiver entered into an operations and management agreement which required the District to take over operations of AWMC beginning November 1, 2006 until the close of escrow on January 30, 2009, on which date the agreement ended. Based on the agreement, the District agreed to provide the services necessary to operate and maintain the water system and all related improvements and equipment, including insurance. The District was required to bill customers and provide normal and customary management, collections, enforcements, and bookkeeping services. The agreement authorized the District to retain all revenues for all services provided on and after November 1, 2006.

NOTE 8: SELF INSURANCE

The District is insured through the County's self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability, and workers' compensation claims. Public liability claims are self-insured for up to $2 million per occurrence. Excess insurance coverage over the Self-Insured Retention (SIR) up to $50 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II. Workers' compensation claims are self-insured up to $5 million per occurrence, and covered by Arch Ins. Co. for up to $3 million for employer's liability, and up to statutory limits for workers' compensation per occurrence. Property damage claims are insured on an occurrence basis over a $25 thousand deductible, and insured with several insurers like Lexington Ins. Co, Affiliated FM, and Lloyd's of London, among others.

The County supplements its self-insurance for medical malpractice claims with Zurich Ins. Co., which provides annual coverage on a claims made form basis with an SIR of $2

NOTE 8: SELF INSURANCE – *Continued*

million for each claim. Maximum coverage under the policy is $25 million in limits per claim provided by Illinois Union Ins. Co.

All public officials and County employees are insured under a blanket Comprehensive Disappearance, Destruction, and Dishonesty policy covering County monies and securities, with National Union Fire Ins. Co of Pittsburgh with a $100 thousand deductible, and excess limits up to $10 million per occurrence.

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

The total claims liability of $149.9 million reported at June 30, 2009 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements, and the amount of the loss can be reasonably estimated.

Changes in the claims liability amount in fiscal years 2008 and 2009 were (amounts in thousands):

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

NOTE 9: CONTRIBUTIONS

The District received $460,520 board elective funding from the County of San Bernardino for the payment of the outstanding SDWBA loan balance relative to the acquisition of the AMWC. This money is not a loan and does not have to be paid back.