

**COUNTY OF SAN BERNARDINO  
CALIFORNIA  
SPECIAL DISTRICTS  
AUDIT REPORT  
CRESTLINE SANITATION DISTRICT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

**Prepared by:**

**Internal Audits Section  
Office of the Auditor-Controller/Recorder/Treasurer/Tax Collector  
June 30, 2010**

**County of San Bernardino Special Districts  
Crestline Sanitation District**

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# AUDITOR-CONTROLLER/RECORDER TREASURER/TAX COLLECTOR COUNTY CLERK



COUNTY OF SAN BERNARDINO

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Reply to:

**LARRY WALKER**  
Auditor-Controller/Recorder  
Treasurer/Tax Collector  
County Clerk

## Independent Auditor's Report

**November 17, 2010**

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

**SUBJECT: AUDIT OF CRESTLINE SANITATION DISTRICT 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 Crestline Sanitation District for the fiscal year ended June 30, 2009.

### Auditor's Report

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

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

AudRpt/Jeffrey Rigney, Director  
Office of Special Districts  
June 30, 2010  
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In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District as of June 30, 2009, and the respective changes in its financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and the state regulations governing Special Districts.

The District has not presented the *Management's Discussion and Analysis* that accounting principals generally accepted in the United States has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Respectfully submitted,

**Larry Walker**  
Auditor-Controller/Recorder/Treasurer/Tax Collector

By: \_\_\_\_\_  
**Howard M. Ochi, CPA**  
Assistant Auditor-Controller

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**County of San Bernardino  
Crestline Sanitation District  
Balance Sheet  
June 30, 2009**

**ASSETS**

Current assets:

Cash and cash equivalents	\$	5,989,382
Restricted cash		48,939
Accounts receivable		938,777
Taxes receivable		102,271
Interest receivable		28,947
Total current assets		7,108,316

Noncurrent assets:

Capital assets:

Land		213,308
Improvements to land		17,275,351
Construction in progress		2,999,703
Structures and improvements		5,094,910
Equipment and vehicles		1,261,254
Less accumulated depreciation		(16,898,675)
Total noncurrent assets		9,945,851
Total assets	\$	17,054,167

**LIABILITIES**

Current liabilities:

Accounts payable	\$	110,657
Retentions payable		169,374
Due to other governments		18,437
Current portion of loans payable		92,622
Matured bonds payable		48,939
Total current liabilities		440,029

Noncurrent liabilities:

Noncurrent portion of loans payable		800,645
Total noncurrent liabilities		800,645
Total liabilities		1,240,674

**NET ASSETS**

Net assets invested in capital assets, net of related debt		9,945,851
Restricted net assets		48,939
Unrestricted net assets		5,818,703
Total net assets		15,813,493
Total liabilities and net assets	\$	17,054,167

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

**County of San Bernardino  
Crestline Sanitation District  
Statement of Revenues, Expenses and Changes in Fund Net Assets  
For the Fiscal Year Ended June 30, 2009**

**OPERATING REVENUES**

Charges for services	\$	2,669,143
Special assessments		46,554
Total operating revenues		2,715,697

**OPERATING EXPENSES**

Professional services		2,200,881
Services and supplies		691,253
Utilities		93,074
Depreciation		495,364
Total operating expenses		3,480,572
Operating income (loss)		(764,875)

**NONOPERATING REVENUES (EXPENSES)**

Interest and investment revenue		208,544
Property taxes		1,114,378
Other taxes		19,142
Federal/State aid		104,541
Gain on sale of fixed assets		7,330
Connection fees		41,628
Interest expense		(16,919)
Other nonoperating expense		(7,119)
Total nonoperating revenues (expenses)		1,471,525

Change in net assets		706,650
<b>Net assets - beginning</b>		15,106,843
<b>Net assets - ending</b>	\$	15,813,493

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

**County of San Bernardino  
Crestline Sanitation District  
Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2009**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Cash received from user charges	\$ 2,395,957
Cash payments to suppliers of goods and services	(3,106,653)
Net cash provided (used) by operating activities	(710,696)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

Taxes received	1,169,355
Federal/State aid	104,541
Other non-operating expense	(7,119)
Net cash provided (used) by noncapital financing activities	1,266,777

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Acquisition of fixed assets	(1,056,117)
Proceeds from sale of fixed asset	7,330
Connection fees	41,628
Principal paid on long-term liability	(91,057)
Interest paid on long term liability	(16,919)
Net cash provided (used) by capital and related financing activities	(1,115,135)

**CASH FLOWS FROM INVESTING ACTIVITIES**

Interest revenue	246,866
Net cash provided by investing activities	246,866

Net increase (decrease) in cash and cash equivalents	(312,188)
Cash -- beginning of the year	6,350,509
Cash -- end of the year	\$ 6,038,321

**Reconciliation of operating income (loss) to net cash provided**

**(used) by operating activities:**

Operating income (loss)	\$ (764,875)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	495,364
Change in assets and liabilities:	
Accounts receivable	(319,740)
Accounts payable and other payables	(121,445)
<b>Net cash provided by operating activities</b>	<b>\$ (710,696)</b>

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

**County of San Bernardino  
Crestline Sanitation District  
Notes to Financial Statements  
For the Fiscal Year Ended June 30, 2009**

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

**Reporting Entity**

The Crestline Sanitation District (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 January 21, 1946, to provide sewer services to the Lake Gregory area. The District operates and maintains three treatment plants, 90 miles of collection systems, 14-mile effluent outfall line, and an effluent disposal site. The District provides sewage collection, treatment and disposal services for 5,330 Equivalent Dwelling Units (EDUs).

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 (i) either the County's 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 Crestline Sanitation District 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**

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

Proprietary funds are reported using 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. The transactions of the District are accounted for on a flow of *economic resources measurement focus*. With this measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet.

**County of San Bernardino  
Crestline Sanitation District  
Notes to Financial Statements  
For the Fiscal Year Ended June 30, 2009**

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

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period.

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

All activities of the District are accounted for in an enterprise fund.

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.

**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.

**County of San Bernardino  
Crestline Sanitation District  
Notes to Financial Statements  
For the Fiscal Year Ended June 30, 2009**

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

**Receivables**

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

**Property taxes**

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

**Capital assets**

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

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

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

**County of San Bernardino  
Crestline Sanitation District  
Notes to Financial Statements  
For the Fiscal Year Ended June 30, 2009**

**NOTE 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:

- 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.

**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

**County of San Bernardino  
Crestline Sanitation District  
Notes to Financial Statements  
For the Fiscal Year Ended June 30, 2009**

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

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%.

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

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

**County of San Bernardino  
Crestline Sanitation District  
Notes to Financial Statements  
For the Fiscal Year Ended June 30, 2009**

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

**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.

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.

<b><u>Investment Type</u></b>	<b><u>Maximum Allowed % of Portfolio</u></b>	<b><u>Individual Issuer Limitations</u></b>	<b><u>% of Pool 06/30/09</u></b>
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

**County of San Bernardino  
Crestline Sanitation District  
Notes to Financial Statements  
For the Fiscal Year Ended June 30, 2009**

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

**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:

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

**Interest rate risk**

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

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

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

California Law and where more restrictive, the San Bernardino County Pool Investment Policy, place limitations on the maximum maturity of investments to be purchased by sector (see schedule). As of June 30, 2009, all investments held by the County Pool were within policy limits.

**County of San Bernardino  
Crestline Sanitation District  
Notes to Financial Statements  
For the Fiscal Year Ended June 30, 2009**

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

A summary of investments for Maturity Range, Limits, and effective duration is as follows:

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

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

**Custodial credit risk**

*Custodial Credit Risk for Deposits* exists when, in the event of a depository financial institution failure, a government may be unable to recover deposits, or recover collateral securities that are in the possession of an outside party.

GASB Statement No. 40 requires the disclosure of deposits into a financial institution that are not covered by FDIC depository insurance and are uncollateralized.

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

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

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

**County of San Bernardino  
Crestline Sanitation District  
Notes to Financial Statements  
For the Fiscal Year Ended June 30, 2009**

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

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 The Bond Market Association (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:

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

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

Cash and cash equivalent	\$ 5,989,382
Restricted cash	48,939
Total cash and cash equivalent	\$ 6,038,321

**NOTE 3: RESTRICTED CASH**

The District issued bonds under the Improvement Act of 1915 (Bonds) to finance certain sewer improvements. The District reports the Bonds according to the provisions of the Government Accounting Standards Boards Statement No. 6. All the District's bonds matured as of July 2, 1996. The portion of the matured Bonds held by the Auditor-Controller/Recorder/Treasurer/Tax-Collector of the County of San Bernardino amounting to \$48,939 is reported as restricted cash.

**County of San Bernardino  
Crestline Sanitation District  
Notes to Financial Statements  
For the Fiscal Year Ended June 30, 2009**

**NOTE 4: CAPITAL ASSETS**

Capital assets activity during the year was as follows:

	<u>Balance July 1, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Balance June 30, 2009</u>
Capital assets, not being depreciated:					
Land	\$ 213,308	\$ -	\$ -	\$ -	\$ 213,308
Construction in progress	2,067,030	1,056,117	123,444	-	2,999,703
Total capital assets, not being depreciated	<u>2,280,338</u>	<u>1,056,117</u>	<u>123,444</u>	<u>-</u>	<u>3,213,011</u>
Capital assets, being depreciated:					
Land improvements	17,151,907	123,444	-	-	17,275,351
Structures and improvements	5,094,910	-	-	-	5,094,910
Equipment and vehicles	1,337,865	-	76,611	-	1,261,254
Total capital assets, being depreciated	<u>23,584,682</u>	<u>123,444</u>	<u>76,611</u>	<u>-</u>	<u>23,631,515</u>
Less accumulated depreciation for:					
Land improvements	(12,507,256)	(346,777)	-	-	(12,854,033)
Structures and improvements	(2,858,195)	(99,089)	-	-	(2,957,284)
Equipment and vehicles	(1,114,471)	(49,498)	(76,611)	-	(1,087,358)
Total accumulated depreciation	<u>(16,479,922)</u>	<u>(495,364)</u>	<u>(76,611)</u>	<u>-</u>	<u>(16,898,675)</u>
Total capital assets, being depreciated, net	7,104,760	(371,920)	-	-	6,732,840
<b>Capital assets, net</b>	<u><b>\$ 9,385,098</b></u>	<u><b>\$ 684,197</b></u>	<u><b>\$ 123,444</b></u>	<u><b>\$ -</b></u>	<u><b>\$ 9,945,851</b></u>

**Construction in Progress**

Construction in progress represents the following projects:

<u>Project Title</u>	<u>Total Project Budget</u>	<u>Total costs through June 30, 2009</u>	<u>Projected Fiscal Year of Completion</u>
Facility expansion	\$ 2,729,602	\$ 2,684,602	2011
Huston Creek Facility expansion	1,845,487	275,148	2019
Lift Station modification	235,754	39,953	2010
		<u>\$ 2,999,703</u>	

**NOTE 5: LOAN PAYABLE**

On January 16, 1997, the District received a revolving fund loan from the State Water Resources Control Board in the amount of \$2,159,508. The proceeds of the loan were used to fund construction of the Huston Creek treatment plant effluent storage reservoir. Of the \$2,159,508 loan amount, \$359,925 was funded by local matching funds. At June 30, 2009, the outstanding principal balance is \$893,267.

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**NOTE 5: LOAN PAYABLE-Continued**

A summary of loan payments for the remaining fiscal years is as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 92,622	\$ 15,353	\$ 107,975
2011	94,214	13,761	107,975
2012	95,833	12,142	107,975
2013	97,480	10,495	107,975
2014	99,156	8,819	107,975
2015-2018	413,962	17,938	431,900
<b>Total</b>	<b>\$ 893,267</b>	<b>\$ 78,508</b>	<b>\$ 971,775</b>

**NOTE 6: SHORT-TERM DEBT**

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

	<u>Balance 6/30/08</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/09</u>
Matured bonds payable	\$ 48,939	\$ -	\$ -	\$ 48,939

**NOTE 7: LONG-TERM OBLIGATIONS**

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

	<u>Principal Balance July 1, 2008</u>	<u>Additions</u>	<u>Retirements</u>	<u>Principal Balance June 30, 2009</u>	<u>Amounts Due Within One Year</u>
Loan payable	\$ 984,324	\$ -	\$ 91,057	\$ 893,267	\$ 92,622
Total long-term liabilities	<u>\$ 984,324</u>	<u>\$ -</u>	<u>\$ 91,057</u>	<u>\$ 893,267</u>	<u>\$ 92,622</u>

**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

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**NOTE 8: SELF INSURANCE – Continued**

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 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):

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

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**NOTE 9: RESTRICTED NET ASSETS**

The District issued bonds under the Improvement Act of 1915 (Bonds) to finance certain sewer improvements. The District reports the Bonds according to the provisions of the Government Accounting Standards Boards Statement No. 6. All the District's bonds matured as of July 2, 1996. The portion of the matured Bonds held by the Treasurer/Tax-Collector of the County of San Bernardino amounting to \$48,939 is reported as restricted net assets.

**NOTE 10: PROPOSITION 111 APPROPRIATION LIMITS**

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

**NOTE 11: MEASURE R**

On November 4, 2008, Measure R was passed by the community of Crestline. This measure established a Governance Committee, whose purpose is to conduct a study and recommend to the County Board of Supervisors whether or not the District should change its governance to a district governed by a locally elected board composed of residents of the District. On February 16, 2010 the Governance Committee issued its Governance Feasibility Report, which recommends a reorganization of the governing body of the District from a Board-governed to self-governed Board of Directors. As a result of this recommendation, a special election was held on August 3, 2010 for the community of Crestline to give final vote as to the future governance of the District and the five local residents that will serve as the Board of Directors. The voters voted in favor of the District to become a self-governed District. The District will no longer be a component unit of the County of San Bernardino and will no longer be governed by the County Board of Supervisors.