# COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
# COUNTY SERVICE AREA No. 70
# ZONE W-1

## FINANCIAL STATEMENTS

## JUNE 30, 2015

**COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS**
**COUNTY SERVICE AREA No. 70 – ZONE W-1**
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An Independent CPA Firm

Board of Supervisors
County of San Bernardino
County of San Bernardino Special
District County Service Area
No.70 –Zone W-1

Independent Auditors' Report

We have audited the accompanying financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of the County of San Bernardino Special District County Service Area No.70 –Zone W-1 (CSA), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise CSA's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the minimum audit requirements and reporting guidelines for California Special Districts required by the Office of the State Controller. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the CSA, as of June 30, 2015, and the respective changes in financial position and cash flows, for the year then ended in accordance with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.


15151 Springdale – Huntington Beach, CA 92649
Phone (949) 346-2900 – Fax (714) 901-0024 – www.gruber-inc.com

**Emphasis of Matter**

As described in Note 1 to the financial statements, during the year ended June 30, 2014, the CSA implemented GASB No. 68, 69 and 71. Our opinion is not modified with respect to this matter.

**Other Matters**

*Required Supplementary Information*

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

**David L. Gruber and Associates, Inc.**
David L. Gruber and Associates, Inc.
Huntington Beach, California
December 2, 2015

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 70 - ZONE W-1
STATEMENT OF NET POSITION
June 30, 2015

| | Enterprise Fund |
|---|---|
| Assets | |
| Current Assets: | |
| Cash and cash equivalents | $ 1,353,271 |
| Accounts receivable, net | 41,333 |
| Interest receivable | 2,504 |
| Taxes receivable | 224 |
| Due from other funds | 360,128 |
| Special assessments receivable | 3,517 |
| Total Current Assets | 1,760,977 |
| Noncurrent Assets: | |
| Capital Assets: | |
| Land | 3,500 |
| Improvements to land | 2,703,105 |
| Structures and improvements | 109,058 |
| Vehicles | 82,936 |
| Accumulated depreciation | (1,773,584) |
| Total Noncurrent Assets | 1,125,015 |
| Total Assets | 2,885,992 |
| Deferred outflows of resources | |
| Pensions | 18,855 |
| Liabilities | |
| Current Liabilities: | |
| Accounts payable | 2,319 |
| Accrued interest payable | 1,396 |
| Due to other funds | 410,821 |
| Bonds payable | 75,000 |
| Total Current Liabilities | 489,536 |
| Noncurrent Liabilities: | |
| Bonds payable | 260,000 |
| Net pension liability | 106,268 |
| Total Noncurrent Liabilities | 366,268 |
| Total Liabilities | 855,804 |
| Deferred inflows of resources | |
| Pensions | 62,609 |
| Net position | |
| Invested in capital assets, net of related debt | 790,015 |
| Unrestricted | 1,196,419 |
| Total Net Position | $ 1,986,434 |

The accompanying notes are an integral part of these financial statements.
See accompanying independent auditors' report.

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 70 - ZONE W-1
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended June 30, 2015

| | Enterprise Fund |
|---|---|
| Operating Revenues | |
| Water sales | $ 386,409 |
| Connection fees | 6,061 |
| Other services | 938 |
| Total Operating Revenues | 393,408 |
| Operating Expenses | |
| Professional services | 989 |
| Salaries and benefits | 162,463 |
| Services and supplies | 458,137 |
| Utilities | 40,478 |
| Other | 13,659 |
| Depreciation | 72,072 |
| Total Operating Expenses | 747,798 |
| Operating Income | (354,390) |
| Nonoperating Revenues (Expenses) | |
| Investment Earnings | 5,602 |
| Interest Expense | (19,958) |
| Special assessments | 97,217 |
| Penalties | 9,631 |
| Other taxes | 256 |
| Property Taxes | 131,990 |
| Other | 6,467 |
| Total Nonoperating Revenue (Expenses) | 231,205 |
| Change in net position | (123,185) |
| Net position at beginning of year, as restated (note 12) | 2,109,619 |
| Net position at end of year | $ 1,986,434 |

The accompanying notes are an integral part of these financial statements.
See accompanying independent auditors' report.

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 70 - ZONE W-1
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2015

| | Enterprise Fund |
|---|---|
| Cash Flows From Operating Activities | |
| Receipts from customers | $ 82,116 |
| Payments to suppliers | (235,620) |
| Payments to employees | (175,102) |
| Net Cash Provided by Operating Activities | (328,606) |
| Cash Flows From Noncapital Financing Activities | |
| Property taxes | 135,836 |
| Special assessments | 104,983 |
| Penalties | 9,631 |
| Other taxes | 256 |
| Other nonoperating revenue | 6,467 |
| Net Cash Provided by Noncapital Financing Activities | 257,173 |
| Cash Flows From Capital and Related Financing Activities | |
| Disposition of capital assets | 325,427 |
| Principal paid on bonds | (70,000) |
| Interest paid on bonds | (20,250) |
| Net Cash Used for Capital and Related Financing Activities | 235,177 |
| Cash Flows From Investing Activities | |
| Investment Earnings | 6,272 |
| Net Cash Provided by Investing Activities | 6,272 |
| Net Decrease in Cash and Cash Equivalents | 170,016 |
| Cash and Cash Equivalents - beginning of the year | 1,183,255 |
| Cash and Cash Equivalents - end of the year | $ 1,353,271 |
| Reconciliation of operating income to net cash used for operating activities: | |
| Operating Income | $ (354,390) |
| Adjustments to reconcile operating income to net cash used for operating activities: | |
| Depreciation expense | 72,072 |
| Change in assets and liabilities: | |
| Decrease in accounts receivable, net | 50,436 |
| Decrease in accounts payable | (102,011) |
| Increase in due to other funds | 386,779 |
| Increase in due from other funds | (360,128) |
| Decrease in retentions payable | (7,125) |
| Decrease in customer deposits | (1,600) |
| Decrease in net pension liability, net of deferred outflows and inflows | (12,639) |
| Net Cash Provided by Operating Activities | $ (328,606) |

The accompanying notes are an integral part of these financial statements.
See accompanying independent auditors' report.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the County of San Bernardino Special District County Service Area No.70 – Zone W-1 conform to generally accepted accounting principles as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

**Reporting Entity**

The County Service Area (CSA) No. 70, Improvement Zone W-1, Goat Mountain, was established by an act of the Board of Supervisors of the County of San Bernardino (the County) on November 5, 1973 under Section 4700 of the State Health & Safety Code. It is located 10 miles north of Yucca Valley in the Landers area. It provides water services for 646 properties and maintains 3 wells, 2 booster stations and reservoir storage of 420,000 gallons.

The CSA is a component unit of the County of San Bernardino and is governed by the actions of the County Board of Supervisors.

The accompanying financial statements reflect only the accounts of the County Service Area No. 70 Zone W-1 of the County of San Bernardino and are not intended to present the financial position of the County taken as a whole.

Because the CSA meets the reporting entity criteria established by the Governmental Accounting Standards Board (GASB), the CSA's financial statements have also been included in the Comprehensive Annual Financial Report of the County as a "component unit" for the fiscal year ended June 30, 2015.

**Measurement focus, basis of accounting, and financial statements presentation**

The CSA's 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.

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. All other revenue items are considered to be measurable and available only when cash is received by the government.

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

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. Operating expenses for enterprise funds includes the cost of sales and services, administrative expenses, and depreciation on capital assets.

All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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 Investments**

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

**Receivables and payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (e.g., the current portion of interfund loans) or “advances to/from other funds” (e.g., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

No allowance for uncollectibles was recorded at June 30, 2014 based on management’s expectation that all accounts receivable will be collected through the property tax roll.

**Property Taxes**

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

**Inventories and prepaid items**

Inventories, if any, are valued at cost using the fist-in/first-out method.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

**Capital assets**

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

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend assets’ lives are not capitalized.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Capital assets (continued)**

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

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

| Assets | Years |
|---|---|
| Structure and improvements | 5-40 |
| Equipment and vehicles | 4-15 |

**Long-Term Debt and Interest Payable**

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

In the Government-Wide Financial Statements, interest payable on long-term debt is recognized as the liability is incurred for governmental activities and business-type activities. In the Fund Financial Statements, only propriety fund types recognize the interest payable when the liability is incurred.

**Deferred Outflows/ Inflows of Resources**

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

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds of the balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

**Net Position Flow Assumption**

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Net Position Flow Assumption (continued)**

financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

In the Government-Wide Financial Statements, net position are classified in the following categories: Net Investment in Capital Assets consists of capital assets net of accumulated depreciation and reduced by outstanding debt that attributed to the acquisition, construction, or improvement of the assets.

Restricted Net position are restricted by external creditors, grantors, contributors, laws or regulations of other governments. Unrestricted Net position is all net position that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net position."

**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.

**Pensions**

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

**Stewardship, compliance and accountability**

A. Budgetary information

Although the CSA prepares and adopts an annual budget, budgetary information is not presented because the CSA is not legally required to adopt a budget.

**New Accounting Pronouncements**

The District adopted Statement on Governmental Accounting Standards (GASB Statement) No. 68, *Accounting and Financial Reporting for Pensions,* GASB Statement No. 69 *Government Combinations and Disposals of Government Operations, and* GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date.*

Note 2: CASH AND INVESTMENTS

Cash, cash equivalents, and investments include balances of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the CSA's account based upon the CSA's average daily deposit balance during the allocation period. Cash, cash equivalents, and investments are shown at the fair value as of June 30, 2015. Changes in fair value that occur during a fiscal year are recognized as *investment earnings* reported for that fiscal year. *Investment earnings* reports interest earnings, changes in

Note 2: CASH AND INVESTMENTS (continued)

fair value, and any gains or losses realized upon the liquidation, maturity, or sale of investments. The County's practice is to hold investments until maturity.

See the County of San Bernardino's Comprehensive Annual Financial Report (CAFR) for details of their investment policy and disclosures related to investment credit risk, concentration of credit risk, interest rate risk and custodial credit risk, as required by GASB Statement No. 40.

Note 3: ACCOUNTS RECEIVABLE

At June 30, 2015, the accounts receivable balance was composed of the following:

| | |
|---|---|
| Accounts receivable | $ 41,333 |
| Less: allowance for uncollectible | - |
| Total accounts receivable, net | $ 41,333 |

Note 4: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015 was as follows:

| | Beginning Balance | Additions | Deletions | Ending Balance |
|---|---|---|---|---|
| Capital assets, not being depreciated: | | | | |
| Land | $ 3,500 | $ - | $ - | $ 3,500 |
| Construction in progress | 401,151 | - | (401,151) | - |
| Total capital assets, not being depreciated | 404,651 | - | (401,151) | 3,500 |
| Capital assets, being depreciated: | | | | |
| Improvements to land | 2,627,381 | 75,724 | - | 2,703,105 |
| Structures and improvements | 109,058 | - | - | 109,058 |
| Vehicles | 82,936 | - | - | 82,936 |
| Total capital assets, being depreciated | 2,819,375 | 75,724 | - | 2,895,099 |
| Less accumulated depreciation for: | | | | |
| Improvements to land | (1,607,162) | (62,719) | - | (1,669,881) |
| Structures and improvements | (24,408) | (3,116) | - | (27,524) |
| Vehicles | (69,942) | (6,237) | - | (76,179) |
| Total accumulated depreciation | (1,701,512) | (72,072) | - | (1,773,584) |
| Total capital assets, being depreciated, net | 1,117,863 | 3,652 | - | 1,121,515 |
| Total capital assets, net | $ 1,522,514 | $ 3,652 | $ (401,151) | $ 1,125,015 |

Note 5: BONDS PAYABLE

County Service Area No. 70, Zone W-1 sold bonds during fiscal years 1978-79 and 1979-80 to provide construction capital. The bonds were issued at 5% interest, and all bonds are scheduled to be paid by December 1, 2019. The following is a schedule of debt service requirements to maturity as of June 30, 2015 for the CSA's bonds payable.

| Year ending June 30 | Zone W-1 | |
|---|---|---|
| | Principal | Interest |
| 2016 | $ 75,000 | $ 16,750 |
| 2017 | 80,000 | 13,000 |
| 2018-2019 | 180,000 | 94,750 |
| Total | $ 335,000 | $ 112,800 |

**Change in long-term liabilities**

Long-term liability activity for the year ended June 30, 2015, was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|
| Bonds Payable | $ 405,000 | $ - | $ (70,000) | $ 335,000 | $ 75,000 |

Note 6: MOJAVE WATER AGENCY OPERATING LEASE

On March 11, 1991, CSA 70, Zone W-1 entered into a noncancelable operating lease agreement 91-166. Zone W-1 agreed to pay lease payments to Mojave Water Agency as a 4% participant in the Morongo Basin Pipeline. The lease payments are comprised of a fixed portion to cover debt on the water project and a variable portion for Operating and Maintenance costs. On March 7, 1995, Amendment A-1 was added to agreement 91-166. Amendment A-1 reduced the participation rate on Zone W-1 to 1% from 4%. The total lease payments made for the year ended June 30, 2015 was $8,133. The lease payments are reflected as operating expenses in the Statement of Revenues, Expenses and Changes in Net Assets. The future minimum lease payments for the lease are as follows:

| Year Ending June 30 | Zone W-1 |
|---|---|
| 2016 | $ 8,127 |
| 2017 | 8,144 |
| 2018-2022 | 33,684 |
| Total | $ 49,955 |

Note 7: RETIREMENT PLAN

*Plan Description.* Employees of the District participate in the County of San Bernardino’s (County) cost-sharing multiple-employer defined benefit retirement plan (the Plan) administered by the San Bernardino County Employee's Retirement Association (SBCERA). The Plan is governed by the San Bernardino Board of Retirement (Board) under the California County Employees’ Retirement Law of 1937 (CERL) and the California Public Employees’ Pension Reform Act of 2013 (PEPRA). The Plan’s authority to establish and amend the benefit terms are set by the CERL and PEPRA, and may be amended by the California state legislature and in some cases require approval by the County of San Bernardino Board of Supervisors and/or the SBCERA Board. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W. Hospitality Lane, 3rd Floor, San Bernardino, California 92415-0014.

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

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

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

*Contributions.* Participating employers and active members, including the District and the District’s employees, are required by statute to contribute a percentage of covered salary to the Plan. This requirement is pursuant to Government Code sections 31453.5 and 31454, for participating employers and Government Code sections 31621.6, 31639.25 and 7522.30 for active members. The contribution requirements are established and may be amended by the SBCERA Board pursuant to Article 1 of the CERL, which is consistent with the Plan’s actuarial funding policy. The contribution rates are adopted

Note 7: RETIREMENT PLAN (continued)

yearly, based on an annual actuarial valuation, conducted by an independent actuary, that requires actuarial assumptions with regard to mortality, expected future service (including age at entry into the Plan, if applicable and tier), and compensation increases of the members and beneficiaries. The combined active member and employer contribution rates are expected to finance the costs of benefits for employees that are allocated during the year, with an additional amount to finance any unfunded accrued liability. Participating employers may pay a portion of the active members' contributions through negotiations and bargaining agreements.

Employee contribution rates for the fiscal year ended June 30, 2015 ranged between 7.07% and 13.52% for Tier 1 General members and between 6.37% and 7.88% for Tier 2 General members.

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

At June 30, 2015, the District's reported a liability of $106,268 for its proportionate share of the County's net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the County's net pension liability was based on the District's FY 2014 actual contributions to the County's pension plan relative to the total contributions of the County as a whole.

At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| Deferred Outflows of Resources * | Deferred Inflows of Resources ** |
|---|---|
| $ 18,855 | $ (62,609) |

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

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

The $18,855 reported as deferred outflows of resources related to pensions, resulting from the District's contributions to the County's plan subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

See the County of San Bernardino's Comprehensive Annual Financial Report (CAFR) for details of their pension liabilities, pension expense, deferred outflows and inflows of resources related to pensions, actuarial assumptions, and discount rates, for the current year and two preceding years computed in accordance with GASB 68, *Accounting and Reporting for Pension Plans*, for the year ended June 30, 2015.

Note 8: FEDERAL AND STATE GRANTS

From time to time the District may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

Note 9: RISK MANAGEMENT

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability, and workers' compensation claims. Public liability claims are self-insured for up to $3.0 million per occurrence. Excess insurance coverage over the Self-Insured Retention (SIR) up to $57 million is provided through a combination of insurance policies as recommended by Arthur J. Gallagher & Co., Broker of Record, as follows: Primary Liability coverage $6 million excess of $3.0 million self-insured retention with Lloyd’s (Brit Syndicated 2987 – 100%) and Gemini Insurance Co.; Excess Liability coverage for $11 million, excess of $6 million with National Casualty Co.; and Excess Liability coverage of $15 million, excess of $17 million with Allied World Assurance Co. In addition, Great American Assurance Co. provides excess liability coverage of $25 million, excess of $32 million. No settlements related to these programs have exceeded insurance coverage in the last three years.

The Workers' Compensation program was restructured to include a cash flow SIR that applies per accident/per payment year as follows: $2.0 million 1st year; $1.25 million 2nd year; $600 thousand 3rd year and each year thereafter, with coverage provided by State National Insurance Co. for up to $3 million for employer’s liability, and up to $150 million limits for workers’ compensation per occurrence. Property damage claims are insured on an occurrence basis over a $25 thousand deductible, and insured through CSAC-EIA (California State Association of Counties – Excess Insurance Authority) and reinsured with Lexington Insurance Co. and with several insurers like AWAC, Ironshore, Partner RE, and Lloyd’s of London, among others.

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

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

The activities related to such programs are accounted for in the Risk Management Department’s internal service funds (“Funds”), except for unemployment insurance, and employee dental insurance, which are accounted for in the General Fund. The liabilities recorded in these Funds are based on the results of actuarial studies and include amounts for allocated and unallocated loss adjustment expenses. The liabilities for these claims are reported using a discounted rate of 0.324% and an actuarially-determined 80% confidence level. It is the County’s practice to obtain actuarial studies on an annual basis.

The total claims liability of $232.10 million reported at June 30, 2015 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

Note 9: RISK MANAGEMENT (continued)

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.

See the County of San Bernardino's Comprehensive Annual Financial Report (CAFR) for details of their claims liability in accordance with GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, at June 30, 2015.

Note 10: CONTINGENCIES

As of June 30, 2015, in the opinion of the CSA Administration, there are no outstanding matters, which would have a significant effect on the financial position of the CSA.

Note 11: PROPOSITION 111 APPROPRIATION LIMITS

Proposition 111, which added Article XIIIB to the State Constitution, established limits on budget appropriations in order to restrict government spending. Management has reviewed the proceeds of taxes received by the CSA during the 2014-2015 fiscal year, and believes the revenue to be in accordance with the guidelines established by Proposition 111.

Note 12: RESTATEMENT OF FINANCIAL POSITION

The following schedule summarizes the effects of the prior period adjustment to the Government-wide Statements.

Government-wide:

| | Business-type Activities |
|---|---|
| Net position at June 30, 2014, as previously reported | $ 2,272,280 |
| Adjustment to record GASB 68 pension liability | (162,661) |
| Net position as July 1, 2014, as restated | $ 2,109,619 |

Note 13: SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 2, 2015, which is the date the financial statements were available to be issued, and has determined that there are no transactions that will have a significant impact on the CSA.