

San Bernardino County
Department of Public Works - Special Districts
County Service Area No. 64 Spring Valley Lake

FINANCIAL STATEMENTS

JUNE 30, 2023

San Bernardino County
Department of Public Works - Special Districts
County Service Area No. 64 Spring Valley Lake

Basic Financial Statements
For the Year Ended June 30, 2023

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Independent Auditor's Report

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San Bernardino County
Department of Public Works-Special Districts
County Service Area No. 64 Spring Valley Lake

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Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the business-type activities of the San Bernardino County- Department of Public Works-Special Districts County Service Area No. 64 Spring Valley Lake (CSA), a component unit of San Bernardino County, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the CSA's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the business-type activities of the CSA, as of June 30, 2023, and the respective changes in financial position and cash flows thereof for the fiscal 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS), the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the State Controller's *Minimum Audit Requirements for California Special Districts*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the CSA and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the CSA and do not purport to, and do not present fairly the financial position of San Bernardino County, as of June 30, 2023, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

The CSA's 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the CSA's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 CSA's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the CSA's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control -related matters that we identified during the audit.

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 10, 2024 on our consideration of the CSA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering San Bernardino County Department of Public Works-Special Districts County Service Area No. 64 Spring Valley Lake's internal control over financial reporting and compliance.

Rogers, Anderson, Malody & Scott, LLP.

San Bernardino, California
April 10, 2024

*San Bernardino County
Department of Public Works - Special Districts
County Service Area No. 64 Spring Valley Lake*

**Statement of Net Position
Proprietary Funds
June 30, 2023**

	Enterprise Funds		Total
	Sewer	Water	
ASSETS			
Current assets:			
Cash and investments	\$ 11,435,443	\$ 8,345,315	\$ 19,780,758
Accounts receivable, net	271,871	568,363	840,234
Taxes receivable	663	16,843	17,506
Due from County special districts	1,225	-	1,225
Total current assets	<u>11,709,202</u>	<u>8,930,521</u>	<u>20,639,723</u>
Noncurrent assets:			
Capital assets, not depreciated	202,472	382,520	584,992
Capital assets, net of depreciation	445,478	3,921,097	4,366,575
Total noncurrent assets	<u>647,950</u>	<u>4,303,617</u>	<u>4,951,567</u>
Total assets	<u>12,357,152</u>	<u>13,234,138</u>	<u>25,591,290</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension	<u>273,223</u>	<u>239,772</u>	<u>512,995</u>
Total deferred outflows of resources	<u>273,223</u>	<u>239,772</u>	<u>512,995</u>
LIABILITIES			
Current liabilities:			
Accounts payable	2,642	58,822	61,464
Matured unredeemed bonds payable	30,000	-	30,000
Interest payable on matured unredeemed bonds	20,780	-	20,780
Due to other governments	486,409	-	486,409
Due to County special districts	196,161	119,531	315,692
Customer deposits	-	25,819	25,819
Total current liabilities	<u>735,992</u>	<u>204,172</u>	<u>940,164</u>
Long-term liabilities:			
Net pension liability	498,231	437,232	935,463
Total long-term liabilities	<u>498,231</u>	<u>437,232</u>	<u>935,463</u>
Total liabilities	<u>1,234,223</u>	<u>641,404</u>	<u>1,875,627</u>
DEFERRED INFLOWS OF RESOURCES			
Pension	<u>127,432</u>	<u>111,830</u>	<u>239,262</u>
Total deferred inflows of resources	<u>127,432</u>	<u>111,830</u>	<u>239,262</u>
NET POSITION			
Net investment in capital assets	597,170	4,303,617	4,900,787
Unrestricted	10,671,550	8,417,059	19,088,609
Total net position	<u>\$ 11,268,720</u>	<u>\$ 12,720,676</u>	<u>\$ 23,989,396</u>

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

San Bernardino County
Department of Public Works - Special Districts
County Service Area No. 64 Spring Valley Lake

Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2023

	Enterprise Funds		Total
	Sewer	Water	
OPERATING REVENUES			
Sanitation services	\$ 2,579,634	\$ 6,808	\$ 2,586,442
Water sales	-	2,036,684	2,036,684
Permit and inspection fees	1,725	2,702	4,427
Connection fees	249,485	34,906	284,391
Charges for services	8,858	27,147	36,005
Other services	3,873	78,052	81,925
Total operating revenues	<u>2,843,575</u>	<u>2,186,299</u>	<u>5,029,874</u>
OPERATING EXPENSES			
Salaries and benefits	170,907	626,458	797,365
Services and supplies	726,527	726,927	1,453,454
Utilities	1,250,978	580,877	1,831,855
Depreciation	43,054	282,515	325,569
Total operating expenses	<u>2,191,466</u>	<u>2,216,777</u>	<u>4,408,243</u>
Operating income (loss)	<u>652,109</u>	<u>(30,478)</u>	<u>621,631</u>
NON-OPERATING REVENUE (EXPENSES)			
Property taxes	139	595,936	596,075
Special assessments	10,640	36,058	46,698
Investment earnings	179,200	134,802	314,002
State assistance	-	5,041	5,041
Penalties	36,013	51,753	87,766
Other revenues	11,704	10,831	22,535
Total non-operating revenues	<u>237,696</u>	<u>834,421</u>	<u>1,072,117</u>
Change in net position	889,805	803,943	1,693,748
Net position, beginning	<u>10,378,915</u>	<u>11,916,733</u>	<u>22,295,648</u>
Net position, ending	<u>\$ 11,268,720</u>	<u>\$ 12,720,676</u>	<u>\$ 23,989,396</u>

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

*San Bernardino County
Department of Public Works - Special Districts
County Service Area No. 64 Spring Valley Lake*

**Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2023**

	Sewer Fund	Water Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers and others	\$ 2,794,424	\$ 2,290,865	\$ 5,085,289
Cash payments to suppliers for goods and services	(1,558,767)	(1,458,027)	(3,016,794)
Cash payments to employees for services	(252,402)	(698,103)	(950,505)
Net cash provided by operating activities	<u>983,255</u>	<u>134,735</u>	<u>1,117,990</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Property taxes	865	597,042	597,907
Special assessments	10,640	36,058	46,698
State assistance	-	5,041	5,041
Penalties	36,013	51,753	87,766
Other revenues	11,704	10,831	22,535
Net cash provided by noncapital financing activities	<u>59,222</u>	<u>700,725</u>	<u>759,947</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Cash paid for capital assets	(36,374)	(107,955)	(144,329)
Net cash used for capital and related financing activities	<u>(36,374)</u>	<u>(107,955)</u>	<u>(144,329)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest earnings	239,640	182,717	422,357
Change in fair value	(60,440)	(47,915)	(108,355)
Net cash provided by investing activities	<u>179,200</u>	<u>134,802</u>	<u>314,002</u>
Net increase in cash and investments	1,185,303	862,307	2,047,610
Cash and investments, beginning	10,250,140	7,483,008	17,733,148
Cash and investments, ending	<u>\$ 11,435,443</u>	<u>\$ 8,345,315</u>	<u>\$ 19,780,758</u>
Financial statement presentation			
Cash and investments	\$ 11,435,443	\$ 8,345,315	\$ 19,780,758
Total cash and investments	<u>\$ 11,435,443</u>	<u>\$ 8,345,315</u>	<u>\$ 19,780,758</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income (loss)	\$ 652,109	\$ (30,478)	\$ 621,631
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation expense	43,054	282,515	325,569
(Increase) decrease in accounts receivable	(49,151)	104,566	55,415
(Increase) decrease in due to County special districts	(1,225)	-	(1,225)
Increase (decrease) in customer deposits	-	4,800	4,800
Increase (decrease) in accounts payable	(7,663)	(64,808)	(72,471)
Increase (decrease) in due to other governments	334,615	-	334,615
Increase (decrease) in due to County special districts	93,011	(90,215)	2,796
Increase (decrease) in net pension liability, net of deferred outflows and inflows	(81,495)	(71,645)	(153,140)
Net cash provided by operating activities	<u>\$ 983,255</u>	<u>\$ 134,735</u>	<u>\$ 1,117,990</u>

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

*San Bernardino County
Department of Public Works - Special Districts
County Service Area No. 64 Spring Valley Lake*

**Notes to the Financial Statements
June 30, 2023**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the San Bernardino County Department of Public Works - Special District County Service Area No. 64 Spring Valley Lake (the District) conform to generally accepted accounting principles as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Reporting Entity

The District was established on December 30, 1968 by an act of the Board of Supervisors of the San Bernardino County (the County) to provide sewer and water services. County Service Area No. 64 Spring Valley Lake currently provides sewer services to approximately 4,200 equivalent dwelling units (EDU's) and maintains 3 lift stations. CSA 64 Spring Valley Lake also provides water services to approximately 3,800 customers and maintains 5 wells, 1 booster station and 3 water tanks.

The CSA is a component unit of the County. Component units are legally separate organizations for which the Board is financially accountable or other organizations whose nature and significant relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and either (1) the County has the ability to impose its will on the organization, or (2) there is a potential for the organization to provide a financial benefit to or impose a financial burden on the County.

The accompanying financial statements reflect only the accounts of the CSA 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 Annual Comprehensive Financial Report of the County as a "component unit" for the fiscal year ended June 30, 2023.

Measurement Focus, Basis of Accounting and Financial Statements Presentation

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

San Bernardino County
Department of Public Works - Special Districts
County Service Area No. 64 Spring Valley Lake

Notes to the Financial Statements
June 30, 2023

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting and Financial Statements Presentation
(Continued)

The principal operating revenues of the CSA's enterprise funds are charges to customers for water sales and sanitation services. Operating expenses for enterprise funds include the cost of salaries and benefits, services and supplies, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

The San Bernardino County Special Districts Department allocates the cost of salaries and benefits, compensated absences, administrative services, and management services to the CSA. These costs are presented on the financial statements as salaries and benefits, an operating expense.

The government reports the following types of major funds:

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

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

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

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

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.

*San Bernardino County
 Department of Public Works - Special Districts
 County Service Area No. 64 Spring Valley Lake*

**Notes to the Financial Statements
 June 30, 2023**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Receivables

Accounts receivable as of June 30, 2023 are presented net of allowance for uncollectibles in the amount of:

Business-type Activities	Sewer Funds	Water Funds
<u>\$ (205,588)</u>	<u>\$ (68,515)</u>	<u>\$ (137,073)</u>

Property Taxes

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

Capital Assets

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

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvement are capitalized as projects are constructed. Property, plant and equipment of the government are depreciated using the straight- line method over the following estimated useful lives:

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

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.

*San Bernardino County
Department of Public Works - Special Districts
County Service Area No. 64 Spring Valley Lake*

**Notes to the Financial Statements
June 30, 2023**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position

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

- *Net investment in capital assets* - This component of net position 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 position consists of constraints placed on net asset use through external constraints imposed by creditors, grantors, contributions, or laws or regulations of other governments or constraints imposed by law through constitutional provision or enabling legislation.
- *Unrestricted* - This component of net position consists of net position of the CSA that are not restricted for any project or other purpose.

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

Stewardship, Compliance and Accountability

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.

*San Bernardino County
Department of Public Works - Special Districts
County Service Area No. 64 Spring Valley Lake*

**Notes to the Financial Statements
June 30, 2023**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-term Debt and Interest Payable

Long-term debt and other long-term obligations are reported as liabilities in the appropriate activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are immediately expensed when incurred in accordance with GASB No. 65.

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

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

Pension Plan

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the CSA's portion of the San Bernardino County Employees' Retirement Association (SBCERA) (the 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, employer and employee contributions are recognized in the period the related salaries are earned and become measurable pursuant to formal commitments, statutory or contractual requirements, benefit payments, (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms, and investments are reported at fair value. SBCERA Audited financial statements are publicly available reports that can be obtained at SBCERA's website at www.sbcera.org.

Valuation Date	June 30, 2022
Measurement Date	June 30, 2022
Measurement Period	July 1, 2021 to June 30, 2022

*San Bernardino County
Department of Public Works - Special Districts
County Service Area No. 64 Spring Valley Lake*

**Notes to the Financial Statements
June 30, 2023**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 assets 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 assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

NOTE 2: CASH AND INVESTMENTS

Cash and investments include balances of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the CSA's account based upon the CSA's average daily deposit balance during the allocation period. Cash and investments are shown at the fair value as of June 30, 2023. Changes in fair value that occur during a fiscal year are recognized as *investment earnings* reported for that fiscal year. *Investment earnings* reports interest earnings, changes in fair value, and any gains or losses realized upon the liquidation, maturity, or sale of investments. The County's practice is to hold investments until maturity.

See the San Bernardino County's Annual Comprehensive Financial Report (ACFR) for details of their investment policy and disclosures related to investment credit risk, concentration of credit risk, interest rate risk and custodial credit risk, as required by GASB Statement No. 40, and fair value hierarchy disclosures required by GASB Statement No. 72. The San Bernardino County's ACFR may be obtained from their website <https://www.sbcountyatc.gov/Services/Documents>.

*San Bernardino County
Department of Public Works - Special Districts
County Service Area No. 64 Spring Valley Lake*

**Notes to the Financial Statements
June 30, 2023**

NOTE 3: CAPITAL ASSETS

Capital asset activity during the year ended June 30, 2023 was as follows:

Sewer:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 10,000	\$ -	\$ -	\$ 10,000
Development in progress	156,098	36,374	-	192,472
Total capital assets, not being depreciated	<u>166,098</u>	<u>36,374</u>	<u>-</u>	<u>202,472</u>
Capital assets, being depreciated:				
Improvements to land	4,050,223	-	-	4,050,223
Structures and improvements	218,810	-	-	218,810
Equipment and vehicles	110,322	-	-	110,322
Total capital assets, being depreciated	<u>4,379,355</u>	<u>-</u>	<u>-</u>	<u>4,379,355</u>
Less accumulated depreciation for:				
Improvements to land	(3,703,646)	(30,837)	-	(3,734,483)
Structures and improvements	(92,791)	(4,863)	-	(97,654)
Equipment and vehicles	(94,386)	(7,354)	-	(101,740)
Total accumulated depreciation	<u>(3,890,823)</u>	<u>(43,054)</u>	<u>-</u>	<u>(3,933,877)</u>
Total capital assets, being depreciated, net	<u>488,532</u>	<u>(43,054)</u>	<u>-</u>	<u>445,478</u>
Total capital assets, net	<u>\$ 654,630</u>	<u>\$ (6,680)</u>	<u>\$ -</u>	<u>\$ 647,950</u>

Water:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 71,000	\$ -	\$ -	\$ 71,000
Development in progress	203,565	107,955	-	311,520
Total capital assets, not being depreciated	<u>274,565</u>	<u>107,955</u>	<u>-</u>	<u>382,520</u>
Capital assets, being depreciated:				
Improvements to land	7,591,622	-	-	7,591,622
Structures and improvements	56,290	-	-	56,290
Utility plant in-service	369,760	-	-	369,760
Total capital assets, being depreciated	<u>8,017,672</u>	<u>-</u>	<u>-</u>	<u>8,017,672</u>
Less accumulated depreciation for:				
Improvements to land	(3,552,328)	(274,299)	-	(3,826,627)
Structures and improvements	(56,290)	-	-	(56,290)
Utility plant in-service	(205,442)	(8,216)	-	(213,658)
Total accumulated depreciation	<u>(3,814,060)</u>	<u>(282,515)</u>	<u>-</u>	<u>(4,096,575)</u>
Total capital assets, being depreciated, net	<u>4,203,612</u>	<u>(282,515)</u>	<u>-</u>	<u>3,921,097</u>
Total capital assets, net	<u>\$ 4,478,177</u>	<u>\$ (174,560)</u>	<u>\$ -</u>	<u>\$ 4,303,617</u>

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**Notes to the Financial Statements
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NOTE 4: MATURED AND UNREDEEMED BONDS AND INTEREST PAYABLE

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

	Beginning Balance	Additions	Deletions	Ending Balance
Matured unredeemed bonds	\$ 30,000	\$ -	\$ -	\$ 30,000
Matured interest	20,780	-	-	20,780
Total short-term debt	<u>\$ 50,780</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 50,780</u>

In 1972, 1974, 1982, and 1990 the County’s Board of Supervisors approved the issuance of Series A, Series B, Series C, and Series D General Obligation Bonds, respectively, to finance the acquisition of water and sewer facilities within the County Service No. 64 Spring Valley Lake. Authority for the issuance of the bonds is provided under the County Service Area Law, Section 2521.1 et seq. of the California Government Code.

Series A bonds matured in the fiscal year ending June 30, 2002, Series B bonds matured in the fiscal year ending June 30, 2004, Series C Bonds matured in the fiscal year ending June 30, 1997, and Series D bonds matured in the fiscal year ending June 30, 2000. As of June 30, 2023, the CSA had Matured and Unredeemed Bonds Payable of \$30,000 and Interest Payable of \$20,780 from the Series A, Series C, and Series D issuances.

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**Notes to the Financial Statements
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NOTE 5: WATER REPLACEMENT EXPENDITURES

For purposes of defining and implementing a physical solution to the high desert's overdraft of the Mojave Basin Area, a Watermaster was appointed by Riverside County Superior Court in 1996 to oversee the adjudicated area. The CSA is within a subarea included in the 1996 judgment. If the downstream subarea obligation is not met, producers of water in the upstream Mojave Basin Area then must provide supplemental water to the downstream subarea. To maintain proper water balances within each subarea, the judgment established a Free Production Allowance (FPA) and provides for the Court to review as appropriate. All water produced in excess of the FPA must be replaced through supplemental water, or by transfer of unused FPA from another producer at a cost per acre foot. This action has resulted in quarterly reports that are verified by the Watermaster. This action also resulted in makeup and replacement obligations determined annually by the Watermaster. All makeup and replacement obligations result in supplemental water purchases from the Mojave Water Agency and private water purveyors.

NOTE 6: RELATED-PARTY TRANSACTIONS

The Victor Valley Wastewater Reclamation Authority (VWVRA) is a Joint Powers Authority, and the CSA is represented on the VWVRA board by the First Supervisorial District. The CSA collects fees on behalf of VWVRA from new development to connect to the sewer system, and pays the VWVRA for sewage treatment fees. For fiscal year 2023, sewage connection fees incurred were \$200,027 and sewage treatment fees incurred were \$971,406 for total fees incurred of \$1,071,434. As of June 30, 2023, \$486,409 of treatment fees was due to the VWVRA and was recorded as due to other governments on the statement of net position.

NOTE 7: RETIREMENT PLAN

Plan Description. Employees of the CSA participate in the San Bernardino County'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 San Bernardino County 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.

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**Notes to the Financial Statements
 June 30, 2023**

NOTE 7: RETIREMENT PLAN (Continued)

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

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

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**Notes to the Financial Statements
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NOTE 7: RETIREMENT PLAN (Continued)

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

Employee contribution rates for the fiscal year ended June 30, 2023 ranged between 9.54% and 15.19% for Tier 1 General members and was 9.08% for Tier 2 General members.

Employer contribution rates for fiscal year ended June 30, 2023 were 27.17% and 24.03% for Tier 1 and Tier 2, respectively.

Actuarial Assumptions and Discount Rates

See the San Bernardino County's Annual Comprehensive Financial Report (ACFR) for details of actuarial assumptions and discount rates for the year ended June 30, 2023.

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

The following presents the CSA's proportionate share of the net pension liability of the Plan as of the measurement date, calculated using the discount rate of 7.25 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.25 percent) or 1 percentage-point higher (8.25 percent) than the current rate:

1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
\$ 2,007,025	\$ 935,463	\$ 59,010

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**Notes to the Financial Statements
 June 30, 2023**

NOTE 7: RETIREMENT PLAN (Continued)

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

At June 30, 2023, the CSA reported a liability of \$935,463 which represents 18.08% of the San Bernardino County Special District's proportionate share of the County's net pension liability. The CSA's proportion was allocated based on FY 2023 total salaries and benefits relative to the total salaries and benefits of the San Bernardino County Special Districts as a whole.

The CSA's proportionate share of the County's net pension liability was based on its contributions to the pension plan relative to the County's contributions for FY 2022 as a whole. The County's net pension liability was allocated by SBCERA based on the actual employer contributions in each cost group.

The Plan's net pension liability was measured as of June 30, 2022 based upon the results of an actuarial valuation as of the same date. Plan fiduciary net position and the total pension liability were valued as of the measurement dates.

Pension benefit recognized amounted to \$144,201 for the year ended June 30, 2023.

At June 30, 2023, the CSA 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**
<u>\$ 512,995</u>	<u>\$ 239,262</u>

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

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

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**Notes to the Financial Statements
 June 30, 2023**

NOTE 7: RETIREMENT PLAN (Continued)

**Pension Liabilities, Pension Expense/Benefit and Deferred Outflows of Resources and
 Deferred Inflows of Resources Related to Pensions (Continued)**

The deferred outflows of resources related to pensions, resulting from the CSA’s contributions to the plan subsequent to the measurement date of \$248,282 will be recognized as a reduction of the net pension liability in the following year. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in future pension expense as follows:

Year Ended June 30,	Deferred Inflows/Outflows of Resources
2024	\$ 8,005
2025	(9,031)
2026	(98,385)
2027	114,943
2028	9,919

NOTE 8: RISK MANAGEMENT

The County has self-insurance programs for public liability, unemployment insurance, employee dental insurance, property damage, workers’ compensation claims, hospital and medical malpractice liability, environmental liability, and cyber security.

Public liability claims are self-insured for up to \$3 million per occurrence with a one-time corridor retention of \$2 million. Excess insurance coverage over the Self-Insured Retention (SIR) up to \$50 million is provided through a combination of insurance policies as recommended by Alliant Insurance Services Inc., Insurance Broker through PRISM (Public Risk Innovation, Solutions, and Management) as follows:

Primary Liability Coverage:

- \$7 million excess of \$3 million self-insured retention with PRISM; QBE Insurance; and reinsurance provided by ACE American Insurance Company.
- \$5 million, excess of \$10 million with PRISM with quota share reinsurance provided by Great American Insurance Company, Everest Reinsurance Company, Arcadian Risk Capital LRD, and Greenlight Reinsurance LTD.
- \$10 million in excess of \$15 million provided by PRISM with reinsurance provided by Safety National Casualty Corporations.

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**Notes to the Financial Statements
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NOTE 8: RISK MANAGEMENT (Continued)

Secondary Liability Coverage:

- \$10 million in excess of \$25 million with Allied World National Assurance Co.
- \$5 million in excess of \$35 million with Great American Excess & Surplus Co.
- \$10 million in excess of \$40 million with PRISM, reinsured with Munich Reinsurance America, Inc.

The County has excess liability coverage for specified Human Services departments with \$2.5 million coverage in excess of \$500,000 self-insured retention provided by PRISM.

In addition, the actuary has recommended that the County maintains a \$24 million reserve to cover SIR exposure for auto and general liability programs. No settlements related to these programs have exceeded insurance coverage in the last three years.

The Worker's Compensation program continued under the Prism Excess Workers' Compensation Program with a policy of \$2 million SIR and statutory limits with Great American Insurance Co., ACE American Insurance Co., and Liberty Insurance Corp.

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

Environmental claims are expected to occur infrequently but have the potential to be expensive when they do occur. Environmental claims are self-insured up to \$1 million per occurrence, with excess coverage provided through a combination of policies as follows:

- \$10 million per pollution condition and aggregate limits provides by Illinois Union Insurance Company.
- \$15 million for each claim and aggregate limits in excess of \$10 million provided by Tokio Marine Specialty Insurance Company.
- \$25 million for each claim and aggregate limits in excess of \$25 million provided by Fireman's Fund Indemnity Corporation (Allianz).

The County extends environmental coverage to County contractors with a \$25 million per incident and \$25 million aggregate in excess of \$100,000 self-insurance retention.

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**Notes to the Financial Statements
June 30, 2023**

NOTE 8: RISK MANAGEMENT (Continued)

Coverage for data breaches and cyber security breaches are self-insured for \$1.5 million per occurrence with excess coverage provided as follows:

- \$5 million per claim and \$5 million aggregate in excess of \$1.5 million SIR provided by Indian Harbor Insurance Company.
- \$5 million per claim in excess of \$5 million provided by Starr Surplus Lines Insurance.
- \$5 million per claim in excess of \$10 million provided by Liberty Surplus Insurance Corporation.
- \$5 million per claim in excess of \$15 million provided by Berkley Assurance Company.
- \$10 million per claim in excess of \$20 million provided by Lloyd's of London Syndicate.

Property damage claims are insured on an occurrence basis over a \$100,000 deductible through PRISM and reinsured with Fidelis Insurance and several other insurers/reinsurers including Westchester Fire Insurance Company, Aspen Specialty Insurance Company, Ironshore Indemnity Inc., Munich Reinsurance America, Inc., and several other insurance companies.

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 Insurance Company or Pittsburgh, PA with a \$100 thousand deductible and excess limits up to \$5 million per occurrence.

The claims related to the above referenced programs are accounted for in the Department of Risk Management'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 adjustments expenses. The liabilities for these claims are reported using a discounted rate of 0.79% and an actuarially determined 80% confidence level. It is the County's practice to obtain actuarial studies on an annual basis.

See the San Bernardino County's Annual Comprehensive Financial Report (ACFR) for details of their claims liability at June 30, 2023.

NOTE 9: CONTINGENCIES

As of June 30, 2023, 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.