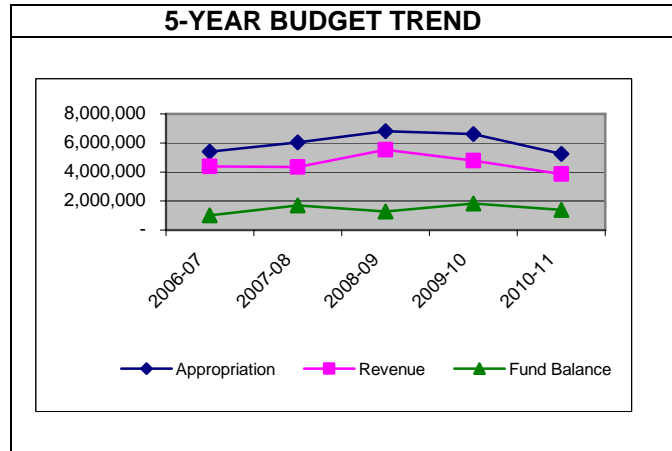


## Crestline Sanitation District

### DESCRIPTION OF MAJOR SERVICES

Crestline Sanitation District (CSD) provides sewage collection, treatment and disposal services for 5,322 Equivalent Dwelling Units (EDU). The District also operates and maintains three treatment plants and 100 miles of sewer line. The District does not utilize an Advisory Commission or Municipal Advisory Council (MAC).

### BUDGET HISTORY



### PERFORMANCE HISTORY

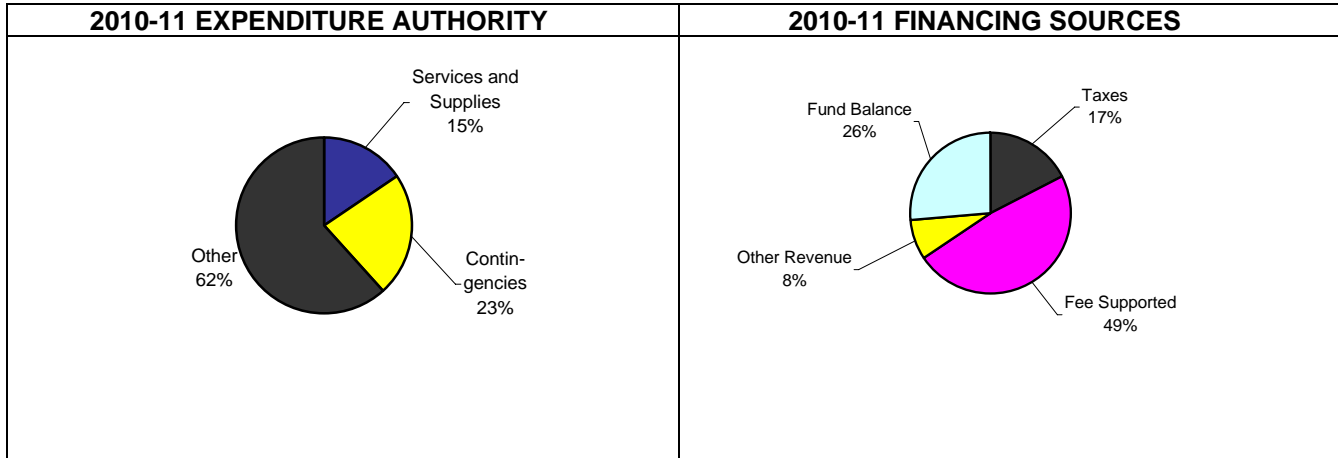
	<b>2006-07 Actual</b>	<b>2007-08 Actual</b>	<b>2008-09 Actual</b>	<b>2009-10 Modified Budget</b>	<b>2009-10 Estimate</b>
Appropriation	4,010,024	3,821,628	5,006,213	6,610,243	4,574,287
Departmental Revenue	4,705,310	3,403,754	5,543,380	4,786,011	4,133,407
Fund Balance				1,824,232	

Estimated appropriation for 2009-10 is less than modified budget primarily due to savings in services and supplies from lower than anticipated fuel costs and use of professional services for engineering studies and sludge hauling; savings in equipment purchases; and unused contingencies.

Estimated departmental revenue for 2009-10 is less than modified budget primarily due to a combination of receipt of unbudgeted property tax revenue; lower than anticipated operating transfers in from unprocessed transfers for operations and maintenance support; and partial transfers in for capital improvement projects.



**ANALYSIS OF RECOMMENDED BUDGET**



**GROUP:** Public and Support Services  
**DEPARTMENT:** Special Districts  
**FUND:** Crestline Sanitation

**BUDGET UNIT:** EGS 685  
**FUNCTION:** Operating  
**ACTIVITY:** Sanitation

	2006-07 Actual	2007-08 Actual	2008-09 Actual	2009-10 Estimate	2009-10 Adopted Budget	2010-11 Recommended Budget	Change From 2009-10 Adopted Budget
<b>Appropriation</b>							
Services and Supplies	664,544	634,308	685,357	775,505	990,327	806,309	(184,018)
Central Services	110	88	86	75	75	71	(4)
Travel	-	-	3,883	1,500	3,600	3,600	-
Other Charges	107,975	107,975	107,975	107,975	107,975	107,975	-
Equipment	52,600	24,584	8,602	74,594	101,000	-	(101,000)
Transfers	2,189,731	2,352,025	2,285,240	2,187,157	2,187,157	2,303,968	116,811
Contingencies	-	-	-	-	1,792,628	1,194,084	(598,544)
<b>Total Appropriation</b>	<b>3,014,960</b>	<b>3,118,980</b>	<b>3,091,143</b>	<b>3,146,806</b>	<b>5,182,762</b>	<b>4,416,007</b>	<b>(766,755)</b>
Operating Transfers Out	995,064	702,648	1,915,070	1,427,481	1,427,481	829,981	(597,500)
<b>Total Requirements</b>	<b>4,010,024</b>	<b>3,821,628</b>	<b>5,006,213</b>	<b>4,574,287</b>	<b>6,610,243</b>	<b>5,245,988</b>	<b>(1,364,255)</b>
<b>Departmental Revenue</b>							
Taxes	-	-	-	911,551	-	911,850	911,850
Use Of Money and Prop	32,203	47,195	28,796	17,605	37,500	18,500	(19,000)
State, Fed or Gov't Aid	115,755	103,109	-	-	-	-	-
Current Services	2,215,306	2,112,409	2,801,109	2,589,124	2,469,236	2,524,311	55,075
Other Revenue	14,226	53,041	7,587	10,127	-	-	-
<b>Total Revenue</b>	<b>2,377,490</b>	<b>2,315,754</b>	<b>2,837,492</b>	<b>3,528,407</b>	<b>2,506,736</b>	<b>3,454,661</b>	<b>947,925</b>
Operating Transfers In	2,327,820	1,088,000	2,705,888	605,000	2,279,275	407,975	(1,871,300)
<b>Total Financing Sources</b>	<b>4,705,310</b>	<b>3,403,754</b>	<b>5,543,380</b>	<b>4,133,407</b>	<b>4,786,011</b>	<b>3,862,636</b>	<b>(923,375)</b>
				Fund Balance	1,824,232	1,383,352	(440,880)

Services and supplies of \$806,309 includes special department expense, utilities, professional and specialized services, maintenance, and other miscellaneous costs and is decreasing by \$184,018 due to a reduction in anticipated expenditures for professional and specialized services, maintenance of equipment, and fuel.

Other charges of \$107,975 represents a debt service payment to the State Water Resources Control Board for an effluent storage reservoir loan.

Equipment is eliminated due to reduced requirements in 2010-11.

Transfers \$2,303,968 is increasing by \$116,811 to offset the additional allocation of management and operations support from CSA 70 Countywide.

Contingencies of \$1,194,084 are decreasing by \$598,544 to fund current year operations.



Operating transfers of \$829,981 represents replacement reserve fund costs and funding set aside for the Huston Creek capital improvement project (CIP) and is decreasing by \$597,500 due to reduced CIP funding requirements in 2010-11.

Departmental revenue of \$3,862,636 includes taxes, fees for sanitation services, interest earnings and is decreasing by \$923,375 primarily due to a decrease in transfers due to reduced CIP funding requirements.



## SUMMARY OF BUDGET UNITS

2010-11

	<b>Operating Exp/ Appropriation</b>	<b>Revenue</b>	<b>Fund Balance</b>	<b>Staffing</b>
<b><u>Special Revenue Funds</u></b>				
CSA 17 Apple Valley	1,729,401	202,838	1,526,563	-
CSA 30 Red Mountain	4,567	4,567	-	-
CSA 53A Big Bear	25,380	8,892	16,488	-
CSA 54 Crest Forest	56,322	36,617	19,705	-
CSA 70 EV-1 Citrus Plaza	85,427	30,500	54,927	-
CSA 70 GH Glen Helen	70,361	50,313	20,048	-
CSA 70 SL-2 Chino	7,297	4,115	3,182	-
CSA 70 SL-3 Mentone	8,333	3,217	5,116	-
CSA 70 SL-4 Bloomington	35,775	9,727	26,048	-
CSA 70 SL-5 Muscoy	67,118	38,792	28,326	-
CSA 73 Arrowbear Lake	6,514	4,446	2,068	-
CSA SL-1 Countywide	1,307,692	694,320	613,372	-
Total Special Revenue Funds	3,404,187	1,088,344	2,315,843	-
<b>Total - All Funds</b>	3,404,187	1,088,344	2,315,843	-



**COUNTY OF SAN BERNARDINO  
CALIFORNIA  
SPECIAL DISTRICTS  
AUDIT REPORT  
CRESTLINE SANITATION DISTRICT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

**Prepared by:**

**Internal Audits Section  
Office of the Auditor/Controller-Recorder  
June 30, 2009**

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

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# AUDITOR/CONTROLLER-RECORDER COUNTY CLERK



COUNTY OF SAN BERNARDINO

**AUDITOR/CONTROLLER** • 222 West Hospitality Lane, Fourth Floor  
San Bernardino, CA 92415-0018 • (909) 387-8322 • Fax (909) 386-8830

**RECORDER • COUNTY CLERK** • 222 West Hospitality Lane, First Floor  
San Bernardino, CA 92415-0022 • (909) 387-8306 • Fax (909) 386-8940

**LARRY WALKER**  
Auditor/Controller-Recorder  
County Clerk

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

## Independent Auditor's Report

**June 30, 2009**

**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, 2008**

### 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, 2008.

### Auditor's Report

We have audited the accompanying financial statements of the business-type activities of Crestline Sanitation District (District), a component unit of the County of San Bernardino, California, as of and for the year ended June 30, 2008. 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District as of June 30, 2008, 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 the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Respectfully submitted,

**Larry Walker**  
Auditor/Controller-Recorder

By:

\_\_\_\_\_  
**Howard M. Ochi, CPA**  
Chief Deputy Auditor

Quarterly copies to:

County Administrative Office  
Board of Supervisors  
Grand Jury (2)

Audit File (3)

Date Report Distributed: 6/30/09

LDW:HMO:RRB:mah



**County of San Bernardino  
Crestline Sanitation District  
Balance Sheet  
Proprietary Funds  
June 30, 2008**

	<b>Enterprise Fund Sewer</b>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 6,301,570
Restricted cash	48,939
Accounts receivable	619,037
Taxes receivable	138,106
Interest receivable	67,269
Total current assets	7,174,921
Noncurrent assets:	
Capital assets:	
Land	213,308
Improvements to land	17,151,907
Construction in progress	2,067,030
Structures and improvements	5,094,910
Equipment and vehicles	1,337,865
Less accumulated depreciation	(16,479,922)
Total noncurrent assets	9,385,098
Total assets	\$ 16,560,019
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	\$ 309,984
Retentions payable	109,672
Other liabilities	257
Current portion of loans payable	91,057
Matured bonds payable	48,939
Total current liabilities	559,909
Noncurrent liabilities:	
Noncurrent portion of loans payable	893,267
Total noncurrent liabilities	893,267
Total liabilities	1,453,176
<b>NET ASSETS</b>	
Net assets invested in capital assets, net of related debt	9,385,098
Restricted net assets	48,939
Unrestricted net assets	5,672,806
Total net assets	15,106,843
Total liabilities and net assets	\$ 16,560,019

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  
Proprietary Funds  
For the Fiscal Year Ended June 30, 2008**

	<b>Enterprise Fund</b>
	Sewer
<b>OPERATING REVENUES</b>	
Charges for services	\$ 2,197,759
Total operating revenues	2,197,759
<b>OPERATING EXPENSES</b>	
Professional services	2,274,804
Services and supplies	705,500
Utilities	92,721
Depreciation	548,696
Total operating expenses	3,621,721
Operating Income (Loss)	(1,423,962)
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Interest and investment revenue	340,185
Property taxes	1,124,303
Special Assessments	43,698
State aid	13,593
Gain on sale of fixed assets	15,651
Interest expense	(18,457)
Insurance claim revenue	94,988
Other nonoperating revenues	2,256
Total nonoperating revenues (expenses)	1,616,217
Change in net assets	192,255
<b>Net assets - beginning</b>	<b>14,914,588</b>
<b>Net assets - ending</b>	<b>\$ 15,106,843</b>

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

**County of San Bernardino  
Crestline Sanitation District  
Statement of Cash Flows  
Proprietary Funds  
For the Fiscal Year Ended June 30, 2008**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Cash received from user charges	\$	2,176,427
Cash payments to suppliers of goods and services		(2,771,553)
Net cash provided (used) by operating activities		<u>(595,126)</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

Taxes received		1,134,444
State aid - homeowners exemption received		13,593
Other nonoperating revenue		2,257
Insurance Claim Revenue		94,988
Net cash provided (used) by noncapital financing activities		<u>1,245,282</u>

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

Acquisition of fixed assets		(1,419,748)
Gain on sale of fixed asset		15,651
Principal paid on long-term liability		(89,518)
Interest paid on long-term liability		(18,457)
Net cash provided (used) by capital and related financing activities		<u>(1,512,072)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Interest revenue		349,397
Net cash provided by investing activities		<u>349,397</u>

Net increase (decrease) in cash and cash equivalents		(512,519)
Balance -- beginning of the year		6,863,028
Balance -- end of the year	\$	<u><u>6,350,509</u></u>

**Reconciliation of operating income (loss) to net cash provided (used) by operating activities:**

Operating income (loss)	\$	(1,423,962)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense		548,696
Change in assets and liabilities:		
Accounts receivable		(94,411)
Due from other governments		73,079
Accounts payable and other payables		301,472
<b>Net cash provided by operating activities</b>	<b>\$</b>	<b><u>(595,126)</u></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, 2008**

**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 currently serves 5,285 residential and commercial connections.

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, 2008**

**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, 2008.

**County of San Bernardino  
Crestline Sanitation District  
Notes to Financial Statements  
For the Fiscal Year Ended June 30, 2008**

**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, 2008**

**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 County 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**

Cash and investments include the cash balances of substantially all funds which are pooled (the "pool") and invested by the County Treasurer for the purpose of increasing interest earnings through investment activities. The pool is not registered as an investment company with the Securities and Exchange Commission (SEC) nor is it a SEC Rule 2a7 – like pool. The pool does not issue a separate report. Included also are cash and investments held by certain joint powers authorities and cash held by various trustee financial institutions in accordance with the California Government Code. State law now requires that all operating monies of the County, school districts, and board-governed special districts be held by the County Treasurer. The net asset value associated with legally mandated participants in the asset pool was \$4.12 billion at June 30, 2008.

**County of San Bernardino  
Crestline Sanitation District  
Notes to Financial Statements  
For the Fiscal Year Ended June 30, 2008**

**NOTE 2: CASH AND INVESTMENTS-Continued**

As of June 30, 2008, the fair value of the County Pool was \$4.44 billion. Approximately 8% of the County pool is attributable to the County General Fund, with the remainder of the balance comprised of other County funds, school districts and special districts. Additionally, as of June 30, 2008, \$20.9 million 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, 2008. 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 does not pool its external participants' investments separately from the County pool. The average rate of return on investments during fiscal year 2008 was 4.53%.

A summary of the investments held by the County Treasurer is as follows (amounts in thousands):

<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	\$ 14,984	\$ 15,058	3.36%	10/15/08	107
U.S. Government Agencies	2,496,871	2,501,610	2.49% - 5.53%	7/9/08 - 4/18/11	533
Negotiable Certificates of Deposit	781,725	780,075	2.38% - 3.02%	7/1/08 - 2/27/09	66
Commercial Paper	525,246	528,556	2.36% - 2.91%	7/1/08 - 11/28/08	37
Corporate Notes	197,502	194,780	2.72% - 5.69%	8/15/08 - 1/4/09	373
Money Market Mutual Funds	215,000	215,000	2.53%	7/1/08	1
Repurchase Agreements	100,000	100,000	2.57%	7/1/08	1
<b>Total Treasurer's Pooled Investments</b>	<b>\$ 4,331,328</b>	<b>\$ 4,335,079</b>			
Investments Controlled by Fiscal Agents:					
Money Market Funds	19,403	19,403			
Mutual Funds	17,187	17,187			
Guaranteed Investment Contracts	35,918	35,918			
U.S. Treasury Securities	82,612	82,612			
U.S. Agency Discount Notes	6,581	6,581			
<b>Total Investments Controlled by Fiscal Agents</b>	<b>\$ 161,701</b>	<b>\$ 161,701</b>			
<b>Total Investments</b>	<b>\$ 4,493,029</b>	<b>\$ 4,496,780</b>			
Cash in Banks:					
Non-Interest Bearing Deposits		\$ 35,807			
<b>Total Cash and Investments</b>		<b>\$ 4,532,587</b>			



**County of San Bernardino  
Crestline Sanitation District  
Notes to Financial Statements  
For the Fiscal Year Ended June 30, 2008**

**NOTE 2: CASH AND INVESTMENTS-Continued**

<u>Investment Type</u>	<u>S&amp;P Rating</u>	<u>Moody's Rating</u>	<u>Fitch Rating</u>	<u>Maximum Allowed % of Portfolio</u>	<u>Individual Issuer Limitations</u>	<u>% of Pool 06/30/08</u>
U.S. Treasury Securities	AAA	Aaa	AAA	100%	None	0.30%
U.S. Government Agencies	AAA	Aaa	AAA	75%	None	57.70%
Negotiable Certificates of Deposit	A1+	P1	F1+	30%	\$100MM	18.00%
Commercial Paper	A1+	P1	F1+	40%	10\$	12.20%
Corporate Notes	AA	Aa1	AA+	10%	\$50MM	4.50%
Money Market Mutual Funds	AAA	Aaa	AAA	15%	10%	5.00%
Repurchase Agreements	A1	P1	F1+	40%	None	2.30%

**Investment authorized by debt agreement**

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

**Investment credit risk**

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

California Law and San Bernardino County Treasury Pool Investment Policy (where more restrictive) place limitations on the purchase of investments in the County Pool. Purchases of commercial paper and negotiable certificates of deposit are restricted to the top two ratings issued by a minimum of two of three nationally recognized statistical rating organizations (NRSRO's). For an issuer of short-term debt, the rating must be no less than A-1 (S&P), P-1 (Moody's), or F-1 (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. As of June 30, 2008, 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, 2008**

**NOTE 2: CASH AND INVESTMENTS-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, 2008, the following issuers represented more than five percent of the County pool balance (amounts in thousands):

<u>Issuer</u>	<u>Fair Value</u>	<u>% of Portfolio</u>
FNMA	\$ 764,170	17.63%
FHLB	\$ 714,683	16.49%
FHLMC	\$ 576,214	13.28%
FFCB	\$ 446,543	10.30%

**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, amounts in thousands). As of June 30, 2008, 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, 2008**

**NOTE 2: CASH AND INVESTMENTS-Continued**

A summary of investments for maturity range, maturity limits, maturity average and effective duration is as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity Range (Days)</u>	<u>Maturity Limits</u>	<u>Average Maturity</u>	<u>Effective Duration</u>
U.S. Treasury Securities	\$ 15,058	107	5 Years	66	0.29
U.S. Government Agencies	2,501,610	9 - 1,022	5 Years	37	1.28
Negotiable Certificates of Deposit	780,075	1 - 242	365 days	373	0.18
Commercial Paper	528,556	1 - 151	270 days	533	0.1
Corporate Notes	194,780	46 - 492	18 months	1	0.97
Money Market Mutual Funds	215,000	1	Daily Liq.	1	0.003
Repurchase Agreements	100,000	1	180 days	107	0.003
Total Securities	<u>\$ 4,335,079</u>			<u>311</u>	

**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, 2008, the carrying amount of the County's deposits was \$35.8 million and the corresponding bank balance was \$96.5 million. The difference of \$60.7 million was primarily due to outstanding warrants, wires and deposits in transit. Of the bank balance, \$200,000 was insured by the FDIC depository insurance and \$96.3 million was uncollateralized and not insured by FDIC depository insurance. Custodial Credit Risk for Investments exists when, in the event of a failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. In order to limit Custodial Credit Risk for Investments, San Bernardino County Pool Investment Policy requires that all investments and investment collateral be transacted on a delivery versus payment basis with a third-party custodian and registered in the County's name. All counterparties to repurchase agreements must sign a TBMA Master Repurchase Agreement and/or Tri-Party Repurchase Agreement before engaging in repurchase agreement transactions.

**County of San Bernardino  
Crestline Sanitation District  
Notes to Financial Statements  
For the Fiscal Year Ended June 30, 2008**

**NOTE 2: CASH AND INVESTMENTS-Continued**

A separate financial statement is not issued for the external investment pool. The following represents a condensed statement of net assets and changes in net assets for the Treasurer's investment pool as of June 30, 2008 (amounts in thousands):

<b>Statement of Net Assets</b>	
Equity of internal pool participants	\$ 1,717,967
Equity of external pool participants:	
Voluntary	209,520
Involuntary	2,407,592
Total Net Assets held for pool participants	\$ 4,335,079
<b>Statement of Changes in Net Assets</b>	
Net Assets at July 1, 2007	\$ 3,964,496
Net change in investments by pool participants	370,583
Net Assets at June 30, 2008	\$ 4,335,079

As of June 30, 2008, Cash and Investments of \$6,350,509 are classified in the accompanying financial statements as follows:

	<b>Total Business-type Activities</b>
Cash and Cash Equivalent	\$ 6,301,570
Restricted Cash	48,939
<b>Total Cash and Investments</b>	<b>\$ 6,350,509</b>

**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 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, 2008**

**NOTE 4: CAPITAL ASSETS**

Capital assets activities during the year were as follows:

	<b>Balance July 1, 2007</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance June 30, 2008</b>
Capital assets, not being depreciated:				
Land	\$ 213,308	\$ -	\$ -	213,308
Construction in progress	647,282	1,419,748	-	2,067,030
Total capital assets, not being depreciated	<u>860,590</u>	<u>1,419,748</u>	<u>-</u>	<u>2,280,338</u>
Capital assets, being depreciated:				
Land improvements	17,151,907	-	-	17,151,907
Structures	5,094,910	-	-	5,094,910
Equipment and Vehicles	1,481,726	-	143,861	1,337,865
Total capital assets, being depreciated	<u>23,728,543</u>	<u>-</u>	<u>143,861</u>	<u>23,584,682</u>
Less accumulated depreciation for:				
Land improvements	(12,125,051)	(382,205)	-	(12,507,256)
Structures	(2,759,266)	(98,929)	-	(2,858,195)
Equipment and Vehicles	(1,190,770)	(67,562)	(143,861)	(1,114,471)
Total accumulated depreciation	<u>(16,075,087)</u>	<u>(548,696)</u>	<u>(143,861)</u>	<u>(16,479,922)</u>
Total capital assets, being depreciated, net	7,653,456	(548,696)	-	7,104,760
<b>Capital assets, net</b>	<b><u>\$ 8,514,046</u></b>	<b><u>\$ 871,052</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 9,385,098</u></b>

**Construction in Progress**

Construction in progress represents the following projects:

<b>Project Title</b>	<b>Budget</b>	<b>Expenses as of 06/30/2008</b>	<b>Projected Fiscal Year of Completion</b>
Facility Expansion	2,150,786	\$ 1,810,519	2010
Inflow and Infiltration Project	136,750	123,444	2010
Huston Creek Facility Expansion	1,845,487	107,318	2010
Lift Station Modification	235,754	25,749	2010
		<u>\$ 2,067,030</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. The loan will be repaid in March 2018. At June 30, 2008, the outstanding principal balance is \$984,324.

**County of San Bernardino  
Crestline Sanitation District  
Notes to Financial Statements  
For the Fiscal Year Ended June 30, 2008**

**NOTE 5: LOAN PAYABLE-Continued**

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

Year Ending June 30,	Principal	Interest	Total
2009	91,057	16,918	107,975
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
2014-2018	513,118	26,757	539,875
<b>Total</b>	<b>\$ 984,324</b>	<b>\$ 95,426</b>	<b>\$ 1,079,750</b>

**NOTE 6: LONG-TERM OBLIGATIONS**

The following is a summary of long-term liabilities transactions for the year ended June 30, 2008:

	Principal Balance July 1, 2007	Additions	Retirements	Principal Balance June 30, 2008	Amounts Due Within One Year
Loan Payable	\$ 1,073,842	\$ -	\$ 89,518	\$ 984,324	\$ 91,057
Total long-term liabilities	\$ 1,073,842	\$ -	\$ 89,518	\$ 984,324	\$ 91,057

**NOTE 7: 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 \$1 million per occurrence. Excess insurance coverage over the Self-Insured Retention (SIR) up to \$35 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 \$2 million per occurrence, and covered by CSAC EIA for up to \$10 million for employer's liability, and up to \$50 million for workers' compensation per occurrence. Property damage claims are insured on an occurrence basis over a \$25,000 deductible, and insured with CSAC EIA Property Program.

**County of San Bernardino  
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Notes to Financial Statements  
For the Fiscal Year Ended June 30, 2008**

**NOTE 7: SELF INSURANCE-Continued**

The County supplements its self-insurance for medical malpractice claims with CSAC EIA, which provides annual coverage on a claims made form basis with a SIR of \$1 million for each claim. Maximum coverage under the policy is \$11.5 million per claim with an additional \$10 million in limits provided by the CSAC EIA General Liability II Program.

All public officials and County employees are insured under a blanket Comprehensive Disappearance, Destruction, and Dishonesty policy covering County monies and securities, also with CSAC EIA with a \$100,000 deductible, and excess limits up to \$10 million per occurrence.

The activities related to such programs are accounted for in the County's Risk Management Fund (an internal service fund), except for unemployment insurance, and employee dental insurance, which are accounted for in the County's General Fund. The incurred but not reported (IBNR) and incurred but not settled (IBNS) liabilities stated on the Risk Management fund'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 Department's practice to obtain actuarial studies on an annual basis.

The total claims liability of 149.3 million reported on the Risk Management fund's balance sheet at June 30, 2008 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 2007 and 2008 were:

<b>Fiscal Year</b>	<b>Beginning of Fiscal Year Liability (in thousands)</b>	<b>Current-Year Claims and Changes in Estimates (in thousands)</b>	<b>Claims Payments (in thousands)</b>	<b>Balance at Fiscal Year-End (in thousands)</b>
2006-07	\$127,233	\$34,312	(\$31,862)	\$129,683
2007-08	\$129,683	\$51,702	(\$32,064)	\$149,321

**County of San Bernardino  
Crestline Sanitation District  
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**NOTE 8: 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 9: 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. We have reviewed the proceeds of taxes received by the District during the 2007-2008 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

**NOTE 10: 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.