

**Crestline Sanitation District**

**Financial Statements**

**June 30, 2012 and 2011**



**Crestline Sanitation District**  
**List of Elected and Appointed Officials**  
**June 30, 2012 and 2011**

Elected Officials

Board of Directors

<u>Title</u>	<u>Director</u>	<u>Term Expires</u>
Chairman	Matthew Philippe	October, 2014
Vice-Chairman	Penny Shubnell	October, 2014
Secretary	Ken Nelsen	October, 2012
Director	Sherri Fairbanks	October, 2014
Director	Jack Winsten	October, 2012

Appointed Official

District Manager                      Kathy Whalen

Crestline Sanitation District  
24516 Lake Drive  
PO Box 3395  
Crestline, CA 92325-3395

**Crestline Sanitation District  
Table of Contents  
June 30, 2012 and 2011**

	<u>Exhibit</u>	<u>Page</u>
Accountant's Compilation Report		1
Management's Discussion and Analysis		2 – 5
Basic Financial Statements		
Statements of Net Assets at June 30, 2012 and 2011	A	6 – 7
Statements of Revenues, Expenses and Changes in Net Assets For the Years Ended June 30, 2012 and 2011	B	8
Statements of Cash Flows for the Years Ended June 30, 2012 and 2011	C	9 – 10
Notes to Financial Statements		11 – 25



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Smith Marion & Company, LLP · Certified Public Accountants  
Grand Terrace Office · 22365 Barton Road, Suite 108 · Grand Terrace, CA 92313 · (909) 825-6600

**Board of Commissioners**

Crestline Sanitation District  
Crestline, CA

**INDEPENDENT AUDITORS' REPORT**

We have audited the accompanying statements of net assets of the Crestline Sanitation District as of June 30, 2012 and 2011 and the related statements of revenue, expenses, and changes in net assets, and the statements of cash flows for the year then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 financial position of the Crestline Sanitation District at June 30, 2012, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 2 through 5 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted in inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

A handwritten signature in blue ink that reads "Smith Marion & Co."  
December 18, 2012

**Crestline Sanitation District  
Management's Discussion and Analysis  
June 30, 2012 and 2011**

Our discussion and analysis of Crestline Sanitation District's (District) financial performance provides an overview of the District's financial activities for the fiscal years ended June 30, 2012 and 2011. Please read it in conjunction with the District's financial statements, which begin on page 6.

### **Financial Highlights**

- The assets of the District exceeded its liabilities at June 30, 2012 and 2011 by \$16,877,190 and \$16,385,452 respectively, which is reported as net assets.
- The Sewer enterprise of the District is a business-type activity that is intended to recover all or a significant portion of its costs through user fees and charges. During 2012 and 2011, the sewer rates stayed the same as the levels set in July 2010.
- The District's long-term debt in the form of a loan from the State Water Resources Control Board decreased by \$95,833 in 2012 and \$94,214 in 2011.
- At June 30, 2012 and 2011, the District is carrying accounts receivable in the amount of \$786,055 and \$848,143 respectively.

### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. Required statements for proprietary funds are: 1) Statement of Net Assets, 2) Statement of Revenues, Expenses and Changes in Net Assets, and 3) Statement of Cash Flows. The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Fund Net Assets are prepared using the economic resource measurement focus and the accrual basis of accounting.

The **Statement of Net Assets** presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets can serve as a useful indicator of whether the financial position of the District is improving or deteriorating. Nonfinancial factors should also be considered to assess the overall position of the District.

The **Statement of Revenues, Expenses and Changes in Net Assets** reports the changes that have occurred during the year to the District's net assets. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Revenues and expenses are reported for some items that will result in cash flows in the subsequent years.

The **Statement of Cash Flows**, as the name implies, is concerned solely with flows of cash and cash equivalents. Only transactions that affect the District's cash position are reflected in this statement. Transactions are segregated into four sections on the statement: 1) cash flows from operating activities, 2) cash flows from noncapital financing activities, 3) cash flows from capital and related financing activities, and 4) cash flows from investing activities.

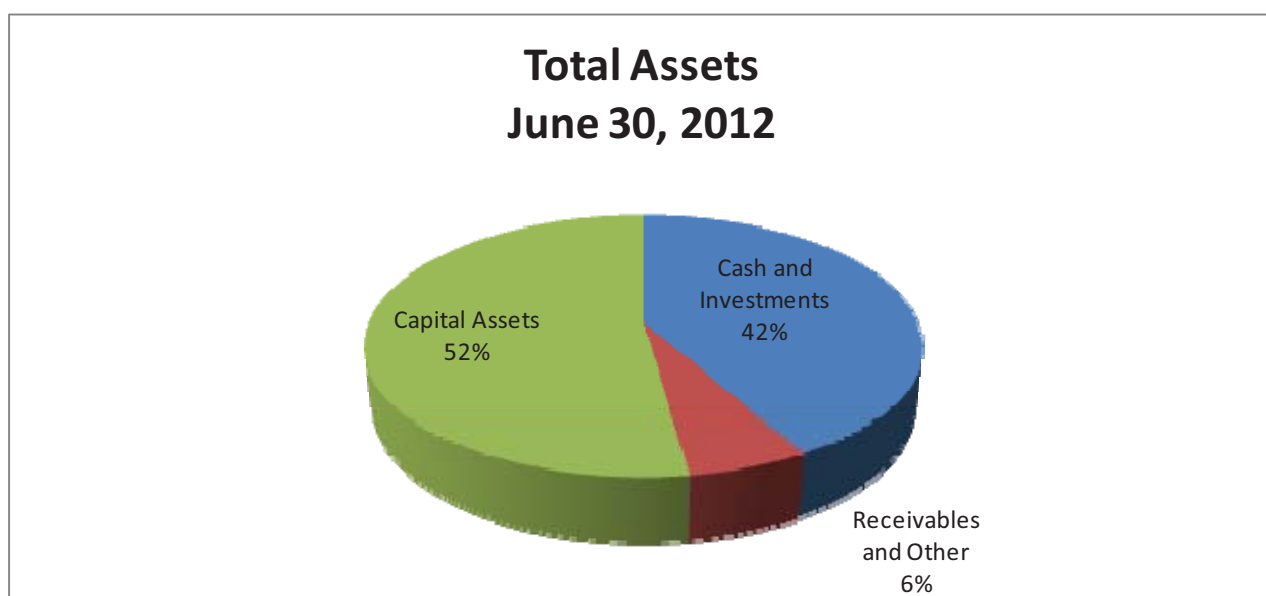
**Crestline Sanitation District  
Management's Discussion and Analysis  
June 30, 2012 and 2011**

**Financial Summary and Analysis**

During the fiscal year ended June 30, 2012, net assets increased by \$491,738.

**Condensed Statement of Net Assets**

	<u>2012</u>	<u>2011</u>	<u>Change</u>
<b>ASSETS</b>			
Current assets	\$ 8,471,791	\$ 7,877,384	\$ 594,407
Capital assets, net	9,251,512	9,412,011	(160,499)
Total assets	<u>17,723,303</u>	<u>17,289,395</u>	<u>433,908</u>
<b>LIABILITIES</b>			
Current liabilities	230,618	200,024	30,594
Long-term liabilities	615,495	703,919	(88,424)
Total liabilities	<u>846,113</u>	<u>903,943</u>	<u>(57,830)</u>
<b>NET ASSETS</b>			
Net investment in capital assets	8,640,914	8,705,580	(64,666)
Unrestricted	8,236,276	7,679,872	556,404
Total Net Assets	<u>\$ 16,877,190</u>	<u>\$ 16,385,452</u>	<u>\$ 491,738</u>



**Crestline Sanitation District  
Management's Discussion and Analysis  
June 30, 2012 and 2011**

**Condensed Statement of Revenues, Expenses, and Changes in Net Assets**

	<u>2012</u>	<u>2011</u>	<u>Change</u>
Operating revenue	\$ 2,572,585	\$ 2,495,201	\$ 77,384
Operating expenses	<u>(3,198,319)</u>	<u>(3,394,607)</u>	196,288
Loss from operations	<u>(625,734)</u>	<u>(899,406)</u>	273,672
Nonoperating revenues	1,134,971	1,192,211	(57,240)
Nonoperating expenses	<u>(17,499)</u>	<u>(13,762)</u>	(3,737)
Total nonoperating revenues(expenses)	<u>1,117,472</u>	<u>1,178,449</u>	(60,977)
Change in Net Assets	491,738	279,043	212,695
Net Assets - beginning of the year	16,385,452	16,106,409	279,043
Net Assets - end of the year	<u>\$ 16,877,190</u>	<u>\$ 16,385,452</u>	<u>\$ 491,738</u>

**Capital Assets**

The District's capital assets, net of accumulated depreciation at June 30, 2012 and 2011 amounted to \$9,251,512 and \$9,412,011, respectively. This investment in capital assets includes land, buildings, distribution systems and furniture and equipment. Analysis of capital assets is as follows:

	<u>2012</u>	<u>2011</u>	<u>Change</u>
Capital assets:			
Land	\$ 213,308	\$ 213,308	\$ -
Improvements to land	17,318,252	17,318,252	-
Structures and improvements	8,578,359	8,254,922	323,437
Vehicles	1,058,463	882,047	176,416
Equipment	427,141	371,535	55,606
Construction in progress	44,873	174,565	(129,692)
Accumulated depreciation	<u>(18,388,884)</u>	<u>(17,802,618)</u>	(586,266)
Total Capital Assets	<u>\$ 9,251,512</u>	<u>\$ 9,412,011</u>	<u>\$ (160,499)</u>

**Crestline Sanitation District  
Management's Discussion and Analysis  
June 30, 2012 and 2011**

**Long-Term Debt**

The District's long-term debt consists of the following:

	<u>2012</u>	<u>2011</u>	<u>Change</u>
Loan payable	<u>\$ 610,598</u>	<u>\$ 706,431</u>	<u>\$ (95,833)</u>

The reduction in debt is due to principal repayment. More detailed information about the District's long-term liabilities is presented in Note 4 to the financial statements.

**Economic Factors and Rates**

Sewer fees are set at a monthly flat fee. Rates for the sewer enterprises are set by the Board of Directors to meet the cost of operations and to fund debt service. In 2012 and 2011, the District's sewer rates remained unchanged.

**Conditions Affecting Current Financial Position**

Management is unaware of any conditions, which could have a significant impact on the District's current financial position, net assets or operating results in terms of past, present and future.

**Requests for Information**

This financial report is designed to give its readers a general overview of the District's finances. Questions regarding any information contained in this report or request for additional financial information should be addressed to the District Manager at 24516 Lake Drive, Crestline, CA 92325.



## **BASIC FINANCIAL STATEMENTS**

**Crestline Sanitation District  
Statements of Net Assets  
June 30, 2012 and 2011**

<b>ASSETS</b>	2012	2011
Current Assets:		
Cash and cash equivalents	\$ 419,848	\$ 886,231
Investments	6,998,081	6,018,912
Accounts receivable	786,055	848,143
Interest receivable	24,291	23,865
Taxes receivable	37,845	47,983
Special assessments receivable	97,511	30,537
Prepaid expenses	108,160	21,713
 TOTAL CURRENT ASSETS	 8,471,791	 7,877,384
Noncurrent Assets:		
Capital assets:		
Land	213,308	213,308
Improvements to land	17,318,252	17,318,252
Structures and improvements	8,578,359	8,254,922
Vehicles	1,058,463	882,047
Equipment	427,141	371,535
Construction in progress	44,873	174,565
Accumulated depreciation	(18,388,884)	(17,802,618)
 TOTAL NONCURRENT ASSETS	 9,251,512	 9,412,011
 TOTAL ASSETS	 \$ 17,723,303	 \$ 17,289,395

See notes to financial statements

**Crestline Sanitation District  
Statements of Net Assets  
June 30, 2012 and 2011**

<b>LIABILITIES</b>	<u>2012</u>	<u>2011</u>
Current Liabilities:		
Accounts payable	\$ 42,016	\$ 29,794
Accrued liabilities	65,822	65,341
Current portion of loan payable	97,480	95,833
Current portion of compensated absences payable	<u>25,300</u>	<u>9,056</u>
 TOTAL CURRENT LIABILITIES	 <u>230,618</u>	 <u>200,024</u>
Noncurrent Liabilities:		
Loan payable, net of current portion	513,118	610,598
Compensated absences payable, net of current portion	<u>102,377</u>	<u>93,321</u>
 TOTAL NONCURRENT LIABILITIES	 <u>615,495</u>	 <u>703,919</u>
 TOTAL LIABILITIES	 <u>846,113</u>	 <u>903,943</u>
 <b>NET ASSETS</b>		
Invested in capital assets, net of related debt	8,640,914	8,705,580
Unrestricted	<u>8,236,276</u>	<u>7,679,872</u>
 TOTAL NET ASSETS	 <u><u>\$ 16,877,190</u></u>	 <u><u>\$ 16,385,452</u></u>

See notes to financial statements

**Crestline Sanitation District**  
**Statements of Revenues, Expenses, and Changes in Net Assets**  
**For the Years Ended June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b>OPERATING REVENUES</b>		
Charges for services	\$ 2,409,493	\$ 2,304,777
Permit and inspection fees	29,759	25,253
Connection fees	-	9,987
Other service	133,333	155,184
	<u>2,572,585</u>	<u>2,495,201</u>
<b>OPERATING EXPENSES</b>		
Salaries and benefits	1,637,693	1,726,655
Professional services	300,080	316,053
Services and supplies	543,747	642,569
Utilities	130,533	139,227
Depreciation	586,266	570,103
	<u>3,198,319</u>	<u>3,394,607</u>
<b>LOSS FROM OPERATIONS</b>	<u>(625,734)</u>	<u>(899,406)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Investment earnings	87,829	50,238
Property taxes	951,834	994,471
Special assessments	82,367	46,630
State assistance	12,941	13,443
Other income (expense)	(2,733)	87,429
Interest expense	(14,766)	(13,762)
	<u>1,117,472</u>	<u>1,178,449</u>
Change in Net Assets	491,738	279,043
Net Assets - beginning of the year	<u>16,385,452</u>	<u>16,106,409</u>
Net Assets - ending of the year	<u>\$ 16,877,190</u>	<u>\$ 16,385,452</u>

See notes to financial statements

**Crestline Sanitation District  
Statements of Cash Flows  
For the Years Ended June 30, 2012 and 2011**

	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 2,634,673	\$ 2,425,315
Payments to suppliers	(1,053,680)	(1,109,427)
Payments for employee's salaries and benefits	(1,609,441)	(1,558,937)
	(28,448)	(243,049)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Property taxes	961,972	1,010,283
Special assessments	15,393	21,206
State assistance	12,941	13,443
Other nonoperating (expenses) revenues	(2,733)	85,829
	987,573	1,130,761
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition of capital assets	(425,767)	(313,973)
Principal paid on loan	(95,833)	(94,214)
Interest paid on loan	(12,142)	(13,762)
	(533,742)	(421,949)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment earnings	87,403	45,604
Purchase of investments, net of sales	(979,169)	(6,018,912)
Matured bond payable	-	(48,939)
Proceeds from sale of capital assets	-	1,600
	(891,766)	(6,020,647)
Net Cash Used for Investing Activities	(891,766)	(6,020,647)
Net Decrease in Cash and Cash Equivalents	(466,383)	(5,554,884)
<b>Cash and cash equivalents - beginning of the year</b>	886,231	6,441,115
<b>Cash and cash equivalents - ending of the year</b>	\$ 419,848	\$ 886,231

See notes to financial statements

**Crestline Sanitation District  
Statements of Cash Flows  
For the Years Ended June 30, 2012 and 2011**

	2012	2011
<b>Reconciliation of operating loss to net cash used for operating activities:</b>		
Operating loss	\$ (625,734)	\$ (899,406)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation expense	586,266	570,103
Changes in assets and liabilities:		
(Increase) Decrease in:		
Accounts receivable	62,088	(145,022)
Prepaid expenses	(86,447)	(21,713)
Due from other governments	-	75,136
Increase (Decrease) in:		
Accounts payable	7,127	29,794
Accrued liabilities	2,952	65,341
Compensated absences payable	25,300	102,377
Due to other governments	-	(19,659)
	<u>                    </u>	<u>                    </u>
Net Cash Used for Operating Activities	<u>\$ (28,448)</u>	<u>\$ (243,049)</u>

See notes to financial statements

**Crestline Sanitation District  
Notes to Financial Statements  
June 30, 2012 and 2011**

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

**Reporting Entity**

The Crestline Sanitation District (District) was established by an act of the Board of Supervisors of the County of San Bernardino on January 21, 1946 as a component unit of the County of San Bernardino, to provide sewer services to the Crestline area. The District operates and maintains three treatment plants, 90 miles of collection systems, a 14-mile effluent outfall line, and an effluent disposal site. The District provides sewage collection, treatment, and disposal services for 5,314 Equivalent Dwelling Units (EDUs).

On November 4, 2008, Measure R was passed by the community of Crestline. This measure established a Governance Committee, whose purpose is to conduct a study and recommend to the County Board of Supervisors whether or not the District should change its governance to a district governed by a locally elected board composed of residents of the District. On February 16, 2010, the Governance Committee issued its Governance Feasibility Report, which recommends a reorganization of the governing body of the District from a Board-governed to self-governed Board of Directors. As a result of this recommendation, a special election was held on August 3, 2010 for the community of Crestline to give final vote as to the future governance of the District and the five local residents that would serve as the Board of Directors. The voters voted in favor of the District to become a self-governed District. As of October 1, 2010, the governance of the District was transferred from the County Board of Supervisors to the District's locally elected board.

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

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

The District follows all pronouncements of the Governmental Accounting Standards Board (GASB).

**Operating and Nonoperating Activities**

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**Crestline Sanitation District  
Notes to Financial Statements  
June 30, 2012 and 2011**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Restricted Resources**

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

**Cash and Cash Equivalents**

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash on hand, demand deposits at financial institutions, government securities that are highly liquid and readily available with an original maturity of three months or less.

**Investments**

Investments are stated at fair value (the value at which financial instruments could be exchanged in a current transaction between willing parties, other than in a forced liquidation sale), in accordance with GASB 31. Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

**Receivables and Payables**

No allowance for uncollectible accounts receivables was recorded at June 30, 2012 and 2011 based on management's expectation that all accounts receivable will be collected through the property tax roll.

**Employee Benefits**

District employees earn vacation and sick leave days based on length of service. Upon termination, the District is obligated to compensate employees for 100% of the accrued unused vacation time. Upon retirement, the District is obligated to compensate employees for 50% of the accrued unused sick leave to a maximum of 1,000 hours. Compensated absences payable are presented in the liabilities section of the statement of net assets.

The District provides health benefits through a cafeteria plan, which includes health, dental, and vision care to eligible District employees. Benefit expenses are recognized in the period in which the benefits were provided.

**Property Taxes**

Property taxes are attached as an enforceable lien on property as of March 1. Taxes are levied on July 1 and are due in two installments. The first installment is due on November 1, and is payable through December 10 without penalty. The second installment is due February 1, and becomes delinquent on April 10. Property taxes are remitted to the District from the County of San Bernardino at various times throughout the year.



**Crestline Sanitation District  
Notes to Financial Statements  
June 30, 2012 and 2011**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Prepaid Items**

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

**Capital Assets**

Capital assets, which include property, plant, and equipment, are reported in the financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of two years. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

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

<u>Assets</u>	<u>Years</u>
Structures and improvements	5 - 40
Equipment and vehicles	4 - 15

**Long-Term Obligations**

Long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

**Net Assets**

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

*Invested in capital assets, net of related debt* - This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

*Restricted* - This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

**Crestline Sanitation District  
Notes to Financial Statements  
June 30, 2012 and 2011**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Net Assets (continued)**

*Unrestricted* - This component of net assets consists of net assets that do not meet the definition of restricted net assets or invested in capital assets, net of related debt.

**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.

**Stewardship, Compliance and Accountability**

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

**NOTE 2: CASH AND INVESTMENTS**

Cash and investments as of June 30, 2012 and 2011 are classified in the accompanying financial statements as follows:

	<u>2012</u>	<u>2011</u>
Statement of Net Assets:		
Cash and cash equivalents	\$ 419,848	\$ 886,231
Investments	<u>6,998,081</u>	<u>6,018,912</u>
Total Cash and Investments	<u>\$ 7,417,929</u>	<u>\$ 6,905,143</u>

Cash and investments as of June 30, 2012 and 2011 consist of the following:

	<u>2012</u>	<u>2011</u>
Cash on hand	\$ 400	\$ 400
Deposits with financial institutions	419,448	885,831
Investments	<u>6,998,081</u>	<u>6,018,912</u>
Total Cash and Investments	<u>\$ 7,417,929</u>	<u>\$ 6,905,143</u>

**Crestline Sanitation District  
Notes to Financial Statements  
June 30, 2012 and 2011**

**NOTE 2: CASH AND INVESTMENTS (continued)**

**Investments Authorized by the California Government Code and the District's Investment Policy**

The following table identifies the investment types that are authorized by the District's investment policy and in accordance with Section 53601 of the California Government Code. The table also identifies certain provisions of the District's investment policy that address interest rate risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury Bills, Notes and Bonds	5 years	100%	None
Government Agency Securities	None	100%	None
Banker's Acceptances	270 days	25%	5%
Commercial Paper	None	15%	10%
Negotiable Certificates of Deposit	5 years	25%	None
Repurchase Agreements	1 year	20%	None
California Local Agency Investment Fund	N/A	None	\$ 50,000,000
Medium-Term Notes	5 years	30%	None
Money Market Mutual Funds	90 days	20%	None
Collateralized Bank Deposits	None	10%	None
Investment Pools	None	30%	None

**Crestline Sanitation District  
Notes to Financial Statements  
June 30, 2012 and 2011**

**NOTE 2: CASH AND INVESTMENTS (continued)**

**Disclosures Relating to Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment is, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

As of June 30, 2012, the District had the following investments:

Investment type	Remaining Maturity (in Months)			Total
	12 or less	13 to 24	25 to 60	
United States Government				
Sponsored Enterprise Securities	\$ -	\$ 249,705	\$ 2,091,919	\$ 2,341,624
Local Agency Investment Fund	201,021	-	-	201,021
Investment Trust of California	-	806,137	-	806,137
Medium-Term Notes	1,026,006	437,236	255,626	1,718,868
Negotiable Certificates of Deposit	360,686	541,530	1,009,146	1,911,362
Money Market Mutual Funds	19,069	-	-	19,069
Totals	<u>\$ 1,606,782</u>	<u>\$ 2,034,608</u>	<u>\$ 3,356,691</u>	<u>\$ 6,998,081</u>

As of June 30, 2011, the District had the following investments:

Investment type	Remaining Maturity (in Months)			Total
	12 or less	13 to 24	25 to 60	
United States Government				
Sponsored Enterprise Securities	\$ -	\$ -	\$ 2,819,306	\$ 2,819,306
Local Agency Investment Fund	200,315	-	-	200,315
Investment Trust of California	-	799,407	-	799,407
Medium-Term Notes	-	898,202	667,369	1,565,571
Negotiable Certificates of Deposit	-	608,746	-	608,746
Money Market Mutual Funds	25,567	-	-	25,567
Totals	<u>\$ 225,882</u>	<u>\$ 2,306,355</u>	<u>\$ 3,486,675</u>	<u>\$ 6,018,912</u>

**Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations**

At June 30, 2012 and 2011, the District did not hold investments that were highly sensitive to interest rate fluctuations beyond that already indicated in the information provided above.

**Crestline Sanitation District  
Notes to Financial Statements  
June 30, 2012 and 2011**

**NOTE 2: CASH AND INVESTMENTS (continued)**

**Disclosures Relating to Credit Risk**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the District's investment policy and the actual rating as of year-end for each investment type.

June 30, 2012

Investment Type	Amount	Minimum Legal Rating	AA	A	Unrated
United States Government					
Sponsored Enterprise Securities	\$ 2,341,624	N/A	\$ 2,341,624	\$ -	\$ -
Local Agency Investment Fund	201,021	N/A	-	-	201,021
Investment Trust of California	806,137	N/A	-	-	806,137
Medium-Term Notes	1,718,868	A	484,727	1,234,141	-
Negotiable Certificates of Deposit	1,911,362	N/A	-	-	1,911,362
Money Market Mutual Funds	19,069	N/A	-	-	19,069
Totals	<u>\$ 6,998,081</u>		<u>\$ 2,826,351</u>	<u>\$ 1,234,141</u>	<u>\$ 2,937,589</u>

June 30, 2011

Investment Type	Amount	Minimum Legal Rating	AAA	AA	A	Unrated
United States Government						
Sponsored Enterprise Securities	\$ 2,819,306	N/A	\$ 2,819,306	\$ -	\$ -	\$ -
Local Agency Investment Fund	200,315	N/A	-	-	-	200,315
Investment Trust of California	799,407	N/A	-	-	-	799,407
Medium-Term Notes	1,565,571	A	-	751,575	813,996	-
Negotiable Certificates of Deposit	608,746	N/A	-	-	-	608,746
Money Market Mutual Funds	25,567	N/A	-	-	-	25,567
Totals	<u>\$ 6,018,912</u>		<u>\$ 2,819,306</u>	<u>\$ 751,575</u>	<u>\$ 813,996</u>	<u>\$ 1,634,035</u>

**Crestline Sanitation District  
Notes to Financial Statements  
June 30, 2012 and 2011**

**NOTE 2: CASH AND INVESTMENTS (continued)**

**Concentration of Credit Risk**

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. At June 30, 2012 and 2011, the District did not hold any investments in any one issuer (other than external pools) that represent 5% or more of total District investments.

**Custodial Credit Risk**

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that in the event of the failure of the counterparty 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. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. 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.

As of June 30, 2012 and 2011, \$351,281 and \$641,818 of the District's deposits with financial institutions respectively, were in excess of the Federal Deposit Insurance Corporation (FDIC) limits.

**Investment in State Investment Pool**

The District is a voluntary participant in the Local Agency Investment Fund (LAIF), which is part of the Pooled Money Investment Account that is regulated by the California Government Code under the oversight of the State Treasurer, Director of Finance, and State Controller. The District may invest up to \$50 million in the LAIF fund. Investments in LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest. All investments with LAIF are secured by the full faith and credit of the State of California. Separate LAIF financial statements are available from the California State Treasurer's Office on the Internet at <http://www.treasurer.ca.gov>.

The District investment in this pool is reported in the accompanying financial statements at cost which approximates fair value at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). Included in LAIF's investment portfolio are certain derivative securities or similar products in the form of structured notes totaling \$800 million and asset-backed securities totaling \$1,297 million, which represents 2.75% and 0.72% of the total LAIF portfolio of \$60.5 billion as of June 30, 2012. LAIF's (and the District's) exposure to risk (credit, market or legal) is not currently available.

**Crestline Sanitation District  
Notes to Financial Statements  
June 30, 2012 and 2011**

**NOTE 3: CAPITAL ASSETS**

Capital asset activity for the years ended June 30, 2012 and 2011 were as follows:

June 30, 2012

	Balance 06/30/11	Additions	Deletions	Balance 06/30/12
Capital assets, not being depreciated:				
Land	\$ 213,308	\$ -	\$ -	\$ 213,308
Construction in progress	174,565	58,448	(188,140)	44,873
Total capital assets, not being depreciated	<u>387,873</u>	<u>58,448</u>	<u>(188,140)</u>	<u>258,181</u>
Capital assets, being depreciated:				
Improvements to land	17,318,252	-	-	17,318,252
Structures and improvements	8,254,922	323,437	-	8,578,359
Vehicles	882,047	176,416	-	1,058,463
Equipment	371,535	55,606	-	427,141
Total capital assets, being depreciated	<u>26,826,756</u>	<u>555,459</u>	<u>-</u>	<u>27,382,215</u>
Less accumulated depreciation for:				
Improvements to land	(13,563,641)	(349,097)	-	(13,912,738)
Structures and improvements	(3,225,684)	(173,630)	-	(3,399,314)
Vehicles	(811,867)	(31,830)	-	(843,697)
Equipment	(201,426)	(31,709)	-	(233,135)
Total accumulated depreciation	<u>(17,802,618)</u>	<u>(586,266)</u>	<u>-</u>	<u>(18,388,884)</u>
Total capital assets, being depreciated, net	<u>9,024,138</u>	<u>(30,807)</u>	<u>-</u>	<u>8,993,331</u>
Total capital assets, net	<u>\$ 9,412,011</u>	<u>\$ 27,641</u>	<u>\$ (188,140)</u>	<u>\$ 9,251,512</u>

**Crestline Sanitation District  
Notes to Financial Statements  
June 30, 2012 and 2011**

**NOTE 3: CAPITAL ASSETS (continued)**

June 30, 2011

	Balance 06/30/10	Additions	Deletions	Balance 06/30/11
Capital assets, not being depreciated:				
Land	\$ 213,308	\$ -	\$ -	\$ 213,308
Construction in progress	3,135,028	174,565	(3,135,028)	174,565
Total capital assets, not being depreciated	<u>3,348,336</u>	<u>174,565</u>	<u>(3,135,028)</u>	<u>387,873</u>
Capital assets, being depreciated:				
Improvements to land	17,275,351	42,901	-	17,318,252
Structures and improvements	5,094,910	3,160,012	-	8,254,922
Vehicles	969,879	47,076	(134,908)	882,047
Equipment	347,088	24,447	-	371,535
Total capital assets, being depreciated	<u>23,687,228</u>	<u>3,274,436</u>	<u>(134,908)</u>	<u>26,826,756</u>
Less accumulated depreciation for:				
Improvements to land	(13,204,038)	(359,603)	-	(13,563,641)
Structures and improvements	(3,056,373)	(169,311)	-	(3,225,684)
Vehicles	(929,689)	(17,086)	134,908	(811,867)
Equipment	(177,323)	(24,103)	-	(201,426)
Total accumulated depreciation	<u>(17,367,423)</u>	<u>(570,103)</u>	<u>134,908</u>	<u>(17,802,618)</u>
Total capital assets, being depreciated, net	<u>6,319,805</u>	<u>2,704,333</u>	<u>-</u>	<u>9,024,138</u>
Total capital assets, net	<u>\$ 9,668,141</u>	<u>\$ 2,878,898</u>	<u>\$ (3,135,028)</u>	<u>\$ 9,412,011</u>



**Crestline Sanitation District  
Notes to Financial Statements  
June 30, 2012 and 2011**

**NOTE 4: 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 Houston Creek treatment plant effluent storage reservoir. Of the \$2,159,508 loan amount, \$359,925 was funded by local matching funds. At June 30, 2012 and 2011, the outstanding principal balance was \$610,598 and \$706,431 respectively.

The activity for the loan payable for the year ended June 30, 2012 and 2011 are as follows:

	Balance 06/30/11	Additions	Deletions	Balance 06/30/12	Due within one year
Loan payable	\$ 706,431	\$ -	\$ (95,833)	610,598	\$ 97,480

	Balance 06/30/10	Additions	Deletions	Balance 06/30/11	Due within one year
Loan payable	\$ 800,645	\$ -	\$ (94,214)	\$ 706,431	\$ 95,833

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

Year Ending June 30,	Principal	Interest	Total
2013	\$ 97,480	\$ 10,495	\$ 107,975
2014	99,156	8,819	107,975
2015	100,860	7,115	107,975
2016	102,594	5,381	107,975
2017	104,357	3,618	107,975
2018	106,151	1,825	107,976
Total	\$ 610,598	\$ 37,253	\$ 647,851

**Crestline Sanitation District  
Notes to Financial Statements  
June 30, 2012 and 2011**

**NOTE 5: RETIREMENT PLAN**

**Plan Description**

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the Plan) operating under the California County Employees Retirement Law of 1937 (the 1937 Act). It provides retirement, death and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, California State Association of Counties, South Coast Air Quality Management District (SCAQMD), San Bernardino Associated Governments (SANBAG), Local Agency Formation Commission (LAFCO), San Bernardino County Law Library, Barstow Fire Protection District, Hesperia Recreation and Park District, SBCERA, City of Chino Hills, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (MDAQMD), California Electronic Recording Transaction Network Authority (CERTNA), Inland Valley Development Agency (IVDA), San Bernardino International Airport Authority (SBIAA), the San Bernardino County Superior Court, Inland Library system (ILS), Rim of the World Recreation and Park District (RIM-REC), Department of Water and Power for the City of Big Bear Lake and Crestline Sanitation District were later included, along with the County, and are collectively referred to as the "Plan Sponsors" or "employers". The plan is governed by the SBCERA Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years of service credit.

SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3<sup>rd</sup> Floor, San Bernardino, California 92415-0014.

**Fiduciary Responsibility**

SBCERA is controlled by its own board, the Board of Retirement, which acts as a fiduciary agent for the accounting and control of employer and employee contributions and investment income. SBCERA publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. SBCERA is also a legally separate entity from the County and not a component unit.

**Funding Policy**

Participating members are required by statute (Sections 31621.6 and 31639.25 of the California Government Code) to contribute a percentage of covered salary based on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 7.42% - 12.95% for general members and 9.54% - 15.32% for safety members (refundable rates), of their annual covered salary of which the County pays approximately 7% (for certain employee units). County of San Bernardino employer contribution rates are as follows: County General 14.50%, County Safety 30.89%. All employers combined are required to contribute an average 17.85% of the current year covered payroll. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 and 31454 of the 1937 Act.

**Crestline Sanitation District  
Notes to Financial Statements  
June 30, 2012 and 2011**

**NOTE 5: RETIREMENT PLAN (continued)**

The County's annual pension cost and prepaid asset, computed in accordance with GASB 27, *Accounting for Pensions by State and Local Governmental Employers*, for the years ended June 30, 2012, and 2011 were as follows (in thousands):

	2012	2011
Annual Required Contribution (County fiscal year basis)	\$ 229,169	\$ 213,311
Interest On Pension Assets	(55,733)	(2,331)
Adjustment To The Annual Required Contribution	73,086	24,585
Annual Pension Cost	246,522	235,565
Annual Contributions Made	229,169	213,311
Increase/(Decrease) in Net Pension Assets	(17,353)	(22,254)
Net Pension Asset, Beginning of Year	719,134	741,388
Net Pension Asset, End of Year	<u>\$ 701,781</u>	<u>\$ 719,134</u>

The following table shows the County's required contributions and percentage contributed, for the current year and two preceding years:

Year Ended June 30	Annual Required Contribution (in thousands)		Percentage Contributed
	SBCERA	County	
2010	\$ 243,773	\$ 197,097	100%
2011	258,128	213,311	100%
2012	278,091	229,169	100%

The County, along with the SCAQMD, issued Pension Refunding Bonds (Bonds) in November 1995 with an aggregate amount of \$420,527,000. These Bonds were issued to allow the County and the SCAQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266,000. The outstanding liability at June 30, 2012 is \$401,650,000.

On June 24, 2004, the County issued its County of San Bernardino Pension Obligation Bonds, Series 2004 A (Fixed Rate Bonds), its County of San Bernardino Pension Obligation Bonds, Series 2004 B (Auction Rate Bonds), and its County of San Bernardino Pension Obligation Bonds, Series 2004 C (Index Bonds) in a respective aggregate principal amounts of \$189,070,000, \$149,825,000, and \$125,000,000. The Bonds were issued to finance the County's share of the unfunded accrued actuarial liability of the SBCERA. In April 2008, the County refunded all of the 2004 Series B. The outstanding liability at June 30, 2012 is \$273,700,000.

**Crestline Sanitation District  
Notes to Financial Statements  
June 30, 2012 and 2011**

**NOTE 5: RETIREMENT PLAN (continued)**

In April 2008, the County of San Bernardino issued its \$160,900,000 in Pension Obligation Refunding Bonds (POB), Series 2008 (Series 2008 Bonds). The outstanding liability at June 30, 2012 is \$157,073,000.

**NOTE 6: FEDERAL AND STATE GRANTS**

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

**NOTE 7: RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of the Special District Risk Management Authority (SDRMA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California special districts. The purpose of the SDRMA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage. At June 30, 2012 and 2011, the District participated in the liability and property programs of the SDRMA as follows:

- General and auto liability, public officials and employees' errors and omissions: Total risk financing self-insurance limits of \$10,000,000, combined single limit at \$10,000,000 per occurrence.

In addition to the above, the District also has the following insurance coverage:

- Employee dishonesty coverage up to \$400,000 per loss includes public employee dishonesty, forgery or alteration and theft, disappearance and destruction coverage's.
- Property loss is paid at the replacement cost for property on file, if replaced within two years after the loss, otherwise paid on an actual cash value basis, to a combined total of \$1.0 billion per occurrence, subject to a \$2,000 deductible per occurrence.
- Boiler and machinery coverage for the replacement cost up to \$100 million per occurrence, subject to a \$1,000 deductible per occurrence.
- Public official's personal liability up to \$500,000 each occurrence, with an annual aggregate of \$500,000 per each elected/appointed official to which this coverage applies, subject to the terms, with no deductible per claim.
- Workers' compensation insurance with statutory limits per occurrence and Employer's Liability Coverage up to \$5 million.

**Crestline Sanitation District**  
**Notes to Financial Statements**  
June 30, 2012 and 2011

**NOTE 7: RISK MANAGEMENT (continued)**

Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no material IBNR claims payables as of June 30, 2012 and 2011.

**NOTE 8: 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 appropriations of taxes received by the District during the 2011-12 and 2010-2011 fiscal years, and have found them to be within the guidelines established by Proposition 111.

**NOTE 9: SUBSEQUENT EVENTS**

Management has evaluated subsequent events through December 18, 2012, which is the date the financial statements were available to be issued, and has determined that there are no transactions that will have a significant impact on the District or require reporting.