

**Crestline Sanitation District**  
(A California Special District)

FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012



**Crestline Sanitation District**

**List of Elected and Appointed Officials**

**June 30, 2013 and 2012**

Elected Officials

Board of Directors

<u>Title</u>	<u>Director</u>	<u>Term Expires</u>
Chairman	Matthew Philippe	October, 2015
Vice-Chairman	Penny Shubnell	October, 2015
Secretary	Ken Nelsen	October, 2017
Director	Sherri Fairbanks	October, 2015
Director	Jack Winsten	October, 2017

Appointed Official

District Manager                      Mark Pattison

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

**Crestline Sanitation District  
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June 30, 2013 and 2012**

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Smith Marion & Company, LLP • Certified Public Accountants

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**Board of Directors**  
**Crestline Sanitation District**  
Crestline, CA

## **INDEPENDENT AUDITORS' REPORT**

### **Report on the Financial Statements**

We have audited the accompanying statements of net position of the business-type activities of the Crestline Sanitation District as of and for the years ended June 30, 2013 and 2012, and the related notes to the financials, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the State Controller's Minimum Audit Requirements and Reporting Guidelines for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business type activities of Crestline Sanitation District as of June 30, 2013 and 2012, and the respective change in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

Accounting principles generally accepted in the United States of America require that the management's discussion on pages 2-5 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 of 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.

January 13, 2014  
Grand Terrace, CA

## **MANAGEMENT'S DISCUSSION & ANALYSIS**

## *Crestline Sanitation District*

### **Management's Discussion and Analysis June 30, 2013 and 2012**

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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, 2013 and 2012. 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, 2013 and 2012 by \$17,253,924 and \$16,877,190 respectively, which is reported as net positions.
- 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 2013 and 2012, 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 \$97,480 in 2013 and \$95,833 in 2012.
- At June 30, 2013 and 2012, the District is carrying accounts receivable in the amount of \$748,893 and \$786,055 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 Position, 2) Statement of Revenues, Expenses and Changes in Net Position, and 3) Statement of Cash Flows. The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Fund Net Position are prepared using the economic resource measurement focus and the accrual basis of accounting.

The **Statement of Net Position** presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases and decreases in net position 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 Position** reports the changes that have occurred during the year to the District's net position. All changes in net position 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, 2013 and 2012

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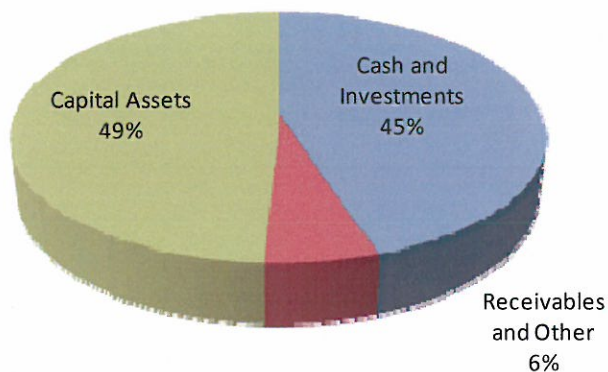
#### Financial Summary and Analysis

During the fiscal year ended June 30, 2013, net position increased by \$376,734.

#### Condensed Statement of Net Positions

	2013	2012	Change
<b>ASSETS</b>			
Current assets	\$ 9,102,344	\$ 8,471,791	\$ 630,553
Capital assets, net	8,856,543	9,251,512	(394,969)
Total assets	17,958,887	17,723,303	235,584
<b>LIABILITIES</b>			
Current liabilities	238,705	230,618	8,087
Long-term liabilities	466,258	615,495	(149,237)
Total liabilities	704,963	846,113	(141,150)
<b>NET POSITION</b>			
Net investment in capital assets	8,343,425	8,640,914	(297,489)
Unrestricted	8,910,499	8,236,276	674,223
Total net position	\$ 17,253,924	\$ 16,877,190	\$ 376,734

#### Total Assets June 30, 2013



## *Crestline Sanitation District*

### **Management's Discussion and Analysis June 30, 2013 and 2012**

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#### **Condensed Statement of Revenues, Expenses, and Changes in Net Position**

	2013	2012	Change
Operating revenue	\$ 2,546,145	\$ 2,572,585	\$ (26,440)
Operating expenses	(3,215,582)	(3,198,319)	(17,263)
Loss from operations	(669,437)	(625,734)	(43,703)
Nonoperating revenues	1,039,901	1,132,238	(92,337)
Nonoperating expenses	6,270	(14,766)	21,036
Total nonoperating revenues (expenses)	1,046,171	1,117,472	(71,301)
Change in net position	376,734	491,738	(115,004)
Net position - beginning of the year	16,877,190	16,385,452	491,738
Net position - end of the year	<u>\$ 17,253,924</u>	<u>\$ 16,877,190</u>	<u>\$ 376,734</u>

#### **Capital Assets**

The District's capital assets, net of accumulated depreciation at June 30, 2013 and 2012 amounted to \$8,856,543 and \$9,251,512 respectively. This investment in capital assets includes land, buildings, distribution systems and furniture and equipment. Analysis of capital assets is as follows:

	2013	2012	Change
Capital assets:			
Land	\$ 213,308	\$ 213,308	\$ -
Improvements to land	17,332,047	17,318,252	13,795
Structures and improvements	8,667,648	8,578,359	89,289
Vehicles	949,186	1,058,463	(109,277)
Equipment	427,141	427,141	-
Construction in progress	108,864	44,873	63,991
Accumulated depreciation	<u>(18,841,651)</u>	<u>(18,388,884)</u>	<u>(452,767)</u>
Total capital assets, net	<u>\$ 8,856,543</u>	<u>\$ 9,251,512</u>	<u>\$ (394,969)</u>

## *Crestline Sanitation District*

### **Management's Discussion and Analysis June 30, 2013 and 2012**

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#### **Long-Term Debt**

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

	<u>2013</u>	<u>2012</u>	<u>Change</u>
Loan payable	<u>\$ 513,118</u>	<u>\$ 610,598</u>	<u>\$ (97,480)</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 2013 and 2012, 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 position 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**

Statements of Net Position  
June 30, 2013 and 2012

ASSETS	2013	2012
Current Assets:		
Cash and cash equivalents	\$ 1,028,618	\$ 419,848 <sup>▼</sup>
Investments	7,040,604	6,998,081
Accounts receivable	748,893	786,055
Interest receivable	19,834	24,291
Taxes receivable	51,111	37,845
Special assessments receivable	95,249	97,511
Material and supplies inventory	13,294 <sup>▼</sup>	-
Prepaid expenses	104,741	108,160
TOTAL CURRENT ASSETS	9,102,344	8,471,791
Noncurrent Assets:		
Capital assets:		
Land	213,308	213,308
Improvements to land	17,332,047	17,318,252
Structures and improvements	8,667,648	8,578,359
Vehicles	949,186	1,058,463
Equipment	427,141	427,141
Construction in progress	108,864 <sup>▼</sup>	44,873 <sup>▼</sup>
Accumulated depreciation	(18,841,651)	(18,388,884)
TOTAL NONCURRENT ASSETS	8,856,543	9,251,512
TOTAL ASSETS	\$ 17,958,887	\$ 17,723,303

See accompanying notes to financial statements

**Statements of Net Position**  
**June 30, 2013 and 2012**

<b>LIABILITIES</b>	<b>2013</b>	<b>2012</b>
Current Liabilities:		
Accounts payable	\$ 64,037	\$ 42,016
Accrued liabilities	69,449	65,822
Current portion of loan payable	99,156	97,480
Current portion of compensated absences payable	6,063	25,300
<b>TOTAL CURRENT LIABILITIES</b>	<b>238,705</b>	<b>230,618</b>
Noncurrent Liabilities:		
Loan payable, net of current portion	413,962	513,118
Compensated absences payable, net of current portion	52,296	102,377
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>466,258</b>	<b>615,495</b>
<b>TOTAL LIABILITIES</b>	<b>704,963</b>	<b>846,113</b>
<b>NET POSITION</b>		
Net investment in capital assets	8,343,425	8,640,914
Unrestricted	8,910,499	8,236,276
<b>TOTAL NET POSITION</b>	<b>\$ 17,253,924</b>	<b>\$ 16,877,190</b>

See accompanying notes to financial statements

**Statements of Revenues, Expenses, and Changes in Net Position**  
**For the Years Ended June 30, 2013 and 2012**

	2013	2012
<b>OPERATING REVENUES</b>		
Charges for services	\$ 2,384,126	\$ 2,409,493
Permit and inspection fees	21,226	29,759
Connection fees	7,507	-
Other service	133,286	133,333
<b>TOTAL OPERATING REVENUES</b>	<b>2,546,145</b>	<b>2,572,585</b>
<b>OPERATING EXPENSES</b>		
Salaries and benefits	1,595,442	1,637,693
Professional services	408,976	300,080
Services and supplies	487,106	543,747
Utilities	134,203	130,533
Depreciation	589,855	586,266
<b>TOTAL OPERATING EXPENSES</b>	<b>3,215,582</b>	<b>3,198,319</b>
<b>LOSS FROM OPERATIONS</b>	<b>(669,437)</b>	<b>(625,734)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Investment earnings	47,107	87,829
Property taxes	952,126	951,834
Special assessments	28,416	82,367
State assistance	12,252	12,941
Other income (expense)	16,346	(2,733)
Interest expense	(10,076)	(14,766)
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>1,046,171</b>	<b>1,117,472</b>
Change in net position	376,734	491,738
Net position - beginning of the year	16,877,190	16,385,452
Net position - ending of the year	<u>\$ 17,253,924</u>	<u>\$ 16,877,190</u>

See accompanying notes to financial statements

**Statements of Cash Flows**  
**For the Years Ended June 30, 2013 and 2012**

	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 2,583,306	\$ 2,634,673
Payments to suppliers	(1,018,138)	(1,053,680)
Payments for employee's salaries and benefits	(1,660,714)	(1,609,441)
Net Cash Used for Operating Activities	(95,546)	(28,448)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Property taxes	938,860	961,972
Special assessments	30,678	15,393
State assistance	12,252	12,941
Other nonoperating revenues (expenses)	5,396	(2,733)
Net Cash Provided by Noncapital Financing Activities	987,186	987,573
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition of capital assets	(194,886)	(425,767)
Principal paid on loan	(97,480)	(95,833)
Interest paid on loan	(10,495)	(12,142)
Net Cash Used for Capital and Related Financing Activities	(302,861)	(533,742)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment earnings	51,564	87,403
Purchase of investments	(5,176,290)	(4,556,287)
Proceeds from investments	5,133,767	3,577,118
Proceeds from sale of capital assets	10,950	-
Net Cash Provided by (Used for) Investing Activities	19,991	(891,766)
Net Increase (Decrease) in Cash and Cash Equivalents	608,770	(466,383)
Cash and cash equivalents - beginning of the year	419,848	886,231 <sup>¶</sup>
Cash and cash equivalents - end of the year	\$ 1,028,618	\$ 419,848

See accompanying notes to financial statements

**Statements of Cash Flows**  
**For the Years Ended June 30, 2013 and 2012**

	2013	2012
<b>Reconciliation of operating loss to net cash used for operating activities:</b>		
Operating loss	\$ (669,437)	\$ (625,734)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation expense	589,855	586,266
Changes in assets and liabilities:		
(Increase) Decrease in:		
Accounts receivable	37,161	62,088
Material and supplies inventory	(13,293)	-
Prepaid expenses	3,419	(86,447)
Increase (Decrease) in:		
Accounts payable	22,021	7,127
Accrued liabilities	4,046	2,952
Compensated absences payable	(69,318)	25,300
<b>Net Cash Used for Operating Activities</b>	<b>\$ (95,546)</b>	<b>\$ (28,448)</b>

## *Crestline Sanitation District*

### **Notes to Financial Statements June 30, 2013 and 2012**

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

##### **Organization and Operations of the 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 have been prepared using the *economic resources measurement focus* and the *accrual basis of accounting, in conformity with generally accepted accounting principles (GAAP)*. Under this basis, 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 in the year for which they are levied.

The District has elected to follow all pronouncements of the Governmental Accounting Standards Board (GASB).

##### **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.

## *Crestline Sanitation District*

### **Notes to Financial Statements June 30, 2013 and 2012**

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

##### **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, investments in money market funds, certificates of deposit with an original maturity of 3 months or less, and deposits in the State of California Local Agency Investment Fund (LAIF). Deposits in the LAIF can be withdrawn at any time without penalty.

##### **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.

##### **Allowance for Uncollectible Accounts**

No allowance for uncollectible accounts receivables was recorded at June 30, 2013 and 2012 based on management's expectation that all accounts receivable will be collected through the property tax roll.

##### **Prepaid Expenses**

Certain payments to vendors reflect costs or deposits applicable to future accounting periods and are recorded as prepaid items in the financial statements.

##### **Inventory**

Inventories are valued at cost which approximates market, using the first-on/first-out (FIFO) method. The costs of inventories are recorded as expenses when used (consumption method).

##### **Capital Assets**

Capital assets 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.

## *Crestline Sanitation District*

### **Notes to Financial Statements June 30, 2013 and 2012**

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

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 position.

#### **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 position.

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.

#### **Net Position**

Net position is categorized as follows:

*Net Investment in Capital Assets* - This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding debt against the acquisition, construction, or improvement of those assets.

*Restricted Net Position* - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

*Unrestricted Net Position* - This component of net position consists of net position that does not meet the definition of *restricted* net position or *net investment in capital assets*.

## *Crestline Sanitation District*

### **Notes to Financial Statements June 30, 2013 and 2012**

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#### **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.

##### **Operating and Non-operating Activities**

The District distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to customers for sewer services. Operating expenses include the cost associated with the purchasing, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

##### **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.

##### **Implementation of New Pronouncements**

The Agency implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement is designed to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on the government's net position.

Deferred outflows of resources are transactions that result in the consumption of net position in one period that are applicable to future periods and are not considered assets as described by the statement. Deferred outflows of resources are required to be presented separately after assets on the statement of net position.

Deferred inflows of resources are transactions that result in the acquisition of net position in one period that are applicable to future periods and are not considered to be liabilities as described by the statement. Deferred inflows of resources are required to be presented separately after liabilities on the statement of net position.

The statement defines net position as the residual of all other elements presented in a statement of financial position. It is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources.

For the years covered by these financial statements, the Agency had no transactions that would be classified as deferred inflows or outflows of resources.

## *Crestline Sanitation District*

### **Notes to Financial Statements June 30, 2013 and 2012**

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

##### **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, 2013 and 2012 are classified in the accompanying financial statements as follows:

	<u>2013</u>	<u>2012</u>
Statement of Net Position:		
Cash and cash equivalents	\$ 1,028,618	\$ 419,848
Investments	<u>7,040,604</u>	<u>6,998,081</u>
Total Cash and Investments	<u>\$ 8,069,222</u>	<u>\$ 7,417,929</u>

Cash and investments as of June 30, 2013 and 2012 consist of the following:

	<u>2013</u>	<u>2012</u>
Cash on hand	\$ 400	\$ 400
Deposits with financial institutions	1,028,218	419,448
Investments	<u>7,040,604</u>	<u>6,998,081</u>
Total Cash and Investments	<u>\$ 8,069,222</u>	<u>\$ 7,417,929</u>

*Crestline Sanitation District*

**Notes to Financial Statements  
June 30, 2013 and 2012**

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**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.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
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, 2013 and 2012

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#### 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, 2013, 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	\$ -	\$ -	\$ 2,893,751	\$ 2,893,751
Local Agency Investment Fund	201,492	-	-	201,492
Investment Trust of California	-	807,935	-	807,935
Medium-Term Notes	432,012	-	879,904	1,311,916
Negotiable Certificates of Deposit	541,272	-	1,014,377	1,555,649
Money Market Mutual Funds	269,861	-	-	269,861
Totals	<u>\$ 1,444,637</u>	<u>\$ 807,935</u>	<u>\$ 4,788,032</u>	<u>\$ 7,040,604</u>

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>

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

At June 30, 2013 and 2012, 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, 2013 and 2012

#### 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. At June 30, 2013, the District held an investment below minimum rating. Management advised the District's financial advisor that the investment was not in compliance with the District's investment policy. Financial advisor agreed and the investment was sold immediately at a profit.

##### June 30, 2013

Investment Type	Amount	Minimum Legal Rating	AA	A	BBB	Unrated
United States Government						
Sponsored Enterprise Securities	\$ 2,893,751	N/A	\$ 2,893,751	\$ -	\$ -	\$ -
Local Agency Investment Fund	201,492	N/A	-	-	-	201,492
Investment Trust of California	807,935	N/A	-	-	-	807,935
Medium-Term Notes	1,311,916	A	292,677	890,589	128,650	-
Negotiable Certificates of Deposit	1,555,649	N/A	-	-	-	1,555,649
Money Market Mutual Funds	269,861	N/A	-	-	-	269,861
Totals	<u>\$ 7,040,604</u>		<u>\$ 3,186,428</u>	<u>\$ 890,589</u>	<u>\$ 128,650</u>	<u>\$ 2,834,937</u>

##### 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>

## *Crestline Sanitation District*

### **Notes to Financial Statements June 30, 2013 and 2012**

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#### **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, 2013 and 2012, 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, 2013 and 2012, \$823,600 and \$351,281 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. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. 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 \$400 million and asset-backed securities totaling \$753 million, which represents 1.96% of the total LAIF portfolio of \$58.8 billion as of June 30, 2013. 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, 2013 and 2012**

**NOTE 3: CAPITAL ASSETS**

Summaries of changes in capital assets in service for the years ended June 30, 2013 and 2012 were as follows:

June 30, 2013

	Balance 6/30/12	Additions	Deletions	Balance 6/30/13
Capital assets, not being depreciated:				
Land	\$ 213,308	\$ -	\$ -	\$ 213,308
Construction in progress	44,873	141,391	(77,400)	108,864
Total capital assets, not being depreciated	258,181	141,391	(77,400)	322,172
Capital assets, being depreciated:				
Improvements to land	17,318,252	13,795	-	17,332,047
Structures and improvements	8,578,359	89,289	-	8,667,648
Vehicles	1,058,463	27,811	(137,088)	949,186
Equipment	427,141	-	-	427,141
Total capital assets, being depreciated	27,382,215	130,895	(137,088)	27,376,022
Less accumulated depreciation for:				
Improvements to land	(13,912,738)	(332,475)	-	(14,245,213)
Structures and improvements	(3,399,314)	(179,119)	-	(3,578,433)
Vehicles	(843,697)	(43,556)	137,088	(750,165)
Equipment	(233,135)	(34,705)	-	(267,840)
Total accumulated depreciation	(18,388,884)	(589,855)	137,088	(18,841,651)
Total capital assets, being depreciated, net	8,993,331	(458,960)	-	8,534,371
Total capital assets, net	\$ 9,251,512	\$ (317,569)	\$ (77,400)	\$ 8,856,543

*Crestline Sanitation District*

**Notes to Financial Statements**  
**June 30, 2013 and 2012**

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

June 30, 2012

	Balance 6/30/11	Additions	Deletions	Balance 6/30/12
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	387,873	58,448	(188,140)	258,181
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	26,826,756	555,459	-	27,382,215
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	(17,802,618)	(586,266)	-	(18,388,884)
Total capital assets, being depreciated, net	9,024,138	(30,807)	-	8,993,331
Total capital assets, net	\$ 9,412,011	\$ 27,641	\$ (188,140)	\$ 9,251,512

## *Crestline Sanitation District*

### **Notes to Financial Statements June 30, 2013 and 2012**

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#### **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, 2013 and 2012, the outstanding principal balance was \$513,118 and \$610,598 respectively.

The activity for the loan payable for the year ended June 30, 2013 and 2012 are as follows:

	Balance 6/30/12	Additions	Deletions	Balance 6/30/13	Due within one year
Loan payable	<u>\$ 610,598</u>	<u>\$ -</u>	<u>\$ (97,480)</u>	<u>513,118</u>	<u>\$ 99,156</u>

	Balance 6/30/11	Additions	Deletions	Balance 6/30/12	Due within one year
Loan payable	<u>\$ 706,431</u>	<u>\$ -</u>	<u>\$ (95,833)</u>	<u>610,598</u>	<u>\$ 97,480</u>

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

Year Ending June 30,	Principal	Interest	Total
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	<u>106,151</u>	<u>1,825</u>	<u>107,976</u>
Total	<u>\$ 513,118</u>	<u>\$ 26,758</u>	<u>\$ 539,876</u>

#### **NOTE 5: COMPENSATED ABSENCES PAYABLE**

The District accrues employees' vacation and sick time payable upon termination. The majority of this liability is deemed to be long term liability by management and the activity in the long-term compensated absences for the year ending June 30, 2013 is as follows:

	6/30/2012	Additions	Deletions	6/30/2013
L/T Compensated Absences	<u>\$ 102,377</u>	<u>\$ 6,737</u>	<u>\$ (56,818)</u>	<u>\$ 52,296</u>

## *Crestline Sanitation District*

### **Notes to Financial Statements June 30, 2013 and 2012**

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#### **NOTE 6: RETIREMENT PLAN**

##### **Plan Description**

The San Bernardino County Employees' Retirement Association (SBCERA) administers the SBCERA pension plan – a cost sharing multiple employer defined benefit pension plan (the Plan) operating under the California County Employees' Retirement Law of 1937 (the 1937 Act). SBCERA provides pensions for 18 active plan sponsors (employers) which are: The County of San Bernardino, Barstow Fire Protection District, California Electronic Recording Transaction Network Authority, California State Association of Counties, Crest Forest Fire Protection District, City of Big Bear Lake, City of Chino Hills, Crestline Sanitation District, Department of Water and Power for the City of Big Bear Lake, Hesperia Recreation and Park District, Inland Library System, Law Library for San Bernardino County, Local Agency Formation Commission, Mojave Desert Air Quality Management District, San Bernardino Associated Governments, SBCERA, South Coast Air Quality Management District (SCAQMD) and Superior Court of California County of San Bernardino.

Employees (members) become eligible for membership on their first day of regular employment and members become fully vested after 5 years of service credit. SBCERA administers retirement benefits for two membership classifications, General and Safety, and those benefits are tiered based upon date of SBCERA membership. Generally, those who become members prior to January 1, 2013 are Tier 1 members. All other members are Tier 2.

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 active members are required by statute (Government Code sections 31621.6, 31639.25 and 7522.30) to contribute a percentage of covered salary based on certain actuarial assumptions, their age at entry into the Plan and their tier.

Participating employers are required by Government Code sections 31453.5 and 31454 to contribute a percentage of covered salary to the Plan. The contribution requirements of participating active members and employers are established and may be amended by the SBCERA Board of Retirement pursuant to Article 1 of the 1937 Act.

## Crestline Sanitation District

### Notes to Financial Statements June 30, 2013 and 2012

#### NOTE 6: RETIREMENT PLAN (continued)

The County's annual pension cost and net pension asset, computed in accordance with GASB 27, *Accounting for Pensions by State and Local Governmental Employers*, for the year ended June 30, 2013, were as follows (in thousands):

	2013	2012
Annual Required Contribution (County fiscal year basis)	\$ 250,086	\$ 229,169
Interest On Pension Assets	(54,388)	(55,733)
Adjustment To The Annual Required Contribution	77,445	73,086
Annual Pension Cost	273,143	246,522
Annual Contributions Made	250,086	229,169
Increase/(Decrease) in Net Pension Assets	(23,057)	(17,353)
Net Pension Asset, Beginning of Year	701,781	719,134
Net Pension Asset, End of Year	\$ 678,724	\$ 701,781

Year Ended June 30	SBCERA Annual Required Contribution	County Annual Required Contribution	Percentage Contributed	County Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset
2011	\$ 258,128	\$ 213,311	100%	\$ 235,565	91%	\$ 719,134
2012	278,091	229,169	100%	246,522	93%	701,781
2013	303,080	250,086	100%	273,143	92%	678,724

The following table shows the County's required contributions, annual pension cost and net pension asset, for the current year and two preceding years (in thousands):

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 respective 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, 2013 is \$384,584,000.

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, 2013 is \$259,600,000.

## *Crestline Sanitation District*

### **Notes to Financial Statements June 30, 2013 and 2012**

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#### **NOTE 6: 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, 2013 is \$156,336,000.

#### **NOTE 7: 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 8: 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, 2013 and 2012, 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, 2013 and 2012**

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#### **NOTE 8      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, 2013 and 2012.

#### **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. Proceeds of taxes received by the District during the 2012-2013 and 2011-2012 fiscal years were within the guidelines established by Proposition 111.

#### **NOTE 10:    SUBSEQUENT EVENTS**

Management has evaluated subsequent events through January 13, 2014, 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.