Crestline Sanitation District

(A California Special District)

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

Smith Marion & Company, LLP
Certified Public Accountants

Crestline Sanitation District

List of Elected and Appointed Officials

June 30, 2014 and 2013

Elected Officials

Board of Directors

Title	Director	Term Expires
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

General 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, 2014 and 2013

SM&Co
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Grand Terrace Office · 22365 Barton Road, Suite 108 · Grand Terrace, CA 92313 · (909) 825-6600

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, 2014 and 2013, 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, 2014 and 2013, 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.

Smith Marion & Co.

January 22, 2015

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, 2014 and 2013. 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, 2014 and 2013 by $17,532,734 and $17,253,924 respectively, which is reported as net position.
- 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 2014 and 2013, 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 $99,156 in 2014 and $97,480 in 2013.
- At June 30, 2014 and 2013, the District is carrying accounts receivable in the amount of $742,696 and $748,894 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.

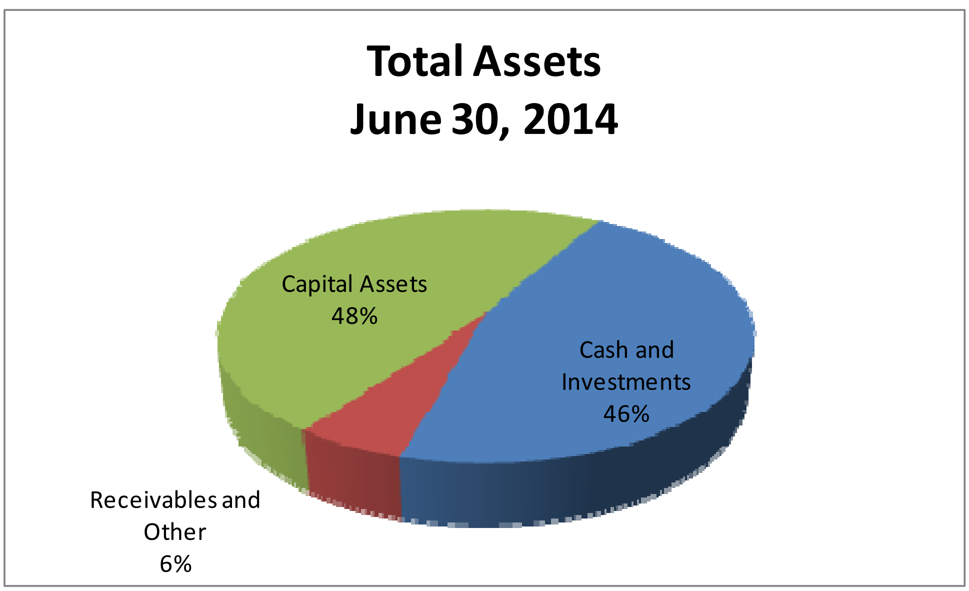
The ***Statement of Cash Flows**,* as the name implies, is concerned solely with flows of cash and cash equivalents. Only transactions that affect the District's cash position are reflected in this statement. Transactions are segregated into four sections on the statement: 1) cash flows from operating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

Financial Summary and Analysis

During the fiscal year ended June 30, 2014, net position increased by $278,810.

Condensed Statement of Net Positions

	2014	2013	Change
ASSETS			
Current assets	$ 9,355,961	$ 9,102,344	$ 253,617
Capital assets, net	8,785,599	8,856,543	(70,944)
Total assets	18,141,560	17,958,887	182,673
LIABILITIES			
Current liabilities	243,972	238,705	5,267
Long-term liabilities	364,854	466,258	(101,404)
Total liabilities	608,826	704,963	(96,137)
NET POSITION			
Net investment in capital assets	8,371,637	8,343,425	28,212
Unrestricted	9,161,097	8,910,499	250,598
Total net position	$ 17,532,734	$ 17,253,924	$ 278,810



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

	2014	2013	Change
Operating revenue	$ 2,564,361	$ 2,546,145	$ 18,216
Operating expenses	(3,399,597)	(3,215,582)	(184,015)
Loss from operations	(835,236)	(669,437)	(165,799)
Nonoperating revenues	1,132,687	1,056,247	76,440
Nonoperating expenses	(18,641)	(10,076)	(8,565)
Total nonoperating revenues (expenses)	1,114,046	1,046,171	67,875
Change in net position	278,810	376,734	(97,924)
Net position - beginning of the year	17,253,924	16,877,190	376,734
Net position - end of the year	$ 17,532,734	$ 17,253,924	$ 278,810

Capital Assets

The District's capital assets, net of accumulated depreciation at June 30, 2014 and 2013 amounted to $8,785,599 and $8,856,543 respectively. This investment in capital assets includes land, buildings, distribution systems and furniture and equipment (see Note 3 for additional information). Analysis of capital assets is as follows:

	2014	2013	Change
Capital assets:			
Land	$ 213,308	$ 213,308	$ -
Improvements to land	17,441,905	17,332,047	109,858
Structures and improvements	8,852,790	8,667,648	185,142
Vehicles	1,159,219	949,186	210,033
Equipment	429,942	427,141	2,801
Construction in progress	89,207	108,864	(19,657)
Accumulated depreciation	(19,400,772)	(18,841,651)	(559,121)
Total capital assets, net	$ 8,785,599	$ 8,856,543	$ (70,944)

Long-Term Debt

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

	2014	2013	Change
Loan payable	$ 413,962	$ 513,118	$ (99,156)

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.

Unrestricted Net Position

The District had unrestricted net position of $9,161,097 at June 30, 2014. The Board of Directors has designated a portion of unrestricted net position for reserves as follows:

Reserve for Operations	$ 1,501,866
Reserve for Capital Replacement	4,747,871
Reserve for Catastrophe Response	2,109,005
Reserve for Capital Projects	730,000
Total Reserved Net Position	$ 9,088,742

Reserve for operations represents six months of projected operating costs for the 2013/14 budget year plus one year's debt service. Reserve for replacement represents 25% of accumulated depreciation as of the beginning of the 2013/14 budget year. Reserve for catastrophe response represents 24% of net capital assets as of the beginning of the 2013/14 budget year. Reserve for capital projects includes master plan update, SCADA system and sludge pumps for piston pumps.

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 2014 and 2013, 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, 2014 and 2013

ASSETS	2014	2013
Current Assets:		
Cash and cash equivalents	$ 1,163,110	$ 1,028,618
Investments	7,159,619	7,040,604
Accounts receivable	742,696	748,894
Interest receivable	16,185	19,834
Taxes receivable	42,517	51,111
Special assessments receivable	112,980	95,249
Material and supplies inventory	13,293	13,293
Prepaid expenses	105,561	104,741
TOTAL CURRENT ASSETS	9,355,961	9,102,344
Noncurrent Assets:		
Capital assets:		
Land	213,308	213,308
Improvements to land	17,441,905	17,332,047
Structures and improvements	8,852,790	8,667,648
Vehicles	1,159,219	949,186
Equipment	429,942	427,141
Construction in progress	89,207	108,864
Accumulated depreciation	(19,400,772)	(18,841,651)
TOTAL NONCURRENT ASSETS	8,785,599	8,856,543
TOTAL ASSETS	$ 18,141,560	$ 17,958,887

See accompanying notes to financial statements.

Statements of Net Position
June 30, 2014 and 2013

LIABILITIES	2014	2013
Current Liabilities:		
Accounts payable	$ 37,998	$ 64,037
Interest payable	1,871	2,205
Accrued liabilities	90,878	67,244
Current portion of loan payable	100,860	99,156
Current portion of compensated absences payable	12,365	6,063
TOTAL CURRENT LIABILITIES	243,972	238,705
Noncurrent Liabilities:		
Loan payable, net of current portion	313,102	413,962
Compensated absences payable, net of current portion	51,752	52,296
TOTAL NONCURRENT LIABILITIES	364,854	466,258
TOTAL LIABILITIES	608,826	704,963
NET POSITION		
Net investment in capital assets	8,371,637	8,343,425
Unrestricted	9,161,097	8,910,499
TOTAL NET POSITION	$ 17,532,734	$ 17,253,924

See accompanying notes to financial statements.

Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2014 and 2013

	2014	2013
OPERATING REVENUES		
Charges for services	$ 2,379,304	$ 2,384,126
Permit and inspection fees	26,569	21,226
Connection fees	-	7,507
Other service	158,488	133,286
TOTAL OPERATING REVENUES	2,564,361	2,546,145
OPERATING EXPENSES		
Salaries and benefits	1,883,995	1,595,442
Professional services	352,257	408,976
Services and supplies	458,814	487,106
Utilities	145,410	134,203
Depreciation	559,121	589,855
TOTAL OPERATING EXPENSES	3,399,597	3,215,582
LOSS FROM OPERATIONS	(835,236)	(669,437)
NONOPERATING REVENUES (EXPENSES)		
Investment earnings	124,482	47,107
Property taxes	970,686	952,126
Special assessments	25,899	28,416
State assistance	11,620	12,252
Other income (expense)	(10,155)	16,346
Interest expense	(8,486)	(10,076)
TOTAL NONOPERATING REVENUES (EXPENSES)	1,114,046	1,046,171
Change in net position	278,810	376,734
Net position - beginning of the year	17,253,924	16,877,190
Net position - ending of the year	$ 17,532,734	$ 17,253,924

See accompanying notes to financial statements.

Statements of Cash Flows
For the Years Ended June 30, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 2,570,559	$ 2,583,306
Payments to suppliers	(983,340)	(1,018,138)
Payments for employee's salaries and benefits	(1,854,603)	(1,660,714)
Net Cash Used for Operating Activities	(267,384)	(95,546)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property taxes	979,280	938,860
Special assessments	8,168	30,678
State assistance	11,620	12,252
Other nonoperating revenues (expenses)	(10,155)	5,396
Net Cash Provided by Noncapital Financing Activities	988,913	987,186
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(488,177)	(194,886)
Proceeds from sale of capital assets	-	10,950
Principal paid on loan	(99,156)	(97,480)
Interest paid on loan	(8,820)	(10,495)
Net Cash Used for Capital and Related Financing Activities	(596,153)	(291,911)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment earnings	128,131	51,564
Purchase of investments	(3,992,831)	(5,176,290)
Proceeds from investments	3,873,816	5,133,767
Net Cash Provided by Investing Activities	9,116	9,041
Net Increase (Decrease) in Cash and Cash Equivalents	134,492	608,770
Cash and cash equivalents - beginning of the year	1,028,618	419,848
Cash and cash equivalents - end of the year	$ 1,163,110	$ 1,028,618

See accompanying notes to financial statements.

Statements of Cash Flows
For the Years Ended June 30, 2014 and 2013

	2014	2013
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	$ (835,236)	$ (669,437)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation expense	559,121	589,855
Changes in assets and liabilities:		
(Increase) Decrease in:		
Accounts receivable	6,198	37,161
Material and supplies inventory	-	(13,293)
Prepaid expenses	(820)	3,419
Increase (Decrease) in:		
Accounts payable	(26,039)	22,021
Accrued liabilities	23,634	4,046
Compensated absences payable	5,758	(69,318)
Net Cash Used for Operating Activities	$ (267,384)	$ (95,546)

Noncash transactions from operating noncapital financing activities, capital and related financing and investing activities:

NONE

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 as soon as all eligibility requirements imposed by the provider have been met.

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.

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.

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, 2014 and 2013 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-in/first-out (FIFO) method. The costs of inventories are recorded as expenses when used (consumption method).

Capital Assets

Capital assets are defined by the District as assets with an initial, individual cost of more than $5,000 (for improvements to land, structures and improvements, vehicles, and equipment) and have an estimated useful life in excess of two years. Purchased or constructed capital assets are recorded at actual cost or estimated historical cost if actual cost is unavailable. 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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Major capital outlays are capitalized as construction in progress and are not depreciated until placed into service.

Capital assets of the District are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Improvements to land	10 - 45
Structures and improvements	5 - 45
Vehicles	5 - 15
Equipments	3 - 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. The District did not have any restricted net position as of June 30, 2014 or June 30, 2013.

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*.

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 Nonoperating Activities

The District distinguishes operating revenues and expenses from nonoperating 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 costs associated with providing sewer services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating 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

Effective July 1, 2013, the District adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The District's financial statements do not contain any elements that meet the definition of deferred outflows of resources or deferred inflow of resources.

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, 2014 and 2013 are classified in the accompanying financial statements as follows:

	2014	2013
Statement of Net Position:		
Cash and cash equivalents	$ 1,163,110	$ 1,028,618
Investments	7,159,619	7,040,604
Total Cash and Investments	$ 8,322,729	$ 8,069,222

Cash and investments as of June 30, 2014 and 2013 consist of the following:

	2014	2013
Cash on hand	$ 500	$ 400
Deposits with financial institutions	1,162,610	1,028,218
Investments	7,159,619	7,040,604
Total Cash and Investments	$ 8,322,729	$ 8,069,222

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

NOTE 2: CASH AND INVESTMENTS (continued)

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, 2014, the District had the following investments:

	Remaining Maturity (in Months)			
Investment type	12 or less	13 to 24	25 to 60	Total
United States Government				
Sponsored Enterprise Securities	$ -	$ -	$ 2,681,684	$ 2,681,684
Local Agency Investment Fund	201,995	-	-	201,995
Investment Trust of California	-	816,210	-	816,210
Medium-Term Notes	-	288,263	1,401,220	1,689,483
Negotiable Certificates of Deposit	-	505,960	1,036,155	1,542,115
Money Market Mutual Funds	228,132	-	-	228,132
Totals	$ 430,127	$ 1,610,433	$ 5,119,059	$ 7,159,619

As of June 30, 2013, the District had the following investments:

	Remaining Maturity (in Months)			
Investment type	12 or less	13 to 24	25 to 60	Total
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	$ 1,444,637	$ 807,935	$ 4,788,032	$ 7,040,604

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

At June 30, 2014 and 2013, the District did not hold investments that were highly sensitive to interest rate fluctuations beyond that already indicated in the information provided above.

NOTE 2: CASH AND INVESTMENTS (continued)

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, 2014

Investment Type	Amount	Minimum Legal Rating	AA / AAf	A	BBB	Unrated
United States Government						
Sponsored Enterprise Securities	$ 2,681,684	N/A	$ 2,681,684	$ -	$ -	$ -
Local Agency Investment Fund	201,995	N/A	-	-	-	201,995
Investment Trust of California - Short Term Fund	202,446	N/A	202,446	-	-	-
Investment Trust of California - Medium Term Fund	613,764	N/A	-	-	-	613,764
Medium-Term Notes	1,689,483	A	668,446	771,832	249,205	-
Negotiable Certificates of Deposit	1,542,115	N/A	-	-	-	1,542,115
Money Market Mutual Funds	228,132	N/A	-	-	-	228,132
Totals	$ 7,159,619		$ 3,552,576	$ 771,832	$ 249,205	$ 2,586,006

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	$ 7,040,604		$ 3,186,428	$ 890,589	$ 128,650	$ 2,834,937

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. The District's investment policy is to apply the prudent investor standard as set forth in the California Government Code: Investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investments.

The District's investment policy limits certain investments to minimum credit ratings issued by nationally recognized statistical rating organizations. The District's investments in commercial paper, medium-term notes, and money market funds at June 30, 2014 and 2013 met their respective minimum credit ratings requirements.

Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of the total District's investments are as follows:

As of June 30, 2014:		
Issuer	Investment type	Amount
Federal Home Loan bank	Federal Agency Securities	$ 499,760
Federal National Mortgage Association	Federal Agency Securities	$ 521,680
Federal Home Loan bank	Federal Agency Securities	$ 420,462
As of June 30, 2013:		
Issuer	Investment type	Amount
Federal Home Loan bank	Federal Agency Securities	$ 495,575
Federal National Mortgage Association	Federal Agency Securities	$ 501,625

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.

NOTE 2: CASH AND INVESTMENTS (continued)

Custodial Credit Risk (continued)

As of June 30, 2014 and 2013, $962,121 and $823,600 of the District's deposits with financial institutions respectively, were in excess of the Federal Deposit Insurance Corporation (FDIC) limits. As of June 30, 2014 and 2013, these funds were fully collateralized by securities in a separate account held by the same institution.

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 asset-backed securities totaling $1,206 million, which represents 1.86% of the total LAIF portfolio of $64.8 billion as of June 30, 2014. LAIF's (and the District's) exposure to risk (credit, market or legal) is not currently available.

Investment Trust of California

The District voluntarily participates in the Investment Trust of California (CalTRUST), a Joint Powers Authority ("JPA"), established by public agencies in California for the purpose of pooling and investing local agency funds, operating reserves, and bond proceeds. A Board of Trustees supervises and administers the investment program of the Trust. The Board is comprised of experienced investment officers and policy-makers of the public agency members.

For the CalTRUST Short-Term, Medium-Term, and Long-Term Accounts, funds from all participants are pooled in each of the accounts. Participants receive units in the Trust and designated shares for the particular accounts in which they invest. The District invests in the Short-Term and Medium-Term Accounts, with targeted investment durations of up to two years.

CalTRUST invests in fixed income securities eligible for investment pursuant to California Government Code Sections 53601, et. Seq. and 53635, et. Seq. Investment guidelines adopted by the Board of Trustees may further restrict the types of investments held by the Trust, and leveraging within the Trust's portfolios is prohibited. Separate CalTRUST financial statements are available from the Trustee on the Internet at http://www.caltrust.org.

NOTE 3: CAPITAL ASSETS

Summaries of changes in capital assets in service for the years ended June 30, 2014 and 2013 were as follows:

June 30, 2014

	Balance 6/30/13	Additions	Deletions	Balance 6/30/14
Capital assets, not being depreciated:				
Land	$ 213,308	$ -	$ -	$ 213,308
Construction in progress	108,864	309,128	(328,785)	89,207
Total capital assets, not being depreciated	322,172	309,128	(328,785)	302,515
Capital assets, being depreciated:				
Improvements to land	17,332,047	109,858	-	17,441,905
Structures and improvements	8,667,648	185,142	-	8,852,790
Vehicles	949,186	210,033	-	1,159,219
Equipment	427,141	2,801	-	429,942
Total capital assets, being depreciated	27,376,022	507,834	-	27,883,856
Less accumulated depreciation for:				
Improvements to land	(14,245,213)	(319,717)	-	(14,564,930)
Structures and improvements	(3,578,433)	(168,387)	-	(3,746,820)
Vehicles	(750,165)	(42,290)	-	(792,455)
Equipment	(267,840)	(28,727)	-	(296,567)
Total accumulated depreciation	(18,841,651)	(559,121)	-	(19,400,772)
Total capital assets, being depreciated, net	8,534,371	(51,287)	-	8,483,084
Total capital assets, net	$ 8,856,543	$ 257,841	$ (328,785)	$ 8,785,599

NOTE 3: CAPITAL ASSETS (continued)

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

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, 2014 and 2013, the outstanding principal balance was $413,962 and $513,118 respectively.

The activity for the loan payable for the year ended June 30, 2014 and 2013 are as follows:

	Balance 6/30/13	Additions	Deletions	Balance 6/30/14	Due within one year
Loan payable	$ 513,118	$ -	$ (99,156)	$ 413,962	$ 100,860

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

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

Year Ending June 30,	Principal	Interest	Total
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	$ 413,962	$ 17,939	$ 431,901

NOTE 5: RETIREMENT PLAN

Plan Description

Plan administration. The San Bernardino County Employees' Retirement Association (SBCERA) was established by the County of San Bernardino in 1945. SBCERA is governed by the County Employees' Retirement Law of 1937 (California Government Code Section 31450 et. seq), the California Public Employees' Pension Reform Act of 2013 (CalPEPRA), and the regulations, procedures, and policies adopted by SBCERA's Board of Retirement. SBCERA is a cost-sharing multiple employer defined benefit public employee Retirement Association whose main function is to provide service retirement, disability, death and survivor benefits to the General and Safety members employed by the County of San Bernardino. SBCERA also provides retirement benefits to the employee members for 16 other employers which are members of SBCERA.

The management of SBCERA is vested with the SBCERA Board of Retirement. The Board consists of eleven trustees. Of the eleven members, two are alternates. Four trustees are appointed by the San Bernardino County Board of Supervisors; two General member trustees are elected by the General members; two Safety member trustees (including one alternate) are elected by the Safety members; two Retired member trustees (including one alternate) are elected by the Retired members; and the San Bernardino County Treasurer serves as an ex-officio member. Board members serve three-year terms, with the exception of the County Treasurer, who serves during his tenure in office.

Plan membership. At June 30, 2014, pension plan membership consisted of the following:

	Tier 1			Tier 2			
	General	Safety	Sub-Total	General	Safety	Sub-Total	Total
Active employees - vested	12,533	1,826	14,359	14	-	14	14,373
Active employees - nonvested	2,727	206	2,933	2,040	151	2,191	5,124
Inactive plan members or beneficiaries currently receiving benefits							
Retirees currently receiving benefits	7,745	1,410	9,155	-	-	-	9,155
Beneficiaries and dependents currently receiving benefits	1,181	282	1,463	-	-	-	1,463
Inactive plan members entitled to but not yet receiving benefits							
Inactive members eligible for, but not yet receiving benefits	2,002	127	2,129	1	-	1	2,130
Inactive members eligible for refund value of account only *	1,988	62	2,050	176	-	176	2,226
Total	28,176	3,913	32,089	2,231	151	2,382	34,471

** Inactive members with less than 5 years of service are entitled to withdraw their refundable contributions made, together with accumulated interest only.*

Benefits provided. SBCERA provides service retirement, disability, death and survivor benefits to eligible employees. Generally, any employee of the County of San Bernardino or participating employers who is appointed to a regular position whose service is greater than fifty percent of the full standard of hours required by a participating SBCERA employer (e.g. 20 hours per week or more) must become a member of SBCERA effective on the first day of employment. There are separate retirement benefits for General and Safety member employees. Safety membership is extended to those involved in active law enforcement and fire suppression. All other members are classified as General Members.

NOTE 5: RETIREMENT PLAN (continued)

There are currently two tiers applicable to both General and Safety members. Members with membership dates before January 1, 2013 are included in General Tier 1 or Safety Tier 1. Any new member who becomes a member on or after January 1, 2013 is designated as General Tier 2 or Safety Tier 2 and is subject to the provisions of California Public Employees' Pension Reform Act of 2013 (CalPEPRA), California Government Code 7522 et seq. and Assembly Bill (AB) 197.

General members prior to January 1, 2013, are eligible to retire once they attain the age of 70 regardless of service or at age 50 and have acquired 10 or more years of retirement service credit. A member with 30 years of service is eligible to retire regardless of age. General members who are first hired on or after January 1, 2013, are eligible to retire once they attain the age of 70 regardless of service or at age 52 and have acquired five or more years of retirement service credit.

Safety members prior to January 1, 2013, are eligible to retire once they attain the age of 70 regardless of service or at age 50 and have acquired 10 or more years of retirement service credit. A member with 20 years of service is eligible to retire regardless of age. Safety members who are first hired on or after January 1, 2013, are eligible to retire once they attain the age of 70 regardless of service or at age 50, and have acquired five or more years of retirement service credit.

The retirement benefit the member will receive is based upon age at retirement, final average compensation, years of retirement service credit and retirement plan and tier.

General Tier 1 benefit is calculated pursuant to the provisions of California Government Code of Section 31676.15. The monthly allowance is equal to 1/50th of final compensation times years of accrued retirement service credit times age factor from Section 31676.15. General Tier 2 benefit is calculated pursuant to the provisions found in California Government Code Section 7522.20(a). The monthly allowance is equal to the final compensation multiplied by years of accrued retirement credit multiplied by the age factor from Section 7522.20(a).

Safety Tier 1 benefit is calculated pursuant to the provisions of California Government Code Section 31664.1. The monthly allowance is equal to 3% of final compensation times years of accrued retirement service credit times age factor from Section 31664.1. Safety Tier 2 benefit is calculated pursuant to the provisions found in California Government Code Section 7522.25(d). The monthly allowance is equal to the final compensation multiplied by years of accrued retirement credit multiplied by the age factor from Section 7522.25(d).

For Tier 1 members, the maximum monthly retirement allowance is 100% of final compensation. There is no final compensation limit on the maximum retirement benefit for Tier 2 members. The maximum amount of compensation earnable that can be taken into account for 2014 for Tier 1 members with membership dates on or after July 1, 1996 is $260,000. The maximum amount of pensionable compensation for Tier 2 members that can be taken into account for 2014 is equal to $138,077. These limits are adjusted on an annual basis. Members are exempt from paying member contributions and employers are exempt from paying employer contributions on compensation in excess of the annual cap.

NOTE 5: RETIREMENT PLAN (continued)

Final average compensation consists of the highest 12 consecutive months for Tier 1 members and the highest 36 consecutive months for Tier 2 members.

The member may elect an unmodified retirement allowance, or choose an optional retirement allowance. The unmodified retirement allowance provides the highest monthly benefit and a 60% continuance to an eligible surviving spouse or domestic partner. An eligible surviving spouse or domestic partner is one married to or registered with the member one year prior to the effective retirement date or at least two years prior to the date of death and has attained age 55 on or prior to the date of death. There are four optional retirement allowances the member may choose. Each of the optional retirement allowances requires a reduction in the unmodified retirement allowance in order to allow the member the ability to provide certain benefits to a surviving spouse, domestic partner, or named beneficiary having an insurable interest in the life of the member.

SBCERA provides an annual cost-of-living benefit to all retirees. The cost-of-living adjustment, based upon the Consumer Price Index for All Urban Consumers for the Los Angeles-Riverside-Orange County Area, is capped at 2.0%.

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, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3rd Floor, San Bernardino, California 92415-0014, and receives a separate independent audit. SBCERA is also a legally separate entity from the County and not a component unit.

Funding Policy

The County of San Bernardino and participating employers contribute to the retirement plan based upon actuarially determined contribution rates adopted by the Board of Retirement. Employer contribution rates are adopted annually based upon recommendations received from SBCERA's actuary after the completion of the annual actuarial valuation. The average employer contribution rate as of June 30, 2014 for 2013-2014 (based on the June 30, 2012 valuation) was 23.08% of compensation.

All members are required to make contributions to SBCERA regardless of the retirement plan or tier in which they are included. The average member contribution rate as of June 30, 2014 for 2013-2014 (based on the June 30, 2012 valuation) was 10.58% of compensation.

NOTE 5: RETIREMENT PLAN (continued)

Net Pension Liability

The components of the net pension liability of participating employers as of June 30, 2014 and 2013 are as follows:

	June 30, 2014	June 30, 2013
Total pension liability	$ 9,694,825,407	$ 9,088,635,907
Plan fiduciary net position	(7,995,070,539)	(7,104,553,860)
Net pension liability	$ 1,699,754,868	$ 1,984,082,047
Plan fiduciary net position as a percentage of the total pension liability	82.47%	78.17%

The net pension liability was measured as of June 30, 2014 and 2013 and determined based upon the Plan fiduciary net position (plan assets) and total pension liability from actuarial valuations as of June 30, 2014 and 2013, respectively.

Actuarial assumptions

The actuarial assumptions used in this June 30, 2014 valuation were based on the results of an experience study for the period from July 1, 2010 through June 30, 2013. They are the same as the assumptions used in the June 30, 2014 funding actuarial valuation for SBCERA. The assumptions are outlined as follow:

Valuation Date	June 30, 2014
Actuarial Experience Study	3 Year Period Ending June 30, 2013
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level percent of payroll (3.75% payroll growth assumed)
Remaining Amortization Period	20 years for all Unfunded Actuarial Accrued Liability (UAAL) prior to June 30, 2002. Any changes in UAAL after June 30, 2002 are amortized over a 20-year closed period effective with each valuation. Effective June 30, 2011, any changes in UAAL due to actuarial gains or losses or due to changes in actuarial assumptions or methods will be amortized over a 20-year closed period effective with each valuation. Any change in UAAL that arises due to plan amendments is amortized over its own declining 15-year period (with exception of a change due to retirement incentives, which is amortized over a declining period of up to 5 years)
Asset Valuation Method	Market value of assets less unrecognized returns from each of the last 5 years. Unrecognized returns are equal to the difference between the actual market return and the expected return on a market value basis and are recognized over a 5-year period. The Actuarial Value of Assets is reduced by the value of the nonvaluation reserves. Deferred gains and losses as of June 30, 2011 have been combined and will be recognized in equal amounts over a period of 4 years commencing with the June 30, 2012 valuation. As of June 30, 2014, the net unrecognized deferred gain is $243.76 million.

NOTE 5: RETIREMENT PLAN (continued)

Actuarial assumptions (continued)

In particular, the following actuarial assumptions were applied to all periods included in the measurement:

Inflation	3.25%
Salary Increases	General: 4.60% to 13.75%; Safety: 4.55% to 13.75% varying by service, including inflation
Investment Rate of Return	7.50%, net of pension plan investment expenses, including inflation
Administrative Expenses	0.60% of payroll allocated to both the employer and member based on the components of the total contribution rate (before expenses) for the employer and member
Mortality	Mortality rates are based on the RP-2000 Combined Healthy mortality table projected 20 years using Projection Scale BB. For healthy General members, no adjustments are made. For healthy Safety members, ages are set back two years for males and one year for females. For disabled General members, ages are set forward seven years for males and set forward eight years for females. For disabled Safety members, ages are set forward two years for males and females. Beneficiaries are assumed to have the same mortality as a General member of the opposite sex who is receiving a service retirement.

All members with membership dates on or after January 1, 2013 enter the Tier 2 created by PEPRA.

The June 30, 2014 actuarial valuation reflected new assumptions compared to the June 30, 2013 actuarial valuation, based on the June 30, 2014 experience study. The June 30, 2013 actuarial valuation reflected 7.75% for the investment rate of return, 3.50% for inflation, 4.75% to 14.00% for both general and safety, for projected salary increases, 4.00% for wage inflation and there was no offset to investment return for administrative expenses.

Long-Term Expected Real Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. This information is combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The June 30, 2014 and June 30, 2013 target allocations (approved by the Board) and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before deducting investment expenses, used in the derivation of the long-term expected investment rate of return assumptions are summarized in the table on the next page.

NOTE 5: RETIREMENT PLAN (continued)

Long-Term Expected Real Rate of Return (continued)

Long-Term Expected Real Rate of Return

Asset Class	As of June 30, 2014 Target allocation	As of June 30, 2014 Long-Term Expected Real Rate of Return	As of June 30, 2013 Target allocation	As of June 30, 2013 Long-Term Expected Real Rate of Return
U.S. Equity	N/A	N/A	11.00%	6.69%
Large Cap U.S. Equity	5.00%	5.94%	N/A	N/A
Small Cap U.S. Equity	2.00%	6.50%	N/A	N/A
Developed International Equity	6.00%	6.87%	7.00%	6.96%
Emerging Market Equity	6.00%	8.06%	4.00%	9.25%
U.S. Core Fixed Income	2.00%	0.69%	6.00%	1.38%
High Yield/Credit Strategies	13.00%	3.10%	13.00%	4.08%
Global Core Fixed Income	1.00%	0.30%	10.00%	1.53%
Emerging Market Debt	6.00%	4.16%	6.00%	4.68%
Real Estate	9.00%	4.96%	9.00%	5.40%
Cash & Equivalents	2.00%	-0.03%	2.00%	0.76%
International Credit	10.00%	6.76%	N/A	N/A
Absolute Return	13.00%	2.88%	7.00%	3.73%
Real Assets	6.00%	6.85%	9.00%	5.42%
Long/Short Equity	3.00%	4.86%	N/A	N/A
Private Equity	16.00%	9.64%	16.00%	10.84%
Total	100.00%		100.00%	

N/A=Asset Class not considered in the calculation.

Discount Rate

The discount rates used to measure the total pension liability were 7.50% as of June 30, 2014 and 7.75% as of June 30, 2013, respectively. The projection of cash flows used to determine the discount rates assumed plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially determined contribution rates. For this purpose, only employee and employer contributions that are intended to fund benefits for current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of both June 30, 2014 and June 30, 2013.

NOTE 5: RETIREMENT PLAN (continued)

Schedules of Changes in Net Pension Liability

The schedules of changes in net pension liability for last two fiscal years are as follow:

	2014	2013
Total Pension liability		
Service cost	$ 271,473,405	$ 273,020,175
Interest	709,992,812	673,932,152
Change of benefit terms	-	-
Differences between expected and actual experience	(306,201,239)	(97,496,872)
Changes of assumptions	328,748,000	-
Benefit payments, including refunds of member contributions	(397,823,478)	(367,396,205)
Net change in total pension liability	$ 606,189,500	$ 482,059,250
Total pension liability - beginning	9,088,635,907	8,606,576,657
Total pension liability - ending (a)	$ 9,694,825,407	$ 9,088,635,907
Plan fiduciary net position		
Contributions - employer	$ 330,330,400	$ 303,080,499
Contributions - member	89,860,998	91,055,576
Net investment income	877,018,498	912,309,930
Benefit payments, including refunds of member contributions	(397,823,478)	(367,396,205)
Administrative expense	(6,386,420)	(6,258,237)
Other expenses	(2,483,319)	(1,571,905)
Net change in plan fiduciary net position	$ 890,516,679	$ 931,219,658
Plan fiduciary net position - beginning	7,104,553,860	6,173,334,202
Plan fiduciary net position - ending (b)	$ 7,995,070,539	$ 7,104,553,860
Net pension liability - ending (a)-(b)=(c)	$ 1,699,754,868	$ 1,984,082,047
Plan fiduciary net position as a percentage of the total pension liability	82.47%	78.17%
Covered employee payroll (d)	$ 1,262,751,964	$ 1,260,309,037
Plan net pension liability as percentage of covered employee payroll (c)/(d)	134.61%	157.43%

Benefit changes*: *All members with membership dates on or after January 1, 2013 enter the new tiers created by the California Public Employees' Pension Reform Act of 2013 (CalPEPRA).

NOTE 5: RETIREMENT PLAN (continued)

Schedules of Contributions

The schedules of contributions for last ten fiscal years are as follow:

Year Ended June 30	Actuarially Determined Contributions	Contributions in Relation to the Actuarially Determined Contributions	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a Percentage of Covered Employee Payroll
2005	$ 96,345,872	$ 96,345,872	$ -	$ 943,545,971	10.21%
2006	129,077,654	129,077,654	-	968,674,295	13.33%
2007	164,992,436	164,992,436	-	1,028,730,826	16.04%
2008	162,619,197	162,619,197	-	1,102,150,627	14.75%
2009	166,081,964	166,081,964	-	1,219,561,653	13.62%
2010	163,959,509	163,959,509	-	1,226,431,276	13.37%
2011	180,755,714	180,755,714	-	1,250,192,961	14.46%
2012	210,000,343	210,000,343	-	1,244,554,740	16.87%
2013	248,840,990	248,840,990	-	1,260,309,037	19.74%
2014	278,352,174	278,352,174	-	1,262,751,964	22.04%

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, 2014 and 2013, 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.

NOTE 7: RISK MANAGEMENT (continued)

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.

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 payable as of June 30, 2014 and 2013.

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. Proceeds of taxes received by the District during the 2013-2014 and 2012-2013 fiscal years were within the guidelines established by Proposition 111.

NOTE 9: SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 22, 2015, which is the date the financial statements were available to be issued, and has determined that there are no transactions that will have a significant impact on the District or require reporting.