



# Crestline Sanitation District

(A California Special District)

**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT  
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**



*Crestline Sanitation District*

**List of Elected and Appointed Officials Years**

**For The Years Ended June 30, 2015 and 2014**

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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

General Manager                      Mark Pattison

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

*Crestline Sanitation District*

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**For The Years Ended June 30, 2015 and 2014**

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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 financial statements of the business-type activities of the Crestline Sanitation District as of and for the years ended June 30, 2015 and 2014, 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, 2015 and 2014, 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 2-6, the Schedule of the District's Proportionate Share of the Plan's Net Pension Liability and Related Ratios as of the Measurement Date on page 42, the Schedule of Plan Contributions on page 43, and the Notes to Required Supplementary Information on page 44 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 15, 2016  
Grand Terrace, CA

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## *Crestline Sanitation District*

### **Management's Discussion and Analysis**

#### **For The Years Ended June 30, 2015 and 2014**

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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, 2015 and 2014. Please read it in conjunction with the District's basic financial statements.

#### **Financial Highlights**

- The assets of the District exceeded its liabilities at June 30, 2015 and 2014 by \$15,855,920 and \$15,541,343 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 2015 and 2014, 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 \$100,860 in 2015 and \$99,156 in 2014.
- At June 30, 2015 and 2014, the District is carrying accounts receivable in the amount of \$696,535 and \$742,696 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, deferred outflows of resources, liabilities, deferred inflows of resources, and 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 financial 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*

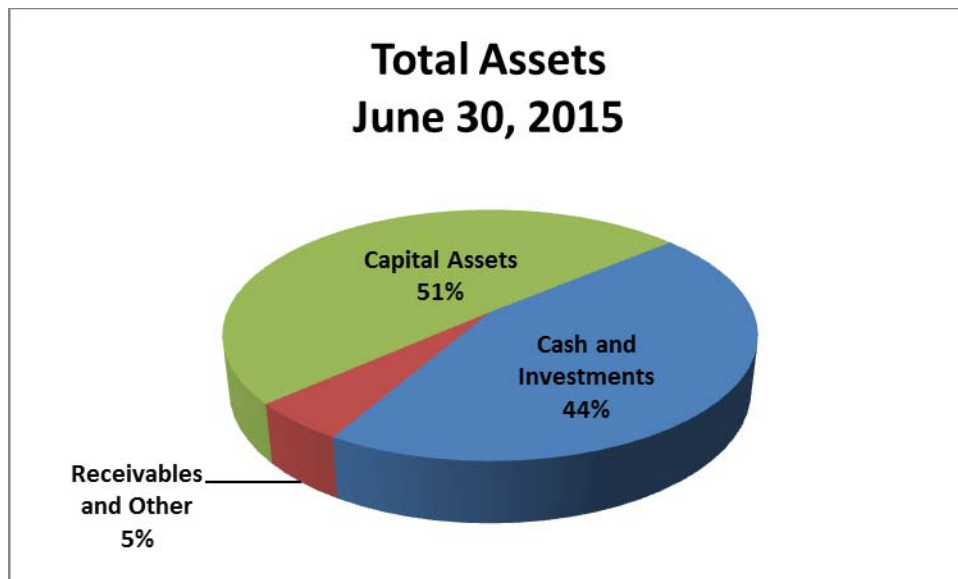
**Management's Discussion and Analysis**

**For The Years Ended June 30, 2015 and 2014**

**Financial Summary and Analysis**

**Condensed Statements of Net Position**

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>Change from 2014 to 2015</u>
<b>ASSETS</b>				
Current assets	\$ 9,006,919	\$ 9,355,961	\$ 9,102,344	\$ (349,042)
Capital assets, net	<u>9,179,861</u>	<u>8,785,599</u>	<u>8,856,543</u>	<u>394,262</u>
Total assets	<u>18,186,780</u>	<u>18,141,560</u>	<u>17,958,887</u>	<u>45,220</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
	<u>823,260</u>	<u>278,275</u>	<u>-</u>	<u>544,985</u>
<b>LIABILITIES</b>				
Current liabilities	294,211	276,460	238,705	17,751
Long-term liabilities	<u>2,044,690</u>	<u>2,154,651</u>	<u>466,258</u>	<u>(109,961)</u>
Total liabilities	<u>2,338,901</u>	<u>2,431,111</u>	<u>704,963</u>	<u>(92,210)</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
	<u>815,219</u>	<u>447,381</u>	<u>-</u>	<u>367,838</u>
<b>NET POSITION</b>				
Net investment in capital assets	8,866,759	8,371,637	8,343,425	495,122
Unrestricted	<u>6,989,161</u>	<u>7,169,706</u>	<u>8,910,499</u>	<u>(180,545)</u>
Total net position	<u>\$ 15,855,920</u>	<u>\$ 15,541,343</u>	<u>\$ 17,253,924</u>	<u>\$ 314,577</u>



# Crestline Sanitation District

## Management's Discussion and Analysis

For The Years Ended June 30, 2015 and 2014

### Financial Summary and Analysis (continued)

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

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>Change from 2014 to 2015</u>
Operating revenue	\$ 2,522,336	\$ 2,564,361	\$ 2,546,145	\$ (23,809)
Operating expenses	(3,284,986)	(3,220,764)	(3,215,582)	(69,404)
Loss from operations	<u>(762,650)</u>	<u>(656,403)</u>	<u>(669,437)</u>	<u>(93,213)</u>
Nonoperating revenues	1,160,681	1,122,531	1,056,248	104,433
Nonoperating expenses	(83,454)	(62,082)	(10,076)	(73,378)
Total nonoperating revenues (expenses)	<u>1,077,227</u>	<u>1,060,449</u>	<u>1,046,172</u>	<u>31,055</u>
Change in net position	<u>314,577</u>	<u>404,046</u>	<u>376,735</u>	<u>(62,158)</u>
Net position - beginning of year, as previously stated	15,541,343	17,253,925	16,877,190	(1,335,847)
Prior year restatement (note 9)	<u>-</u>	<u>(2,116,628)</u>	<u>-</u>	<u>-</u>
Net position - beginning of year, as restated	<u>15,541,343</u>	<u>15,137,297</u>	<u>16,877,190</u>	<u>(1,335,847)</u>
Net position - end of the year	<u>\$ 15,855,920</u>	<u>\$ 15,541,343</u>	<u>\$ 17,253,925</u>	<u>\$ (1,398,005)</u>

### Capital Assets

The District's 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:

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>Change from 2014 to 2015</u>
<u>Capital assets:</u>				
Land	\$ 213,308	\$ 213,308	\$ 213,308	\$ -
Improvements to land	17,441,905	17,441,905	17,332,047	-
Structures and improvements	9,326,799	8,852,790	8,667,648	474,009
Vehicles	1,069,655	1,159,219	949,186	(89,564)
Equipment	479,839	429,942	427,141	49,897
Intangible assets	16,925	-	-	16,925
Construction in progress	507,654	89,207	108,864	418,447
Accumulated depreciation	<u>(19,876,224)</u>	<u>(19,400,772)</u>	<u>(18,841,651)</u>	<u>(475,452)</u>
Total capital assets, net	<u>\$ 9,179,861</u>	<u>\$ 8,785,599</u>	<u>\$ 8,856,543</u>	<u>\$ 394,262</u>

## *Crestline Sanitation District*

### **Management's Discussion and Analysis**

**For The Years Ended June 30, 2015 and 2014**

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

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

	<u>2015</u>	<u>2014</u>	<u>2013*</u>	<u>Change from 2014 to 2015</u>
Loan payable	\$ 313,102	\$ 413,962	\$ 513,118	\$ (100,860)
Share of County pension obligation bonds	425,655	458,143	-	(32,488)
Net pension liability	<u>1,378,093</u>	<u>1,364,142</u>	<u>-</u>	<u>13,951</u>
Total long-term debt	<u>\$ 2,116,850</u>	<u>\$ 2,236,247</u>	<u>\$ 513,118</u>	<u>\$ (119,397)</u>

\* Share of County pension obligation bonds and net pension liability added in 2014 as prior year restatement

The change in debt is due to principal repayments and pension related adjustments. More detailed information about the District's long-term liabilities is presented in Notes 4 and 5 to the financial statements.

#### **Unrestricted Net Position**

The District had unrestricted net position of \$6,989,161 at June 30, 2015. The Board of Directors has designated unrestricted net position for reserves as follows:

<u>Designated Reserves</u>	<u>Amount</u>
Reserve for Operations	\$ 872,292
Reserve for Capital Replacement	4,076,830
Reserve for Catastrophe Response	<u>2,040,039</u>
Total Reserved Net Position	<u>\$ 6,989,161</u>

The District's reserve policy endeavors to designate unrestricted net position as follows: reserve for operations at six months of projected operating costs for the 2014/15 budget year plus one year's debt service; reserve for replacement at 25% of accumulated depreciation as of the beginning of the 2014/15 budget year; reserve for catastrophe response at 25% of net capital assets as of the beginning of the 2014/15 budget year; and reserve for capital projects as necessary to fund capital projects identified in the 2014/15 budget. The District's target reserve balance for 2014/15 is \$9,709,262 in accordance with the reserve policy and the 2014/15 budget, which is \$2,720,101 higher than available unrestricted net position as of June 30, 2015.

#### **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 2015 and 2014, the District's sewer rates remained unchanged.



*Crestline Sanitation District*

**Management's Discussion and Analysis**

**For The Years Ended June 30, 2015 and 2014**

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**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, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 609,801	\$ 1,163,110
Investments	7,475,806	7,159,619
Accounts receivable	696,535	742,696
Taxes receivable	57,197	42,517
Special assessments receivable	112,527	112,980
Interest receivable	11,853	16,185
Material and supplies inventory	13,293	13,293
Prepaid expenses	29,907	105,561
Total Current Assets	<u>9,006,919</u>	<u>9,355,961</u>
Noncurrent Assets:		
Capital assets:		
Land	213,308	213,308
Improvements to land	17,441,905	17,441,905
Structures and improvements	9,326,799	8,852,790
Vehicles	1,069,655	1,159,219
Equipment	479,839	429,942
Intangible assets	16,925	-
Construction in progress	507,654	89,207
Accumulated depreciation	<u>(19,876,224)</u>	<u>(19,400,772)</u>
Total Noncurrent Assets	<u>9,179,861</u>	<u>8,785,599</u>
Total Assets	<u>18,186,780</u>	<u>18,141,560</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Pension related (note 5)	<u>823,260</u>	<u>278,275</u>
Total Deferred Outflows of Resources	<u>823,260</u>	<u>278,275</u>

See notes to financial statements.

**Statements of Net Position**  
**June 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable	57,881	37,998
Accrued liabilities	84,632	90,878
Interest payable	1,871	1,871
Current portion of loan payable	102,594	100,860
Current portion of compensated absences payable	12,042	12,365
Current portion of County pension obligation bonds	35,191	32,488
	<u>294,211</u>	<u>276,460</u>
Noncurrent Liabilities:		
Loan payable, net of current portion	210,508	313,102
Compensated absences payable, net of current portion	65,625	51,752
Share of County pension obligation bonds (note 4)	390,464	425,655
Net pension liability (note 5)	1,378,093	1,364,142
	<u>2,044,690</u>	<u>2,154,651</u>
Total Liabilities	<u>2,338,901</u>	<u>2,431,111</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Pension related (note 5)	815,219	447,381
	<u>815,219</u>	<u>447,381</u>
<b>NET POSITION</b>		
Net investment in capital assets	8,866,759	8,371,637
Unrestricted	6,989,161	7,169,706
	<u>15,855,920</u>	<u>15,541,343</u>
Total Net Position	<u>\$ 15,855,920</u>	<u>\$ 15,541,343</u>

See notes to financial statements.

## Statements of Revenues, Expenses, and Changes in Net Position

For The Years Ended June 30, 2015 and 2014

	2015	2014
<b>OPERATING REVENUES</b>		
Charges for services	\$ 2,367,153	\$ 2,379,304
Permit and inspection fees	24,404	26,569
Connection fees	9,082	-
Other services	121,697	158,488
Total Operating Revenues	<u>2,522,336</u>	<u>2,564,361</u>
<b>OPERATING EXPENSES</b>		
Salaries and benefits	1,829,069	1,705,162
Professional services	256,267	352,257
Services and supplies	469,335	458,814
Utilities	157,990	145,410
Depreciation	572,325	559,121
Total Operating Expenses	<u>3,284,986</u>	<u>3,220,764</u>
Loss From Operations	<u>(762,650)</u>	<u>(656,403)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Property taxes	989,877	970,686
Special assessments	50,662	25,899
State assistance	10,994	11,620
Investment earnings	97,148	124,482
Gain on sales of capital assets	12,000	-
Interest expense	(80,934)	(62,082)
Other income (expense)	(2,520)	(10,156)
Total Nonoperating Revenues (Expenses)	<u>1,077,227</u>	<u>1,060,449</u>
Change in net position	<u>314,577</u>	<u>404,046</u>
Net position - beginning of year, as previously stated	15,541,343	17,253,925
Prior period adjustments (note 9)	-	(2,116,628)
Net position - beginning of year, as restated	<u>15,541,343</u>	<u>15,137,297</u>
Net position - end of year	<u>\$ 15,855,920</u>	<u>\$ 15,541,343</u>

See notes to financial statements.

## Statements of Cash Flows

For The Years Ended June 30, 2015 and 2014

	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 2,568,497	\$ 2,570,559
Payments to suppliers	(788,055)	(983,340)
Payments for employee's salaries and benefits	(1,986,439)	(1,771,602)
Net Cash Used for Operating Activities	(205,997)	(184,383)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Property taxes	975,197	979,280
Special assessments	51,115	8,168
State assistance	10,994	11,620
Other nonoperating revenues (expenses)	(1,042)	(9,456)
Net Cash Provided by Noncapital Financing Activities	1,036,264	989,612
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition of capital assets	(966,587)	(488,176)
Proceeds from sale of capital assets	12,000	-
Principal payments on loan	(100,860)	(99,156)
Principal payments on pension obligation bonds	(32,488)	(30,105)
Interest payments	(80,934)	(62,416)
Net Cash Used for Capital and Related Financing Activities	(1,168,869)	(679,853)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment earnings	101,480	128,131
Purchase of investments	(4,191,563)	(5,176,290)
Proceeds from investments	3,875,376	5,057,275
Net Cash (Used for) Provided by Investing Activities	(214,707)	9,116
Net (Decrease) Increase in Cash and Cash Equivalents	(553,309)	134,492
<b>Cash and cash equivalents - beginning of the year</b>	<b>1,163,110</b>	<b>1,028,618</b>
<b>Cash and cash equivalents - end of the year</b>	<b>\$ 609,801</b>	<b>\$ 1,163,110</b>

See notes to financial statements.

## Statements of Cash Flows

For The Years Ended June 30, 2015 and 2014

	2015	2014
<b>Reconciliation of operating loss to net cash used for operating activities:</b>		
Operating loss	\$ (762,650)	\$ (656,403)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation expense	572,325	559,121
Actuarial pension expense	183,884	183,143
Pension contributions subsequent to measurement date	(347,080)	(278,275)
Changes in assets and liabilities:		
(Increase) Decrease in:		
Accounts receivable	46,161	6,198
Prepaid expenses	75,654	(820)
Increase (Decrease) in:		
Accounts payable	19,883	(26,039)
Accrued liabilities	(7,724)	22,934
Compensated absences payable	13,550	5,758
Net Cash Used for Operating Activities	<u>\$ (205,997)</u>	<u>\$ (184,383)</u>

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

None

## *Crestline Sanitation District*

### **Notes to Financial Statements**

**For The Years Ended June 30, 2015 and 2014**

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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 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.



## *Crestline Sanitation District*

### **Notes to Financial Statements**

**For The Years Ended June 30, 2015 and 2014**

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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.

##### **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, 2015 and 2014 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.

# *Crestline Sanitation District*

## **Notes to Financial Statements**

**For The Years Ended June 30, 2015 and 2014**

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

#### **Capital Assets (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:

<u>Assets</u>	<u>Years</u>
Improvements to land	10 - 45
Structures and improvements	5 - 45
Vehicles	5 - 15
Equipment	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 / Compensated Absences**

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, 2015 or June 30, 2014.

*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**

**For The Years Ended June 30, 2015 and 2014**

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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 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.

##### **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.

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

GASB has issued Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pension plans, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

GASB has issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

# *Crestline Sanitation District*

## **Notes to Financial Statements**

**For The Years Ended June 30, 2015 and 2014**

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

#### **Implementation of New Pronouncements, continued**

These pronouncements have been implemented for purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense/expenditures. Information about the fiduciary net position of the District's San Bernardino County Employees' Retirement Association (SBCERA) plan (Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by SBCERA. For this purpose, employer and employee contributions are recognized in the period the related salaries are earned and become measureable pursuant to formal commitments, statutory or contractual requirements, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms, and investments are reported at fair value.

#### **Pension Plan**

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the San Bernardino County Employees' Retirement Association (SBCERA) and additions to/deductions from SBCERA's fiduciary net position have been determined on the same basis as they are reported by SBCERA. For this purpose, employer and employee contributions are recognized in the period the related salaries are earned and become measureable pursuant to formal commitments, statutory or contractual requirements, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms, and investments are reported at fair value. SBCERA audited financial statements are publicly available reports that can be obtained at SBCERA's website at [www.sbcera.org](http://www.sbcera.org).

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For the year ended June 30, 2015, the following timeframes are used.

Valuation Date (VD)	June 30, 2014
Measurement Date (MD)	June 30, 2014
Measurement Period (MP)	July 1, 2013 to June 30, 2014

For the year ended June 30, 2014, the following timeframes are used.

Valuation Date (VD)	June 30, 2013
Measurement Date (MD)	June 30, 2013
Measurement Period (MP)	July 1, 2012 to June 30, 2013

#### **Reclassification**

Certain reclassifications have been made to prior years' balances to conform to classifications used in 2015.

*Crestline Sanitation District*

**Notes to Financial Statements**

**For The Years Ended June 30, 2015 and 2014**

**NOTE 2: CASH AND INVESTMENTS**

Cash and investments as of June 30, 2015 and 2014 are classified in the accompanying financial statements as follows:

	2015	2014
Statement of Net Position:		
Cash and cash equivalents	\$ 609,801	\$ 1,163,110
Investments	7,475,806	7,159,619
	<u>\$ 8,085,607</u>	<u>\$ 8,322,729</u>

Cash and investments as of June 30, 2015 and 2014 consist of the following:

	2015	2014
Cash on hand	\$ 500	\$ 500
Deposits with financial institutions	609,301	1,162,610
Investments	7,475,806	7,159,619
	<u>\$ 8,085,607</u>	<u>\$ 8,322,729</u>

**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

For The Years Ended June 30, 2015 and 2014

### 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, 2015, 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	\$ -	\$ -	\$ 1,802,606	\$ 1,802,606
Local Agency Investment Fund	177,520	-	-	177,520
Investment Trust of California	-	203,079	114,972	318,051
Medium-Term Notes	274,077	737,603	812,332	1,824,012
Negotiable Certificates of Deposit	500,878	608,579	679,873	1,789,330
Money Market Mutual Funds	1,564,287	-	-	1,564,287
Totals	<u>\$ 2,516,762</u>	<u>\$ 1,549,261</u>	<u>\$ 3,409,783</u>	<u>\$ 7,475,806</u>

As of June 30, 2014, 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	\$ -	\$ -	\$ 2,681,684	\$ 2,681,684
Local Agency Investment Fund	201,995	-	-	201,995
Investment Trust of California	-	202,446	613,764	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	<u>\$ 430,127</u>	<u>\$ 996,669</u>	<u>\$ 5,732,823</u>	<u>\$ 7,159,619</u>

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

At June 30, 2015 and 2014, 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**

**For The Years Ended June 30, 2015 and 2014**

**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, 2015

Investment Type	Amount	Minimum Legal Rating	AA	A	BBB	Unrated
United States Government						
Sponsored Enterprise Securities	\$ 1,802,606	N/A	\$ 1,802,606	\$ -	\$ -	\$ -
Local Agency Investment Fund	177,520	N/A	-	-	-	177,520
Investment Trust of California - Short Term Fund	203,079	N/A	203,079	-	-	-
Investment Trust of California - Medium Term Fund	114,972	N/A	-	-	-	114,972
Medium-Term Notes	1,824,012	A	435,693	972,596	415,723	-
Negotiable Certificates of Deposit	1,789,330	N/A	-	-	-	1,789,330
Money Market Mutual Funds	1,564,287	N/A	-	-	-	1,564,287
Totals	\$ 7,475,806		\$ 2,441,378	\$ 972,596	\$ 415,723	\$ 3,646,109

June 30, 2014

Investment Type	Amount	Minimum Legal Rating	AA	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

# *Crestline Sanitation District*

## **Notes to Financial Statements**

**For The Years Ended June 30, 2015 and 2014**

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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. 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, 2015 and 2014 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, 2015: None

As of June 30, 2014:

<u>Issuer</u>	<u>Investment type</u>	<u>Amount</u>
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

#### **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.



## *Crestline Sanitation District*

### **Notes to Financial Statements**

**For The Years Ended June 30, 2015 and 2014**

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

##### **Custodial Credit Risk (continued)**

As of June 30, 2015 and 2014, \$426,704 and \$962,121 of the District's deposits with financial institutions respectively, were in excess of the Federal Deposit Insurance Corporation (FDIC) limits. As of June 30, 2015 and 2014, 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 [www.treasurer.ca.gov](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 [www.caltrust.org](http://www.caltrust.org).

*Crestline Sanitation District*

**Notes to Financial Statements**

**For The Years Ended June 30, 2015 and 2014**

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**NOTE 3: CAPITAL ASSETS**

Summaries of changes in capital assets in service for the years ended June 30, 2015 and 2014 were as follows:

June 30, 2015

	Balance 6/30/14	Additions	Deletions	Balance 6/30/15
Capital assets, not being depreciated:				
Land	\$ 213,308	\$ -	\$ -	\$ 213,308
Construction in progress	89,207	952,707	(534,260)	507,654
Total capital assets, not being depreciated	<u>302,515</u>	<u>952,707</u>	<u>(534,260)</u>	<u>720,962</u>
Capital assets, being depreciated:				
Improvements to land	17,441,905	-	-	17,441,905
Structures and improvements	8,852,790	474,009	-	9,326,799
Vehicles	1,159,219	7,309	(96,873)	1,069,655
Equipment	429,942	49,897	-	479,839
Intangible assets	-	16,925	-	16,925
Total capital assets, being depreciated	<u>27,883,856</u>	<u>548,140</u>	<u>(96,873)</u>	<u>28,335,123</u>
Less accumulated depreciation for:				
Improvements to land	(14,564,930)	(317,325)	-	(14,882,255)
Structures and improvements	(3,746,820)	(173,348)	-	(3,920,168)
Vehicles	(792,455)	(55,735)	96,873	(751,317)
Equipment	(296,567)	(25,882)	-	(322,449)
Intangible assets	-	(35)	-	(35)
Total accumulated depreciation	<u>(19,400,772)</u>	<u>(572,325)</u>	<u>96,873</u>	<u>(19,876,224)</u>
Total capital assets, being depreciated, net	<u>8,483,084</u>	<u>(24,185)</u>	<u>-</u>	<u>8,458,899</u>
Total capital assets, net	<u>\$ 8,785,599</u>	<u>\$ 928,522</u>	<u>\$ (534,260)</u>	<u>\$ 9,179,861</u>

*Crestline Sanitation District*

**Notes to Financial Statements**

**For The Years Ended June 30, 2015 and 2014**

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

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	<u>322,172</u>	<u>309,128</u>	<u>(328,785)</u>	<u>302,515</u>
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	<u>27,376,022</u>	<u>507,834</u>	<u>-</u>	<u>27,883,856</u>
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	<u>(18,841,651)</u>	<u>(559,121)</u>	<u>-</u>	<u>(19,400,772)</u>
Total capital assets, being depreciated, net	<u>8,534,371</u>	<u>(51,287)</u>	<u>-</u>	<u>8,483,084</u>
Total capital assets, net	<u>\$ 8,856,543</u>	<u>\$ 257,841</u>	<u>\$ (328,785)</u>	<u>\$ 8,785,599</u>

*Crestline Sanitation District*

**Notes to Financial Statements**

**For The Years Ended June 30, 2015 and 2014**

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**NOTE 4: LONG-TERM DEBT**

**A. 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, 2015 and 2014, the outstanding principal balance was \$313,102 and \$413,962 respectively.

The activity for the loan payable for the years ended June 30, 2015 and 2014 are as follows:

Balance 6/30/14	Additions	Deletions	Balance 6/30/15	Due within one year
\$ 413,962	\$ -	\$ (100,860)	\$ 313,102	\$ 102,594

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

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

Year Ending June 30,	Principal	Interest	Total
2016	\$ 102,594	\$ 5,381	\$ 107,975
2017	104,357	3,618	107,975
2018	106,151	1,825	107,976
Total	\$ 313,102	\$ 10,824	\$ 323,926

*Crestline Sanitation District*

**Notes to Financial Statements**

**For The Years Ended June 30, 2015 and 2014**

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**NOTE 4: LONG-TERM DEBT (continued)**

**B. Compensated Absences**

The District's policies relating to compensated absences are described in Note 1. Changes in compensated absences for the years ended June 30, 2015 and 2014 were as follows:

<u>Balance 6/30/14</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/15</u>	<u>Due within one year</u>
<u>\$ 64,117</u>	<u>\$ 211,776</u>	<u>\$ (198,226)</u>	<u>\$ 77,667</u>	<u>\$ 12,042</u>

<u>Balance 6/30/13</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/14</u>	<u>Due within one year</u>
<u>\$ 58,359</u>	<u>\$ 183,598</u>	<u>\$ (177,840)</u>	<u>\$ 64,117</u>	<u>\$ 12,365</u>

**C. Pension Obligation Bonds**

The District participates in the San Bernardino County Employees' Retirement Association (SBCERA) pension plan. Prior to the District becoming self-governed in 2010, it was a component unit of the County of San Bernardino (County), and because of its participation in SBCERA, the District was a deemed participant in the issuance of three pension obligation bonds.

In November 1995, San Bernardino County Financing Authority issued Revenue Bonds for the purpose of enabling the County to finance its share of unfunded pension indebtedness. On June 24, 2004, the County issued County of San Bernardino Pension Obligation Bonds, Series 2004 A (Fixed Rate Bonds), County of San Bernardino Pension Obligation Bonds, Series 2004 B (Auction Rate Bonds), and County of San Bernardino Pension Obligation Bonds, Series 2004 C (Index Bonds). The Bonds have various maturity dates ranging from: 2005 to 2018 for Fixed Rate Bonds; 2004 to 2023 for Auction Rate Bonds; and 2004 to 2023 for Index Bonds. Series 2004 A Fixed Rate Bonds have fixed interest rates that range from 2.43% to 5.86%. The Series 2004 B Pension Obligation Bonds were fully refunded in April 2008 by the issued Pension Obligation Refunding Bonds, Series 2008, which have a fixed interest rate of 6.020%.

The District's liability for its proportionate share of the pension obligation bonds is contractually determined with the County, and is subject to change based on a number of relevant factors. The District's funding requirements for its proportionate share of the outstanding pension obligation bonds is based on a percentage of covered payroll, at a rate determined annually by the County. Funding requirements for the years ended June 30, 2015 and 2014 were 7.5% and 7.1% of covered payroll, respectively. Additional information about the pension obligation bonds is available in the County's Comprehensive Annual Financial Report and its Adopted Budget, which are both available at [www.sbcounty.gov](http://www.sbcounty.gov).

*Crestline Sanitation District*

**Notes to Financial Statements**

**For The Years Ended June 30, 2015 and 2014**

**NOTE 4: LONG-TERM DEBT (continued)**

**C. Pension Obligation Bonds (continued)**

Debt to maturity amortization schedules for the variable rate issues are based on the estimated average interest rate at the time of issuance. The District's proportionate share of the County's outstanding pension obligation bonds was estimated by multiplying the average of the District's proportionate share of pension obligation bond payments over the last 3 years (2013 to 2015) of approximately 0.1% by the total outstanding pension obligation bonds of the County. The difference between the District's change in proportionate share of the outstanding principal balance of the pension obligation bonds from the previous year and District's actual payments to the County during the year is reported as interest expense in the accompanying financial statements. Bond payments made to the County for the years ended June 30, 2015 and 2014 were \$106,307 and \$83,701, respectively. The District's interest expense related to the pension obligation bonds during the years ended June 30, 2015 and 2014 was \$72,406 and \$57,304, respectively.

The activity for the pension obligation bonds for the years ended June 30, 2015 and 2014 was as follows:

Balance 6/30/14	Additions	Deletions	Balance 6/30/15	Due within one year
\$ 458,143	\$ -	\$ (32,488)	\$ 425,655	\$ 35,191

Balance 6/30/13	Additions	Deletions	Balance 6/30/14	Due within one year
\$ 488,248	\$ -	\$ (30,105)	\$ 458,143	\$ 32,488

A summary of estimated pension obligation bond payments for the remaining fiscal years is as follows (actual payments are contractually determined each year):

Year Ending June 30,	Principal	Interest	Total
2016	\$ 35,191	\$ 64,731	\$ 99,922
2017	38,118	66,793	104,911
2018	41,428	68,728	110,156
2019	44,763	70,569	115,332
2020	48,603	72,259	120,862
2021-2024	217,552	152,580	370,132
Total	\$ 425,655	\$ 495,660	\$ 921,315

## *Crestline Sanitation District*

### **Notes to Financial Statements**

**For The Years Ended June 30, 2015 and 2014**

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#### **NOTE 5: DEFINED BENEFIT PENSION PLAN**

##### **A. *General Information about the Pension Plan***

###### **Plan Description**

The District participates in the San Bernardino County Employees' Retirement Association (SBCERA) pension plan - a cost-sharing multiple-employer defined benefit pension plan (the Plan). SBCERA administers the Plan which provides benefits for two membership classifications, General and Safety, and those benefits are tiered based upon date of SBCERA membership. Safety membership is extended to those involved in active law enforcement and fire suppression. All other members are classified as General members. Generally, those who become members prior to January 1, 2013 are Tier 1 members. All other members are Tier 2. An employee who is appointed to a regular position, whose service is greater than fifty percent of the full standard of hours required are members of SBCERA, and are provided with pension benefits pursuant to Plan requirements.

The Plan operates under the provisions of the California County Employees' Retirement Law of 1937 (CERL), the California Public Employees' Pension Reform Act of 2013 (PEPRA), and the regulations, procedures and policies adopted by SBCERA's Board of Retirement (Board). The Plan's authority to establish and amend the benefit terms are set by the CERL and PEPRA, and may be amended by the California state legislature and in some cases require approval by the County of San Bernardino Board of Supervisors and/or the SBCERA Board. SBCERA is a tax qualified plan under Section 401(a) of the Internal Revenue Code.

SBCERA is a legally separate entity from the District, not a component unit, and there is no financial interdependency with the County of San Bernardino. For these reasons, the District's financial statements exclude the SBCERA pension plan as of June 30, 2015. SBCERA publishes its own comprehensive annual financial report that includes its financial statements and required supplementary information, that can be obtained by writing SBCERA at, 348 W. Hospitality Lane, Third Floor, San Bernardino, CA 92415-0014 or visiting the website at: [www.sbcera.org](http://www.sbcera.org).

###### **Benefits Provided**

SBCERA provides retirement, disability, death and survivor benefits. The CERL and PEPRA establish benefit terms. Retirement benefits are calculated on the basis of age, average final compensation and service credit as follows:

*Crestline Sanitation District*

**Notes to Financial Statements**

**For The Years Ended June 30, 2015 and 2014**

**NOTE 5: DEFINED BENEFIT PENSION PLAN (continued)**

	<b>General - Tier 1</b>	<b>General - Tier 2</b>	<b>Safety - Tier 1</b>	<b>Safety - Tier 2</b>
<b>Final Average Compensation</b>	Highest 12 months	Highest 36 months	Highest 12 months	Highest 36 months
<b>Normal Retirement Age</b>	Age 55	Age 55	Age 50	Age 50
<b>Early Retirement: Years of service required and/or age eligible for</b>	Age 70 any years 10 years age 50 30 years any age	Age 70 any years 5 years age 52 N/A	Age 70 any years 10 years age 50 20 years any age	Age 70 any years 5 years age 50 N/A
<b>Benefit percent per year of service for normal retirement age</b>	2% per year of final average compensation for every year of service credit	2.5% per year of final average compensation for every year of service credit	3% per year of final average compensation for every year of service credit	2.7% per year of final average compensation for every year of service credit
<b>Benefit Adjustments</b>	Reduced before age 55, increased after 55 up to age 65	Reduced before age 67	Reduced before age 50	Reduced before age 57
<b>Final Average Compensation Limitation</b>	Internal Revenue Code section 401(a)(17)	Government Code section 7522.10	Internal Revenue Code section 401(a)(17)	Government Code section 7522.10

An automatic cost of living adjustment is provided to benefit recipients based on changes in the local region Consumer Price Index (CPI) up to a maximum of 2% per year. Any increase greater than 2% is banked and may be used in years where the CPI is less than 2%. There is a one-time 7% increase at retirement for members hired before August 19, 1975. The Plan also provides disability and death benefits to eligible members and their beneficiaries, respectively. For retired members, the death benefit is determined by the retirement benefit option chosen. For all other members, the beneficiary is entitled to benefits based on the members years of service or if the death was caused by employment. General members are also eligible for survivor benefits which are payable upon a member's death.

**Contributions**

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



*Crestline Sanitation District*

**Notes to Financial Statements**

**For The Years Ended June 30, 2015 and 2014**

**NOTE 5: DEFINED BENEFIT PENSION PLAN (continued)**

**Contributions, continued**

Employee contribution rates for the fiscal year ended June 30, 2015 ranged between 7.07% and 13.52% for Tier 1 General members, and between 6.37% and 7.88% for Tier 2 General members. For the fiscal year ended June 30, 2014 employee contributions rates ranged between 7.06% and 13.51% for Tier 1 General members, and between 6.98% and 7.75% for Tier 2 General members.

Employer contribution rates are as follows:

	<u>Employer Contribution Rates</u>		<u>Paid by Employer for Employee</u>	
	<u>Tier 1 Members</u>	<u>Tier 2 Members</u>	<u>Tier 1 Members</u>	<u>Tier 2 Members</u>
	<u>Membership Dates Before January 1, 2013</u>	<u>Membership Dates On or After January 1, 2013</u>	<u>Membership Dates Before January 1, 2013</u>	<u>Membership Dates On or After January 1, 2013</u>
Actuarially Determined Required Contribution Percentages for Years Ended:				
June 30, 2015	20.24%	18.02%	7.00%	0.00%
June 30, 2014	18.96%	16.53%	7.00%	0.00%
June 30, 2013	17.12%	N/A	7.00%	0.00%

The required employer contributions and the amount paid to SBCERA by the District for the years ended June 30, 2015 and 2014 were \$278,266 and \$220,820, respectively. The District's employer contributions were equal to the required employer contributions for the years ended June 30, 2015 and 2014. Employer Paid Employee Contributions for the years ended June 30, 2015 and 2014 were \$68,714 and \$57,455.

**B. Net Pension Liability**

At June 30, 2015, the District reported a net pension liability of \$1,378,093 for its proportionate share of the SBCERA's net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014. The District's reported liability at June 30, 2015, increased by \$13,951 from the District's prior year liability of \$1,364,142 because of changes in the SBCERA net pension liability and the District's proportionate share of that liability. The SBCERA's publicly available financial report provides details on the change in the net pension liability.

# *Crestline Sanitation District*

## **Notes to Financial Statements**

**For The Years Ended June 30, 2015 and 2014**

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### **NOTE 5: DEFINED BENEFIT PENSION PLAN (continued)**

The District's proportion of the net pension liability was based on the District's contributions received by SBCERA during the measurement period for employer payroll paid dates from July 1, 2013 through June 30, 2014, relative to the total employer contributions received from all of SBCERA's participating employers. At June 30, 2014, the District's proportionate share of total employer contributions was 0.082%, which was an increase of 0.01% from its proportion measured as of June 30, 2013. A summary of principal assumptions and methods used to determine the net pension liability is as follows.

#### **Actuarial Methods and Assumptions Used to Determine Total Pension Liability**

The significant actuarial assumptions and methods used to measure the total pension liability are as follows:

Valuation Date	June 30, 2014
Measurement Date	June 30, 2014
Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	Market Value of Assets
Actuarial Assumptions:	
Discount Rate	7.50%
Inflation	3.25%
Salary Increases (1)	4.6% - 13.75%
Investment Rate of Return	7.50%
Administrative expenses (2)	0.60% of payroll
Mortality Rate Table (3)	Deriverd using SBCERA' participant data for all employers

(1) Annual increases vary by category, entry age, and duration of service.

(2) Allocated to both the employer and member based on the components of the total contribution rate (before expenses) for the employer and member.

(3) Post-retirement mortality is based on the RP-2000 Combined Healthy Mortality Tables projected with Scale BB to 2020.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the three year period of July 1, 2010 – June 30, 2013.

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 projected salary increases, 4.00% for wage inflation, and there was no offset to investment return for administrative expenses.

*Crestline Sanitation District*

**Notes to Financial Statements**

**For The Years Ended June 30, 2015 and 2014**

**NOTE 5: DEFINED BENEFIT PENSION PLAN (continued)**

**Actuarial Methods and Assumptions Used to Determine Total Pension Liability, continued**

The long-term expected rate of return on pension plan investments is 7.50%. SBCERA's actuary prepares an analysis of the long-term expected rate of return on a triennial basis using a building-block method in which expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These returns are 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, by adding expected inflation and subtracting expected investment expenses and a risk margin. The target allocations (approved by the SBCERA 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 following table:

**SBCERA's Long-Term Expected Real Rate of Return**

Asset Class	As of June 30, 2014 Valuation Date		As of June 30, 2013 Valuation Date	
	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
U.S. Equity	N/A <sup>1</sup>	N/A <sup>1</sup>	11.00%	6.69%
Large Cap U.S. Equity	5.00%	5.94%	N/A <sup>1</sup>	N/A <sup>1</sup>
Small Cap U.S. Equity	2.00%	6.50%	N/A <sup>1</sup>	N/A <sup>1</sup>
Developed International Eq	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 <sup>1</sup>	N/A <sup>1</sup>
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 <sup>1</sup>	N/A <sup>1</sup>
Private Equity	16.00%	9.64%	16.00%	10.84%
<b>Total</b>	<b>100.00%</b>		<b>100.00%</b>	

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

*Crestline Sanitation District*

**Notes to Financial Statements**

**For The Years Ended June 30, 2015 and 2014**

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**NOTE 5: DEFINED BENEFIT PENSION PLAN (continued)**

**Discount Rate**

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made based on the actuarially determined rates based on the SBCERA Board's funding policy, which establishes the contractually required rate based on statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive 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.

For the actuarial valuation date of June 30, 2013, the discount rate used to measure the total pension liability as of the year ended June 30, 2014 was 7.75%.

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

The following presents the District's proportionate share of the net pension liability of the Plan as of the measurement date, calculated using the discount rate of 7.50%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	<b>1.00% Decrease (6.50%)</b>	<b>Current Discount Rate (7.50%)</b>	<b>1.00% Increase (8.50%)</b>
District's proportionate share of the net pension liability for year ended:			
June 30, 2015	\$ 2,435,410	\$ 1,378,093	\$ 502,456
June 30, 2014	\$ 2,193,547	\$ 1,364,142	\$ 675,620

**Pension Plan Fiduciary Net Position**

Detailed information about the SBCERA's fiduciary net position is available in a separately issued SBCERA comprehensive annual financial report. That report may be obtained on the Internet at [www.sbcera.org](http://www.sbcera.org); by writing to SBCERA at 348 W. Hospitality Lane, Third Floor, San Bernardino, CA 92415; or by calling (909) 885-7980 or (877) 722-3721.

*Crestline Sanitation District*

**Notes to Financial Statements**

**For The Years Ended June 30, 2015 and 2014**

**NOTE 5: DEFINED BENEFIT PENSION PLAN (continued)**

**C. Proportionate Share of Net Pension Liability**

The following table shows the Plan's proportion share of the net pension liability over the measurement periods.

June 30, 2015

	Increase (Decrease)		
	Plan Total Pension Liability	Plan Fiduciary Net Position	Plan Net Pension Liability
	(a)	(b)	(c) = (a) - (b)
Balance at: 6/30/2013 (VD&MD)	\$ 7,086,172	\$ 5,722,030	\$ 1,364,142
Balance at: 6/30/2014 (VD&MD)	\$ 9,286,437	\$ 7,908,344	\$ 1,378,093
Net changes during measurement period 2013-14	\$ 2,200,265	\$ 2,186,314	\$ 13,951

June 30, 2014

	Increase (Decrease)		
	Plan Total Pension Liability	Plan Fiduciary Net Position	Plan Net Pension Liability
	(a)	(b)	(c) = (a) - (b)
Balance at: 6/30/2012 (VD&MD)	\$ 7,170,441	\$ 5,310,142	\$ 1,860,299
Balance at: 6/30/2013 (VD&MD)	\$ 7,086,172	\$ 5,722,030	\$ 1,364,142
Net changes during measurement period 2012-13	\$ (84,269)	\$ 411,888	\$ (496,157)

Valuation Date (VD), Measurement Date (MD).

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for the Plan as of June 30, 2015 and 2014 was as follows:

Proportionate share at June 30, 2015 (measurement date June 30, 2014)	0.08108%
Proportionate share at June 30, 2014 (measurement date June 30, 2013)	0.06875%
Change - Increase (Decrease)	0.01232%

*Crestline Sanitation District*

**Notes to Financial Statements**

**For The Years Ended June 30, 2015 and 2014**

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**NOTE 5: DEFINED BENEFIT PENSION PLAN (continued)**

**Subsequent Events**

There were no subsequent events that would materially affect the results presented in this disclosure.

**Recognition of Gains and Losses**

Under GASB 68, gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time.

The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense.

The amortization period differs depending on the source of the gain or loss:

Difference between projected and actual earnings	5 year straight-line amortization
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All other amounts	Straight-line amortization over the average expected remaining service lives of all members that are provided with benefits (active, inactive and retired) as of the beginning of the measurement period
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The expected average remaining service lifetime (EARSL) of all employees that are provided with pensions through SBCERA is calculated by dividing the total future service years by the total number of plan participants (active, inactive, and retired) in the Plan. The EARSL for the Plan as of June 30, 2013 (the beginning of the measurement period ended June 30, 2014) is 6.23 years. The EARSL for the Plan as of June 30, 2012 (the beginning of the measurement period ended June 30, 2013) is 6.35 years.

*Crestline Sanitation District*

**Notes to Financial Statements**

**For The Years Ended June 30, 2015 and 2014**

**NOTE 5: DEFINED BENEFIT PENSION PLAN (continued)**

***D. Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions***

For the years ended June 30, 2015 and 2014, the District recognized pension expense of \$183,884 and \$183,143, respectively. A complete breakdown of the pension expense is as follows:

Financial reporting date Measurement date	June 30, 2015 June 30, 2014	June 30, 2014 June 30, 2013
<b>Components of pension expense:</b>		
Service Cost	\$ 220,100	\$ 187,713
Interest on the Total Pension Liability	575,633	463,357
Expensed portion of current-period changes in proportion and differences between employer's contributions and proportionate share of contributions	48,265	(28,328)
Expensed portion of current-period difference between expected and actual experience in the Total Pension Liability	(39,848)	(10,556)
Expensed portion of current-period changes of assumptions or other inputs	42,783	-
Withdrawn employers' contributions	(7,038)	(7)
SBCERA employer contributions	(571)	(421)
Member contributions <sup>(1)</sup>	(107,960)	(99,897)
Employer paid member contributions	57,455	55,112
Projected earnings on plan investments	(446,831)	(329,447)
Expensed portion of current-period differences between actual and projected earnings on plan investments	(52,844)	(59,561)
Administrative expense	7,191	5,384
Recognition of beginning of year deferred inflows of resources as pension expense	(82,683)	-
Net amortization of deferred amounts from changes in proportion	(28,328)	-
Net amortization of deferred amounts from differences between employer's contributions and proportionate share of contributions	(1,440)	(206)
<b>Pension Expense</b>	<b>\$ 183,884</b>	<b>\$ 183,143</b>

<sup>(1)</sup> Includes "Employer paid member contributions."

*Crestline Sanitation District*

**Notes to Financial Statements**

**For The Years Ended June 30, 2015 and 2014**

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**NOTE 5: DEFINED BENEFIT PENSION PLAN (continued)**

As of June 30, 2015 and 2014, the District reported its proportionate share of deferred outflows of resources and deferred inflows of resources related to pensions, from the following sources:

June 30, 2015

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in employer's proportion	\$ 252,427	\$ 123,228
Changes of assumptions or other inputs	223,753	-
Net difference between projected and actual earnings on pension plan investments	-	422,082
Difference between expected and actual experience in the Total Pension Liability	-	262,557
Difference between the employer's contributions and the employer's proportionate share of contributions	-	7,352
Pension contributions subsequent to measurement date	<u>347,080</u>	<u>-</u>
Total	<u>\$ 823,260</u>	<u>\$ 815,219</u>

June 30, 2014

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in employer's proportion	\$ -	\$ 151,556
Net difference between projected and actual earnings on pension plan investments	-	238,244
Difference between expected and actual experience in the Total Pension Liability	-	56,477
Difference between the employer's contributions and the employer's proportionate share of contributions	-	1,104
Pension contributions subsequent to measurement date	<u>278,275</u>	<u>-</u>
Total	<u>\$ 278,275</u>	<u>\$ 447,381</u>

The amounts above are net of outflows and inflows recognized in the 2013-14 and 2012-13 measurement periods expense. Deferred outflows of resources related to contributions subsequent to the measurement date of \$347,080 will be recognized as a reduction of the net pension liability in the year ended June 30, 2016 (measurement period 2014-15). Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in future pension expense as follows:



*Crestline Sanitation District*

**Notes to Financial Statements**

**For The Years Ended June 30, 2015 and 2014**

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**NOTE 5: DEFINED BENEFIT PENSION PLAN (continued)**

<b>Financial reporting date Measurement date</b>	<b>Deferred Outflows/(Inflows) of Resources</b>		<b>Deferred Outflows/(Inflows) of Resources</b>	
	<b>June 30, 2015</b>		<b>June 30, 2014</b>	
	<b>June 30, 2014</b>		<b>June 30, 2013</b>	
2015		N/A	\$	(98,651)
2016	\$	(114,096)		(98,651)
2017		(114,096)		(98,651)
2018		(114,096)		(98,651)
2019		(43,862)		(39,090)
2020		35,619		(13,687)
Thereafter		11,492		-

**E. Payable to the Pension Plan**

At June 30, 2015, the District reported a payable of \$17,491 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2015.

**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.

## *Crestline Sanitation District*

### **Notes to Financial Statements**

**For The Years Ended June 30, 2015 and 2014**

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#### **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, 2015 and 2014, 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 \$1,000,000 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, 2015 and 2014.

#### **NOTE 8: PROPOSITION 111 APPROPRIATION LIMITS**

Proposition 111, which added Article XIII B to the State Constitution, established limits on budget appropriations in order to restrict government spending. Proceeds of taxes received by the District during the 2014-2015 and 2013-2014 fiscal years were within the guidelines established by Proposition 111.

*Crestline Sanitation District*

**Notes to Financial Statements**

**For The Years Ended June 30, 2015 and 2014**

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**NOTE 9: PRIOR YEAR RESTATEMENT**

**Change in Accounting Principle**

As discussed in Note 1, the District implemented GASB Statements No. 68 and 71 effective July 1, 2014. GASB Statements No. 68 and 71, among other provisions, amended prior guidance with respect to the reporting of pensions, and established standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, the District's net pension liability was not previously recorded on the statement of net position. GASB 68 requires that accounting changes adopted to conform to the provisions of the Statement be applied retroactively by restating financial statements. The cumulative effects of applying the provisions of GASB Statements No. 68 and 71 have been reported as a restatement of beginning net position for the year ended June 30, 2014 in accordance with the Statements.

Accordingly, beginning net position on the Statements of Revenues, Expenses, and Changes in Net Position has been restated for changes related to GASB 68 as follows:

Statement of Revenue, Expenses, and Changes in Net Position

Beginning net position, as previously reported	\$ 17,253,925
Restatement due to change in accounting principle	<u>(2,116,628)</u>
Beginning net position, as restated	<u>\$ 15,137,297</u>

**NOTE 10: SUBSEQUENT EVENTS**

Management has evaluated subsequent events through December 18, 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.

**REQUIRED SUPPLEMENTARY INFORMATION**

*Crestline Sanitation District*

**Required Supplementary Information  
Schedule of the District's Proportionate Share of the Plan's Net Pension Liability and  
Related Ratios as of the Measurement Date  
Last 10 Years\***

	<u>6/30/2013</u>	<u>6/30/2014</u>
District's proportion of the net pension liability	0.069%	0.081%
District's proportionate share of the net pension liability	\$ 1,364,142	\$ 1,378,093
District's covered-employee payroll <sup>1</sup>	\$ 1,250,729	\$ 1,148,571
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	109.07%	119.98%
District's proportion of the fiduciary net position	0.081%	0.099%
District's share of risk pool fiduciary net position	\$ 5,722,030	\$ 7,908,344
District's proportionate share of the fiduciary net position as a percentage of the District's total pension liability	80.75%	85.16%
District's proportionate share of aggregate employer contributions <sup>2</sup>	\$ 178,117	\$ 228,508

<sup>1</sup> Covered-employee payroll represented above is based on the total payroll of employees that are provided pensions through the pension plan in accordance with GASB 68.

<sup>2</sup> The plan's proportionate share of aggregate contributions may not match the actual contributions made by the employer during the Measurement Period. The plan's proportionate share of aggregate contributions is based on the plan's proportion of Fiduciary Net Position shown on line 5 of the table above as well as any additional unfunded liability contributions made by the employer during the measurement period.

\* Measurement period 2012-13 (fiscal year 2014) was the 1st year of implementation, therefore, only two years are shown.

*Crestline Sanitation District*

**Required Supplementary Information  
Schedule of Plan Contributions  
Last 10 Years\***

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	<b>Measurement Period 2012-13</b>	<b>Measurement Period 2013-14</b>
Contractually required contributions	\$ 176,807	\$ 220,820
Contributions in relation to the contractually required contributions	(176,807)	(220,820)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 1,250,729	\$ 1,148,571
Contributions as a percentage of covered-employee payroll	14.14%	19.23%

<sup>1</sup> Covered-employee payroll represented above is based on the total payroll of employees that are provided pensions through the pension plan in accordance with GASB 68.

\* Measurement period 2012-13 (fiscal year 2014) was the 1st year of implementation, therefore, only two years are shown.

**Notes to Required Supplementary Information**

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**Actuarially determined contribution rates**

Actuarial determined contribution rates for SBCERA are calculated as of June 30 two years prior to the end of the fiscal year in which contributions are made. The actuarial methods and assumptions used to establish the contribution requirements are presented in SBCERA's 2014 Comprehensive Annual Financial Report (CAFR), available at [www.sbcera.org](http://www.sbcera.org).