COUNTY OF SAN BERNARDINO

CALIFORNIA

SPECIAL DISTRICTS

AUDIT REPORT

COUNTY SERVICE AREA NO. 70 – IMPROVEMENT ZONE R-44

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Prepared by:

Internal Audits Section
Office of the Auditor/Controller-Recorder

March 12, 2009

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County Service Area No. 70 – Improvement Zone R-44
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Independent Auditor's Report

March 12, 2009

Jeffrey O. Rigney, Director
Special Districts
157 West Fifth Street, Second Floor
San Bernardino, CA 92415-0450

SUBJECT: AUDIT OF COUNTY SERVICE AREA NO. 70 – IMPROVEMENT ZONE R-44 FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Introductory Remarks

In compliance with Section 26909 of the California Government Code, we have completed an audit of County Service Area No. 70 – Improvement Zone R-44 for the fiscal year ended June 30, 2008.

Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the remaining aggregate fund information of the County of San Bernardino Special District's County Service Area No. 70 – Improvement Zone R-44 (District), a component unit of the County of San Bernardino, California, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the minimum audit requirements and reporting guidelines for California Special Districts required by the Office of the State Controller. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial

statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the remaining aggregate fund information of the District, as of June 30, 2008, and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and the state regulations governing Special Districts.

The accompanying budgetary comparison information on page 22 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The District has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Respectfully submitted,

Larry Walker
Auditor/Controller-Recorder

By: _____
Howard Ochi, CPA
Chief Deputy Auditor

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County of San Bernardino
County Service Area No. 70 – Improvement Zone R-44
Statement of Net Assets
June 30, 2008

	Governmental Activities
ASSETS	
Cash and cash equivalents (Note 2)	$ 9,959
Interest receivable	112
Improvements to land (Note 3)	190,410
Accumulated depreciation	(9,777)
Total assets	$ 190,704
LIABILITIES	
Loans payable	$ 20,000
Total liabilities	20,000
NET ASSETS	
Invested in capital assets	180,633
Unrestricted	(9,929)
Total net assets	170,704
Total liabilities and net assets	$ 190,704

The accompanying notes are an integral part of these financial statements.

County of San Bernardino
County Service Area No. 70 – Improvement Zone R-44
Statement of Activities
For the Fiscal Year Ended June 30, 2008

	Governmental Activities
PROGRAM EXPENSES	
Professional services	$ 5,374
Services and supplies	3,431
Depreciation expense	7,204
Total program expenses	16,009
PROGRAM REVENUES	
Charges for services	11,000
Net program revenues (expenses)	(5,009)
GENERAL REVENUES (EXPENSES)	
Interest and investment earnings	1,660
Total general revenues	1,660
Change in net assets	(3,349)
Net Assets - beginning	174,053
Net Assets - ending	$ 170,704

The accompanying notes are an integral part of these financial statements.

County of San Bernardino
County Service Area No. 70 – Improvement Zone R-44
Balance Sheet
Governmental Funds
June 30, 2008

	SPECIAL REVENUE FUND	NONMAJOR FUND	
	General (SYT)	Capital Projects Fund- New Roads (CAB)	Total Governmental Funds
ASSETS			
Cash and cash equivalents	$ 9,959	$ -	$ 9,959
Interest receivable	112	-	112
Total assets	$ 10,071	$ -	$ 10,071
LIABILITIES AND FUND BALANCES			
Liabilities	$ -	$ -	$ -
Fund Balances:			
Unreserved	10,071	-	10,071
Total fund balances	10,071	-	10,071
Total liabilities and fund balances	$ 10,071	$ -	

Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets, net of accumulated depreciation, used in governmental activities are not current financial resources, and therefore are not reported in the funds	180,633
Long-term liabilities are not due and payable in the current period, and therefore are not reported in the funds.	(20,000)
Net assets of governmental activities	$ 170,704

The accompanying notes are an integral part of these financial statements.

County of San Bernardino
County Service Area No. 70 – Improvement Zone R-44
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2008

	SPECIAL REVENUE FUND	NONMAJOR FUND	
	General (SYT)	Capital Projects Fund- New Road (CAB)	Total Governmental Funds
REVENUES			
Charges for services	$ 11,000	$ -	$ 11,000
Interest and investment earnings	1,652	7	1,659
Total revenues	12,652	7	12,659
EXPENDITURES			
Professional services	5,374	-	5,374
Services and supplies	3,431	-	3,431
Capital outlay:			
Land improvements	61,760	-	61,760
Total expenditures	70,565	-	70,565
Excess of revenues over (under) expenditures	(57,913)	7	(57,906)
OTHER FINANCING SOURCES (USES)			
Proceeds from loan	20,000	-	20,000
Transfer in	1,668	-	1,668
Transfer out	-	(1,668)	(1,668)
Total other financing sources	21,668	(1,668)	20,000
Net change in fund balances	(36,245)	(1,661)	(37,906)
Fund balances-beginning	46,315	1,661	47,976
Fund balance-ending	$ 10,070	$ -	$ 10,070

The accompanying notes are an integral part of these financial statements.

County of San Bernardino
County Service Area No. 70 – Improvement Zone R-44
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2008

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation expense in the current period	54,557
The issuance of long- term debt provides current financial resources to governmental funds, while it is recorded as a liability on the statement of activities	(20,000)
Change in Net Assets of Governmental Activities	$ (3,349)

The accompanying notes are an integral part of these financial statements.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The County Service Area No. 70 – Improvement Zone R-44 (District) is a special district located within the County of San Bernardino (County). The District has governmental powers as established by the San Bernardino County Government Charter. The County of San Bernardino was established in 1852 as a legal subdivision of the State of California.

The District was established by an act of the Board of Supervisors of the County (Board) on August 16, 2005 under Resolution No. 2005-283 to provide road improvement and maintenance, including : several large culverts; headwalls installations and maintenance; land slide restoration; snow removal; and road grading services. The District includes Ascension Road, Ascension Court, and Alder Glen Road in the Saw pit Canyon area of Cedar Pines Park.

The District is a component unit of the County of San Bernardino and is governed by the actions of the County Board of Supervisors.

The accompanying financial statements reflect only the accounts of the District and are not intended to present the financial position of the County taken as a whole.

Because the District meets the reporting entity criteria established by the Government Accounting Standards Board (GASB), the District's financial statements have also been included in the Comprehensive Annual Financial Report of the County of San Bernardino as a "component unit" for the fiscal year ended June 30, 2008.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the reporting entity. For the most part, the effect of interfund activity has been eliminated from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

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

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Currently, the District does not have any proprietary or fiduciary fund types. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the proprietary fund financial statements. 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.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. However, for revenue derived from voluntary non-exchange transactions, such as federal and state grants, the definition of "available" has been expanded to 9 months. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The government reports the following major governmental funds:

> The *special revenue fund* labeled "General" is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

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

Cash and cash equivalents

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Cash and cash equivalents include the cash balances of substantially all funds, which are pooled and invested by the County Treasurer to increase interest earning through investment activities.

Investment activities are governed by the California Government Code Sections 53601, 53635, and 53638 and the County's Investment Policy. Authorized investments include U.S. Government Treasury and Agency securities, bankers' acceptances, commercial paper, medium-term notes, mutual funds, repurchase agreements, and reverse repurchase agreements.

Interest income and realized gains and losses earned on pooled investments are deposited quarterly to the District's accounts based upon the District's average daily deposit balances during the quarter. Unrealized gains and losses of the pooled investments are distributed to the District annually. Cash and cash equivalents are shown at fair value as of June 30, 2008.

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

Capital assets

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than $5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of one year. Structures with an initial cost of $100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset life is not capitalized.

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

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

Assets	Years
Infrastructure	10 - 100
Structures and improvements	Up to 45
Equipment and vehicles	5 - 15

Net assets

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

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

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

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

- Unrestricted – This component of net assets consists of net assets of the County that are not restricted for any project or other purpose.

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Stewardship, compliance and accountability

A. Budgetary information

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for capital assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing resources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent year.

NOTE 2: CASH AND INVESTMENTS

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

As of June 30, 2008, the fair value of the County Pool was $4.44 billion. Approximately 8% of the County pool is attributable to the County General Fund, with the remainder of the balance comprised of other County funds, school districts and special districts. Additionally, as of June 30, 2008, $20.9 million of the amounts deposited in the County pool was attributable to depositors who are not required to, but choose to, invest in the County pool. These include independent special districts, State Trial Court, and other governmental agencies. The deposits held for both involuntary and voluntary entities are reported in the Investment Trust Fund.

The fair value of the pool is determined monthly, and depends on, among other factors, the maturities and types of investments and general market conditions. The fair value of each participant's position including both voluntary and involuntary participants is the same as the value of the pool share. The method used to determine participants' equity withdrawn is based on the daily average book value of the participants' percentage participation in the pool.

The County has not produced or provided any letters of credit or legal binding guarantees as supplemental support of pool values during the year ended at June 30, 2008. The pool provides monthly reporting to both the Board of Supervisors and the County Treasury Oversight Committee who also review and approve investment policy.

The County does not pool its external participants' investments separately from the County pool. The average rate of return on investments during fiscal year 2008 was 4.53%.

NOTE 2: CASH AND INVESTMENTS – *Continued*

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

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

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

Investment authorized by debt agreement

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

NOTE 2: CASH AND INVESTMENTS – *Continued*

Investment credit risk

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

California Law and San Bernardino County Treasury Pool Investment Policy (where more restrictive) place limitations on the purchase of investments in the County Pool. Purchases of commercial paper and negotiable certificates of deposit are restricted to the top two ratings issued by a minimum of two of three nationally recognized statistical rating organizations (NRSRO's). For an issuer of short-term debt, the rating must be no less than A-1 (S&P), P-1 (Moody's), or F-1 (Fitch), while an issuer of long-term corporate debt must have a minimum letter rating of "AA". Federal Agency notes and bonds, municipal notes and bonds, and money market mutual funds must have a minimum letter rating of "AAA". Limits are also placed on the maximum percentage investment by sector and by individual issuer. As of June 30, 2008, all investments held by the County pool were within policy limits.

Concentration of credit risk

An increased risk of loss occurs as more investments are acquired from one issuer (i.e. lack of diversification). This results in a concentration of credit risk.

GASB Statement No. 40 requires disclosure of investments by amount and issuer that represent five percent or more of total investments held.

This requirement excludes investments issued or explicitly guaranteed by the United States Government, investments in mutual funds, external investment pools, and other pooled investments. As of June 30, 2008, the following issuers represented more than five percent of the County pool balance (amounts in thousands):

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

NOTE 2: CASH AND INVESTMENTS – *Continued*

Interest rate risk

Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment's fair value. Generally, the longer the maturity of an investment, the greater the interest rate risk associated with that investment.

GASB Statement No. 40 requires that interest rate risk be disclosed using a minimum of one of five approved methods which are: segmented time distribution, specific identification, weighted average maturity, duration, and simulated model.

The County manages its exposure to interest rate risk by carefully matching cash flows and maturing positions to meet expenditures, limiting 40% of the County Pool to maturities of one year or less, and by maintaining an overall effective duration of 1.5 years or less. Duration is a measure of a fixed income's cash flow using present values, weighted for cash flows as a percentage of the investments full price. Effective duration makes assumptions regarding the most likely timing and amounts of variable cash flows arising from such investments as callable bonds.

California Law and where more restrictive, the San Bernardino County Pool Investment Policy, place limitations on the maximum maturity of investments to be purchased by sector (see schedule, amounts in thousands). As of June 30, 2008, all investments held by the County Pool were within policy limits. A summary of investments for maturity range, maturity limits, maturity average and effective duration is as follows:

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

Custodial credit risk

Custodial Credit Risk for Deposits exists when, in the event of a depository financial institution failure, a government may be unable to recover deposits, or recover collateral securities that are in the possession of an outside party. GASB Statement No. 40 requires the disclosure of deposits into a financial institution that are not covered by FDIC depository insurance and are uncollateralized.

NOTE 2: CASH AND INVESTMENTS – *Continued*

California Law requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure County deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2008, the carrying amount of the County's deposits was $35.8 million and the corresponding bank balance was $96.5 million. The difference of $60.7 million was primarily due to outstanding warrants, wires and deposits in transit. Of the bank balance, $200,000 was insured by the FDIC depository insurance and $96.3 million was uncollateralized and not insured by FDIC depository insurance. Custodial Credit Risk for Investments exists when, in the event of a failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. In order to limit Custodial Credit Risk for Investments, San Bernardino County Pool Investment Policy requires that all investments and investment collateral be transacted on a delivery versus payment basis with a third-party custodian and registered in the County's name. All counterparties to repurchase agreements must sign a TBMA Master Repurchase Agreement and/or Tri-Party Repurchase Agreement before engaging in repurchase agreement transactions.

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

Statement of Net Assets	
Equity of internal pool participants	$ 1,717,967
Equity of external pool participants:	
Voluntary	209,520
Involuntary	2,407,592
Total Net Assets held for pool participants	$ 4,335,079

Statement of Changes in Net Assets	
Net Assets at July 1, 2007	$ 3,964,496
Net change in investments by pool participants	370,583
Net Assets at June 30, 2008	$ 4,335,079

NOTE 2: CASH AND INVESTMENTS – *Continued*

As of June 30, 2008, Cash and Investments for the District are classified in the accompanying financial statements as follows:

	Total Governmental Activities
Cash and Cash Equivalents	$ 9,959
Total Cash and Investments	**$ 9,959**

NOTE 3: CAPITAL ASSETS

The costs of building and acquiring capital assets (land, land improvements, buildings, vehicles and equipment) financed from the governmental funds are reported as expenditures in the year they are incurred, and the assets do not appear on the balance sheet. However, the statement of net assets includes those capital assets among the assets of the District as a whole, and their original costs are expensed annually over their useful lives. Capital asset activity for governmental activities for the fiscal year ended June 30, 2008 follows:

	Beginning Balance July 1, 2007	Additions	Deletions	Ending Balance June 30, 2008
Governmental activites:				
Capital assets, being depreciated:				
Land improvements	$ 128,650	$ 61,760	$ -	$ 190,410
Total capital assets, being depreciated	128,650	61,760	-	190,410
Less accumulated depreciation for:				
Land improvements	(2,573)	(7,204)	-	(9,777)
Total accumulated depreciation	(2,573)	(7,204)	-	(9,777)
Total capital assets, being depreciated, net	126,077	54,556	-	180,633
Capital assets, net	**$ 126,077**	**$ 54,556**	**$ -**	**$ 180,633**

NOTE 4: INSURANCE

The District is insured through the County's self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability, and workers' compensation claims. Public liability claims are self-insured for up to $1 million per occurrence. Excess insurance coverage over the Self-Insured Retention (SIR) up to $25 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II. Workers' compensation claims are self-insured up to $2 million per occurrence, and covered by CSAC EIA for up to $10 million for employer's liability, and up to $50 million for workers' compensation per occurrence. Property damage claims are insured on an occurrence basis over a $25,000 deductible, and insured with CSAC EIA Property Program.

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

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability, and workers' compensation claims. Public liability claims are self-insured for up to $1 million per occurrence. Excess insurance coverage over the Self-Insured Retention (SIR) up to $35 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II. Workers' compensation claims are self-insured up to $2 million per occurrence, and covered by CSAC EIA for up to $10 million for employer's liability, and up to $50 million for workers' compensation per occurrence. Property damage claims are insured on an occurrence basis over a $25,000 deductible, and insured with CSAC EIA Property Program.

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

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

NOTE 4: INSURANCE – *Continued*

The activities related to such programs are accounted for in the County's Risk Management Fund (an internal service fund), except for unemployment insurance, and employee dental insurance, which are accounted for in the County's General Fund. The incurred but not reported (IBNR) and incurred but not settled (IBNS) liabilities stated on the Risk Management fund's balance sheet are based upon the results of actuarial studies, and include amounts for allocated and unallocated loss adjustment expenses. The liabilities for these claims are reported using a discounted rate of 2.75%. It is the Department's practice to obtain actuarial studies on an annual basis.

The total claims liability of 149.3 million reported on the Risk Management fund's balance sheet at June 30, 2008 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements, and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2007 and 2008 were:

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

NOTE 5: TRANSFERS

Interfund transfer transactions are used to close out a fund, reimburse an operating fund, and transfer cash between operating funds and capital project funds. During the fiscal year ended June 30, 2008, the District transferred $1,668 from fund CAB to fund SYT to close out capital project fund CAB.

NOTE 6: SHORT-TERM DEBT

In July 2007, the county issued Tax and Revenue Anticipation Notes (TRANS) for the benefit of the District totaling $25,738.00 which was repaid April 17, 2008. The proceeds of the TRANS were intended to provide financing for the District expenditures, including current expenditures, capital expenditures and the discharge of other obligations or indebtedness of the District. The TRANS were secured by a pledge of various monthly amounts of property taxes on the secured roll.

Beginning Balance July 1, 2007	Additions	Reductions	Ending Balance June 30, 2008
$ -	$ 25,738.00	$ 25,738.00	$ -

NOTE 7: LOAN PAYABLE

On August 28, 2007, the District received a $20,000 loan from the County Service Area Revolving Loan Fund. The $20,000 loan will be used to complete the third culvert crossing for Alder Glen Road in the Saw Pit Canyon area of Cedarpines Park. The term of the loan is 10 years with a variable rate. Interest shall accrue on the unpaid principal of each increment of the loan and be repaid at the current rate per annum received by the County of San Bernardino on similar types of transactions, as determined by the County Treasurer as of the date of each disbursement. Reimbursement will be made from special taxes or other monies, which may become available to the District.

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

	Principal Balance July 1, 2007	Additions	Reductions	Principal Balance June 30, 2008	Amounts Due Within One Year
Loan Payable	$ -	$ 20,000	$ -	$ 20,000	$ 2,189
Total long-term liabilities	$ -	$ 20,000	$ -	$ 20,000	$ 2,189

County of San Bernardino
County Service Area No. 70 – Improvement Zone R-44
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2008

Special Revenue Fund (SYT)	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts Budgetary Basis	Variance with Final Budget
Budgetary Fund Balance, July 1, 2007	$ 46,315	$ 46,315	$ 46,315	$ -
Resources (inflows):				
Charges for services	11,000	11,000	11,000	-
Interest & investment income	500	500	1,652	1,152
Long term debt proceeds	20,000	20,000	20,000	-
Transfers in	-	-	1,668	1,668
Amounts Available for Appropriations	77,815	77,815	80,635	2,820
Charges to appropriations (outflows):				
Professional services	3,104	3,104	5,374	(2,270)
Services and supplies	74,711	74,711	3,431	71,280
Capital outlay:				
Improvements to land	-	-	61,760	(61,760)
Total Charges to Appropriations	77,815	77,815	70,565	7,250
Budgetary Fund Balance, June 30, 2008	$ -	$ -	$ 10,070	$ 10,070