COUNTY OF SAN BERNARDINO

CALIFORNIA

SPECIAL DISTRICTS

AUDIT REPORT

COUNTY SERVICE AREA NO. 70

IMPROVEMENT ZONE W-10 – WEST MORONGO VALLEY

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Prepared by:

Internal Audits Section
Office of the Auditor/Controller-Recorder
March 30, 2009

County of San Bernardino Special Districts
County Service Area No. 70 – Improvement Zone W-10
West Morongo Valley
Table of Contents

Page

Independent Auditor's Report 1-2

Proprietary Funds

Statement of Net Assets 3

Statement of Revenues, Expenses, and Changes in Fund Net Assets 4

Statement of Cash Flows 5

Notes to the Financial Statements 6-10

AUDITOR/CONTROLLER-RECORDER
COUNTY CLERK

COUNTY OF SAN BERNARDINO

AUDITOR/CONTROLLER • 222 West Hospitality Lane, Fourth Floor
San Bernardino, CA 92415-0018 • (909) 387-8322 • Fax (909) 386-8830
RECORDER • COUNTY CLERK • 222 West Hospitality Lane, First Floor
San Bernardino, CA 92415-0022 • (909) 387-8306 • Fax (909) 386-8940

LARRY WALKER
Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

Independent Auditor's Report

March 30, 2009

Jeffrey O. Rigney, Director
Special Districts Department
157 W. Fifth Street, 2nd Floor
San Bernardino, CA 92415-0450

SUBJECT: AUDIT OF COUNTY SERVICE AREA NO. 70 – IMPROVEMENT ZONE W-10 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 W-10 for the fiscal year ended June 30, 2008.

Auditor's Report

We have audited the accompanying financial statements of the business-type activities of the County of San Bernardino Special District County Service Area No. 70 – Improvement Zone W-10 (District), a component unit of the County of San Bernardino, California, as of and for the year ended June 30, 2008. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 business-type activities of the District as of June 30, 2008, and the respective changes in financial position and cash flows 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 financial statements have been prepared assuming that the District will continue as a going concern. As discussed in Note 3 to the financial statements, the loss of the District's primary source of funds raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to this matter are also described in Note 3.

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 M. Ochi, CPA
Chief Deputy Auditor

Quarterly copies to:

County Administrative Office
Board of Supervisors (5)
Grand Jury (2)

Audit File (2)
Date Report Distributed: 4/1/09

LDW:HMO:YV:mah

County of San Bernardino
County Service Area No. 70 – Improvement Zone W-10
West Morongo Valley
Statement of Net Assets
June 30, 2008

	Enterprise Fund
ASSETS	$ -
LIABILITIES	$ -
NET ASSETS	-
Total liabilities and net assets	$ -

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

County of San Bernardino
County Service Area No. 70 – Improvement Zone W-10
West Morongo Valley
Statement of Revenues, Expenses, and Changes in Fund Net Assets
For the Fiscal Year Ended June 30, 2008

	Enterprise Fund
OPERATING REVENUES	$ -
OPERATING EXPENSES	-
Operating income (loss)	-
NONOPERATING REVENUES (EXPENSES)	
Interest and investment income	292
Other nonoperating expenses	(28,491)
Total nonoperating revenues (expenses)	(28,199)
Change in net assets	(28,199)
Total net assets - beginning	28,199
Total net assets - ending	$ -

The notes to the financial statements are an integral part of this statement.

County of San Bernardino
County Service Area No. 70 – Improvement Zone W-10
West Morongo Valley
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2008

CASH FLOWS FROM OPERATING ACTIVITIES	$	-
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Other nonoperating expenses		(9,024)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		-
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest revenue		424
Net increase (decrease) in cash and cash equivalents		(8,600)
Cash and cash equivalents, beginning of the year		8,600
Cash and cash equivalents, end of the year	$	-
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	$	-
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		-
Net cash provided by operating activities	$	-

NONCASH TRANSACTIONS

The District expensed $19,467 of Construction in Progress due to termination of the treatment facility project.

The notes to the financial statements are an integral part of this statement.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The County Service Area No. 70 – Improvement Zone W-10 (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 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 of San Bernardino for the purpose of constructing an uranium treatment demonstration project in the Morongo Basin to reduce the uranium content in the water supply.

The District is a component unit of the County. Component units are legally separate organizations for which the Board is financially accountable or other organizations whose nature and significant relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and either (i) the County has the ability to impose its will on the organization, or (ii) there is potential for the organization to provide a financial benefit to or impose a financial burden on the County.

The accompanying financial statements reflect only the accounts of County Service Area No. 70 – Improvement Zone W-10 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.

Measurement focus, basis of accounting, and financial statement presentation

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's ongoing operations. Operating expenses for enterprise funds include the cost of professional services, services and supplies, utilities and rents and leases. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the 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.

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 Enterprise Fund. 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.

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

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.

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

NOTE 2: CAPITAL ASSETS

Capital assets activities during the year were as follows:

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008
Capital assets, not being depreciated:				
Construction in progress	$ 19,468	$ -	$ 19,468	$ -
Total capital assets, not being depreciated	19,468	-	19,468	-
Capital assets, net	**$ 19,468**	**$ -**	**$ 19,468**	**$ -**

NOTE 3: GOING-CONCERN CONSIDERATIONS

There were discussions during fiscal year 2008 regarding the possible dissolution of the District. This was due to the District having to reimburse the Environmental Protection Agency for unused grant money that the District had received to remove uranium from the local water supply. The District was having difficulty finding a location to deposit the discharge from cleaning the water supply. The District then ran out of time to use the grant money and was required to return the unused funds during fiscal year 2007. Subsequently, the District became aware of new technology that would allow removal of the uranium content without producing the discharge. Management plans to reapply for grant money and continue with the process of removing the uranium from the water supply. However, the ability of the District to continue as a going concern is contingent upon being able to obtain operating funds.

NOTE 4: SELF 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 $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.

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

NOTE 4: SELF INSURANCE – *Continued*

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