COUNTY OF SAN BERNARDINO

CALIFORNIA

SPECIAL DISTRICTS

AUDIT REPORT

CENTRAL VALLEY FIRE PROTECTION DISTRICT

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Prepared By:

Internal Audits Section
Office of the Auditor/Controller-Recorder
November 19, 2004

County of San Bernardino
Central Valley Fire Protection District

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AUDITOR/CONTROLLER-RECORDER
COUNTY CLERK

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

COUNTY OF SAN BERNARDINO

LARRY WALKER
Auditor/Controller-Recorder
County Clerk

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

Independent Auditor's Report

November 19, 2004

Peter Hills, Fire Chief/Fire Warden
Office of Special Districts
157 West Fifth Street
San Bernardino, CA 92415–0450

SUBJECT: AUDIT OF CENTRAL VALLEY FIRE PROTECTION DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Introductory Remarks

In compliance with Section 26909 of the California Government Code, we have completed an audit of Central Valley Fire Protection District for the fiscal year ended June 30, 2004.

Auditor's Report

We have audited the accompanying financial statements of the governmental activities and the aggregate fund information of the Central Valley Fire Protection District (District), a component unit of the County of San Bernardino, California, as of June 30, 2004, 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 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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 opinion.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of the governmental activities and the remaining aggregate fund information of the District as of June 30, 2004 and the changes in financial position 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 19 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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: _____
Barbara K. Redding, CPA, CGFM
Internal Audits Manager

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County of San Bernardino
Central Valley Fire Protection District
Statement of Net Assets
June 30, 2004

	Governmental Activities
ASSETS	
Current assets:	
Cash and cash equivalents	$ 3,348,392
Taxes receivable	610,965
Interest receivable	5,152
Due from other governments	1,152,914
Total current assets	5,117,423
Noncurrent assets:	
Capital assets:	
Land	31,054
Improvements to land	15,123
Structures	922,527
Vehicles	4,396,183
Equipment	412,130
Construction in progress	144,066
Less accumulated depreciation	(3,379,426)
Total non current assets	2,541,657
Total assets	$ 7,659,080
LIABILITIES	
Current liabilities:	
Accounts Payable	$ 65,774
Salaries and benefits	301,817
Due to other governments	40,931
Total current liabilities	408,522
Noncurrent liabilities:	
Employee compensated absences	1,103,133
Total noncurrent liabilities	1,103,133
Total liabilities	1,511,655
NET ASSETS	
Invested in capital assets, net of related debt	2,541,657
Unrestricted	3,605,768
Total net assets	6,147,425
Total liabilities and net assets	$ 7,659,080

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

County of San Bernardino
Central Valley Fire Protection District
Statement of Activities
For the Fiscal Year Ended June 30, 2004

		Governmental Activities
EXPENSES		
Salaries and benefits	$	11,739,309
Services and supplies		1,655,907
Professional services		830,431
Rents and leases		5,209
Utilities		150,321
Depreciation		457,404
Total expenses		14,838,581
PROGRAM REVENUES		
Government aid and grants		457,887
Charges for services		3,230,652
Total program revenues		3,688,539
Net program (expense) revenue		(11,150,042)
GENERAL REVENUES		
Property taxes		11,258,018
Other taxes		422,858
Interest		23,791
Rents and concessions		6,600
Other		699,695
Transfers in (out)		(78,902)
Total general revenues		12,332,060
Change in net assets		1,182,018
Net assets - beginning		4,965,407
Net assets - ending	$	6,147,425

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

County of San Bernardino
Central Valley Fire Protection District
Balance Sheet
June 30, 2004

	Governmental Activities Fire Protection
ASSETS	
Cash and cash equivalents	$ 3,348,392
Taxes receivable	610,965
Interest receivable	5,152
Due from other governments	1,152,914
Total assets	$ 5,117,423
LIABILITES AND FUND BALANCES	
Liabilities:	
Accounts payable	$ 65,774
Salaries and benefits	301,817
Due to other governments	40,931
Total liabilities	408,522
Fund Balances:	
Reserved for Encumbrances	1,326,651
Unreserved	3,382,250
Total fund balance	4,708,901
Total liabilities and fund balances	$ 5,117,423

Reconciliation of the Governmental Funds to the Statement of Net Assets

Total fund balance - governmental funds	$ 4,708,901
Amounts reported for *governmental activities* in the statement of net assets are different because:	
Capital assets used in governmental actitivities are not financial resources and, therefore, are not reported in the funds.	2,541,657
Long term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(1,103,133)
Total net assets - governmental activities (page 3)	$ 6,147,425

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

County of San Bernardino
Central Valley Fire Protection District
Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Fiscal Year Ended June 30, 2004

	Total Governmental Funds
REVENUES	
Property taxes	$ 11,258,018
Other taxes	422,858
Interest	23,791
Governmental aid	457,887
Charges for services	3,230,652
Rents and concessions	6,600
Other	699,695
Total revenues	16,099,501
EXPENDITURES	
Salaries and benefits	11,652,043
Services and supplies	1,655,906
Professional services	830,431
Rents and leases	5,209
Utilities	150,321
Capital outlay	912,147
Total expenditures	15,206,057
Net change in fund balances	893,444
Fund Balances - beginning	3,815,457
Fund Balances - ending	$ 4,708,901

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

County of San Bernardino
Central Valley Fire Protection District
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, 2004

Net change in fund balances - total governmental funds (page 6)	$ 893,444
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.	454,743
Governmental funds do not report asset transfers. However, in the statement of activities, the transfer of these assets is shown net of the related accumulated depreciation. This is the amount by which the cost of assets transferred exceeded the related accumulated depreciation.	(78,902)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:	
Increase in Employee Compensated Absences	(87,267)
Changes in net assets of governmental activities	$ 1,182,018

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

Central Valley Fire District (District) is a fire protection district located within the County of San Bernardino. The District has governmental powers as established by the San Bernardino County Government Charter (County). The County was established in 1852 as a legal subdivision of the State of California. The District's powers are exercised through the Board of Supervisors (Board), which is the governing body for the County.

The District was established by an act of the Board on March 11, 1974 with active powers of fire protection and emergency medical services for the communities of Fontana, Muscoy, and Bloomington.

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 the District and are not intended to present the financial position of the County taken as a whole.

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. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial 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 segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

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. 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.* 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 taxes and federal and state grants, the County expanded its definition of "available" 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.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District utilizes special revenue funds. The funds account for all financial resources of the general government.

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.

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 proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Currently the District does not have any proprietary or fiduciary fund types.

Cash and cash equivalents

Cash and cash equivalents are defined as 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 earnings 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, 2004.

Receivables and payables

All accounts receivable are shown net of an allowance for uncollectibles when applicable.

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

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

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.

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 applicable governmental or business-type activities columns 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 (1) 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 assets lives are 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	40
Structures and Improvements	5 - 45
Equipment and vehicles	6 - 15

Use of estimates

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

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

Employee compensated absences

Accumulated vacation, holiday benefits, sick pay and compensatory time are recorded as an expense and liability as the benefits are earned. Compensated absence liabilities are recorded as a long-term liability. The District is not obligated to pay for unused sick leave if an employee terminates or retires.

Compensated absences activity for the year ended June 30, 2004 was as follows:

Beginning Balance	Additions	Deletions	Ending Balance
$ 1,015,867	$ 609,921	($ 522,655)	$ 1,103,133

Reconciliation of government-wide and fund financial statements

Explanation of certain differences between the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the government-wide Statement of Activities.

The governmental fund statement of revenues, expenditures and changes in fund balances includes reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays 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." The details of this $ 454,743 difference are as follows:

Capital Outlay	$	912,147
Depreciation Expense		(457,404)
Net adjustment to decrease *net change in fund Balances - total governmental funds* to arrive at *changes in net assets governmental activities*	$	454,743

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

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 sources 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 reappropriated and honored during the subsequent year.

NOTE 2: CAPITAL ASSETS

The costs of building and acquiring capital assets (land, 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 estimated useful lives. Capital assets activity for governmental activities for the year ended June 30, 2004 follows.

	Balance July 1, 2003	Additions	Disposals	Other Current Adjustments	Balance June 30, 2004
Governmental Activities					
Capital assets, non-depreciable:					
Land	$ 31,054	$ -	$ -	$ -	$ 31,054
Construction in progress	105,086	38,980	-	-	$ 144,066
Total assets, non-depreciable	136,140	$ 38,980	-	-	175,120
Capital assets depreciable:					
Buildings	940,547	-		(18,020)	922,527
Improvements to Land	54,425	-	39,302	-	15,123
Vehicles	4,038,986	799,391	442,194	-	4,396,183
Equipment	338,505	73,776	7,950	7,799	412,130
Total assets-depreciable	5,372,463	873,167	489,446	(10,221)	5,745,963
Less accumulated depreciation for:					
Buildings	(403,806)	(20,859)	-	18,020	(406,645)
Improvements to Land	(45,959)	(336)	39,302	-	(6,993)
Vehicles	(2,753,353)	(408,792)	355,818	-	(2,806,327)
Equipment	(139,667)	(27,418)	7,950	(326)	(159,461)
Total accumulated depreciation	(3,342,785)	(457,405)	403,070	17,694	(3,379,426)
Total capital assets,depreciable, net	2,029,678	415,762	86,376	(27,915)	2,366,537
Governmental activities capital assets, net	$ 2,165,818	$ 454,742	$ 86,376	$ (27,915)	$ 2,541,657

NOTE 3: NET ASSETS

The government-wide financial statements utilize a net assets presentation. Net assets represent the difference between assets and liabilities. Net assets are categorized as invested in capital assets (net of related debt), restricted, and unrestricted.

- *Invested in Capital Assets, Net of Related Debt* – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets, as well as, any premium, discount paid on debt reduce the category balance.
- *Restricted Net Assets* - This category represents external restrictions imposed by creditors, grantors, contributors, other government's laws or regulations, or restrictions imposed by law through constitutional provisions or enabling legislation. Examples of restricted net assets include federal and state grant agreements that restrict grants to specific purposes and cash set aside for debt service payments.
- *Unrestricted Net Assets* - This category represents net assets of the County that are not invested in capital assets or restricted to specific purposes by agreements with external entities or by law.

NOTE 3: NET ASSETS - *Continued*

In the fund financial statements, reserves and designations segregate portions of fund balance that are either not available or have been earmarked for specific purposes. The various reserves and designations are established by actions of the Board and management and can be increased, reduced, or eliminated by similar actions.

At June 30, 2004, the District's net assets were as follows:

	Governmental Activities
Invested in capital assets, net of related debt: Net: land, improvements to land, infrastructure, construction in progress, utility plant in service, structures and improvements, and equipment and vehicles	$ 2,541,657
Unrestricted	3,605,768
Total net assets	$ 6,147,425

NOTE 4: RETIREMENT PLAN

Plan Description

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (Plan) operating under the California County Employees Retirement Act of 1937 (1937 Act). The Plan provides retirement, death, and disability benefits to members. Although legally established as a single employer plan for the County of San Bernardino (which includes this District), the organizations listed below were added later:

City of Big Bear Lake
City of Chino Hills
California State Association of Counties
San Bernardino County Law Library
Crest Forest Fire Protection District
Mojave Desert Air Quality Management District (MDAQMD)
South Coast Air Quality Management District (AQMD)
Local Agency Formation Commission (LAFCO)

The District and others covered under the Plan are collectively referred to as the "Participating Members". The Plan is governed by the San Bernardino Board of Retirement under the 1937 Act. The Board acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. Employees become eligible

NOTE 4: RETIREMENT PLAN - *Continued*

for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3rd floor, San Bernardino, California 92415-0014.

Funding Policy

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary based on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% - 13.46% of their annual covered salary of which the District pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act. The District's retirement contributions are included in the County's prepaid pension costs. For 2004, the County's annual pension costs can be determined by obtaining a copy of its Comprehensive Annual Financial Report by contacting the Auditor/Controller, 222 W. Hospitality Lane, 4th Floor, Attn: General Accounting Section, San Bernardino, Ca 92415-0018.

NOTE 5: PROPOSTION 111 APPROPRIATION LIMITS

Proposition 111, which added Article XIIIB to the State Constitution, establishes limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2003-2004 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

NOTE 6: 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 $30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance

NOTE 6: SELF INSURANCE - *Continued*

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 $18.5 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 Risk Management Fund (an Internal Service Fund) except for unemployment insurance, and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies, and include amounts for claims incurred but not reported, and allocated loss adjustment expenses. The liabilities for these claims are reported using a discounted rate of 5.00%. It is the County's practice to obtain actuarial studies at least biennially.

The County has a risk management investment program agreement with the Bank of New York to finance the self-insured general liability, automobile liability, workers' compensation, and medical malpractice programs. The County's investment in the agreements totaled $45.7 million at June 30, 2004.

The claims liability of $101.7 million reported at June 30, 2004 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 2003 and 2004 were:

NOTE 6: SELF INSURANCE - *Continued*

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)
2002-03	$95,288	$30,685	($32,171)	$93,802
2003-04	$93,802	$45,128	($37,221)	$101,709

NOTE 7: FEDERAL AND STATE GRANTS

From time to time the District may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds.

NOTE 8: TRANSFERS IN/OUT

Interfund Transfers In/Out transactions are used to close out a fund, reimburse an operating fund, and transfer cash between operating funds and capital project funds. At June 30, 2004, the District made the following Interfund Transfers In and Out:

Fund	Purpose	Amount
SQY	Transfer to project fund CNI	$ 25,000
SQY	Transfer to project fund CNZ	100,000
SQY	Transfer to project fund CLH	200,000
CNI,CNZ,CLH	Transfer from fund SQY for capital projects	(325,000)
	Total	$ 0

County of San Bernardino
Central Valley Fire Protection District
Required Supplementary Information
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2004

Fire Protection District	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts Budgetary Basis	Final Budget Favorable (Unfavorable)
Budgetary fund balance July 1, 2003	$ 2,531,548	$ 2,284,176	$ 2,284,176	$ -
Resources (inflows)				
Property Taxes	10,503,415	11,251,380	11,258,018	6,638
Use of Money and Property	65,000	70,000	23,791	(46,209)
Other Governmental Aid	-	3,300,000	457,887	(2,842,113)
Charges for services	2,832,103	2,857,736	3,230,652	372,916
Other Revenue	581,312	778,656	699,695	(78,961)
Transfer from other funds	-	-	325,000	325,000
Amounts available for appropriation	16,513,378	18,257,772	15,995,043	(2,262,729)
Charges to appropriations (outflows)				
Salaries and Benefits	10,458,330	11,545,198	11,652,043	(106,845)
Services and Supplies	2,302,841	2,765,727	2,641,868	123,859
Capital Outlay	555,000	1,910,300	912,147	998,153
Reserves and Contingencies	1,564,569	938,122	-	938,122
Transfer to other funds	1,615,000	3,336,441	325,000	3,011,441
Total charges to appropriations	16,495,740	20,495,788	15,531,058	4,964,730
Budgetary Fund Balance, June 30, 2004	$ 2,531,548	$ 2,284,176	$ 2,748,161	$ 463,985

COUNTY OF SAN BERNARDINO

CALIFORNIA

SPECIAL DISTRICTS

AUDIT REPORT

FOREST FALLS FIRE PROTECTION DISTRICT

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Prepared by:

Internal Audits Section
Office of the Auditor/Controller-Recorder
September 8, 2004

County of San Bernardino Special Districts
Forest Falls Fire Protection District

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AUDITOR/CONTROLLER-RECORDER
COUNTY CLERK

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

COUNTY OF SAN BERNARDINO

LARRY WALKER
Auditor/Controller-Recorder
County Clerk

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

Independent Auditor's Report

September 8, 2004

Peter Hills, Fire Chief/Fire Warden
County Fire Department
157 West Fifth Street, Second Floor
San Bernardino, CA 92415-0450

SUBJECT: AUDIT OF FOREST FALLS FIRE PROTECTION DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Introductory Remarks

In compliance with Section 26909 of the California Government Code, we have completed an audit of Forest Falls Fire Protection District for the fiscal year ended June 30, 2004.

Auditor's Report

We have audited the accompanying financial statements of the governmental activities of the County of San Bernardino Special Districts Forest Falls Fire Protection District (District), a component unit of the County of San Bernardino, California, as of and for the year ended June 30, 2004, 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the District as of June 30, 2004, and the respective changes in financial position 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 17 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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:
Barbara K. Redding, CPA, CGFM
Internal Audits Manager

Quarterly copies to:

County Administrative Office
Board of Supervisors
Grand Jury (2)

Audit File (3)
Audit Report Distributed: 1/27/05

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County of San Bernardino
Forest Falls Fire Protection District
Statement of Net Assets
June 30, 2004

	Governmental Activities
ASSETS	
Current assets:	
Cash and cash equivalents	$ 71,362
Taxes receivable	9,302
Interest receivable	295
Total current assets	80,959
Noncurrent assets:	
Capital assets:	
Land	2,000
Improvements to land	18,951
Equipment and vehicles	469,048
Less accumulated depreciation	(378,386)
Total noncurrent assets	111,613
Total assets	$ 192,572
LIABILITIES	
Current liabilities:	
Salaries and benefits payable	$ 1,535
Accounts payable	9,152
Total current liabilities	10,687
NET ASSETS	
Invested in capital assets	111,613
Unrestricted	70,272
Total net assets	181,885
Total liabilities and net assets	$ 192,572

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

County of San Bernardino
Forest Falls Fire Protection District
Statement of Activities
For the Fiscal Year Ended June 30, 2004

	Governmental Activities
EXPENSES	
Salaries and benefits	$ 50,084
Services and supplies	61,563
Professional services	10,214
Depreciation expense	15,807
Total expenses	137,668
GENERAL REVENUES	
Property taxes	162,133
Interest	954
Transfers out	(24,614)
Total general revenues and transfers	138,473
Change in net assets	805
Net assets - beginning	181,080
Net assets - ending	$ 181,885

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

County of San Bernardino
Forest Falls Fire Protection District
Balance Sheet
Governmental Funds
June 30, 2004

	Special Revenue Fire Protection
ASSETS	
Cash and cash equivalents	$ 71,362
Taxes receivable	9,302
Interest receivable	295
Total assets	$ 80,959
LIABILITIES AND FUND BALANCES	
Liabilities:	
Salaries and benefits payable	$ 9,152
Accounts payable	1,535
Total liabilities	10,687
Fund balances:	
Unreserved	70,272
Total fund balances	70,272
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	111,613
Net assets of governmental activities	$ 181,885

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

County of San Bernardino
Forest Falls Fire Protection District
Balance Sheet
Governmental Funds
June 30, 2004

	Special Revenue Fire Protection
REVENUES	
Property taxes	$ 162,133
Interest	954
Total revenues	163,087
EXPENDITURES	
Salaries and benefits	50,084
Services and supplies	61,563
Professional services	10,214
Capital outlay	22,784
Total expenditures	144,645
Excess of revenues over (under) expenditures	18,442
Other Financing Sources (uses)	
Transfers out	(24,614)
Net change in fund balances	(6,172)
Fund balances - beginning	76,444
Fund balances - ending	$ 70,272

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities

Net change in fund balances - total government funds	$ (6,172)
Amounts reported for governmental activities in the Statement of Activities are different because:	
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.	6,977
Change in net assets of governmental activities	$ 805

County of San Bernardino
Forest Falls Fire Protection District
Balance Sheet
Governmental Funds
June 30, 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

Forest Falls Fire Protection District (District) is a special district located within the County of San Bernardino. The District has governmental powers as established by the San Bernardino County Government Charter. The County of San Bernardino (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 on January 24, 1955, with active powers of fire protection, rescue and emergency medical services to the community of Forest Falls.

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 the District and are not intended to present the financial position of the County taken as a whole.

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. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from any *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 segments are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

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.* 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 taxes and federal and state grants, the County expanded its definition of "available" 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.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District utilizes a single special revenue fund labeled "Fire Protection". It accounts for all financial resources of the general government.

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.

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 the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Cash and cash equivalents

Cash and cash equivalents are defined as 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 earnings 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, 2004.

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

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.

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 applicable governmental activities columns 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 (1) 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	40
Structures & improvements	5 – 45
Equipment and vehicles	6 – 15
Utility plant in service	45

Use of estimates

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

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

Reconciliation of government-wide and fund financial statements

Explanation of certain differences between the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the government-wide Statement of Activities.

The governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances includes reconciliation between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that, "Governmental funds report capital outlays 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." The details of the difference are as follows:

Capital outlays	$ 22,784
Depreciation expense	15,807
Net adjustment to decrease *net change in fund balances – total governmental funds* to arrive at *changes in net assets of governmental activities.*	$ 6,977

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 sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

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

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 reappropriated and honored during the subsequent year.

C. Net Assets

Net assets comprise the various net earnings from operating and non-operating 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 – The component of net asset consist of net assets of the County that are not restricted for any project or other purpose.

NOTE 2: CAPITAL ASSETS

The costs of building and acquiring capital assets (land, 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 Government-wide Balance Sheet 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 the year ended June 30, 2004 was as follows:

NOTE 2: CAPITAL ASSETS– *Continued*

Governmental Activities	Balance 1-Jul-03	Additions	Disposals	Balance 30-Jun-04
Capital assets not being depreciated:				
Land	$ 2,000	$ -	$ -	$ 2,000
Total capital assets not being depreciated	2,000	-	-	2,000
Capital assets being depreciated:				
Improvements to land	18,951	-	-	18,951
Vehicles	447,752	-	7,988	439,764
Equipment	6,500	22,784	-	29,284
Total capital assets being depreciated	473,203	22,784	7,988	487,999
Less accumulated depreciation for:				
Improvements to land	1,719	421	-	2,140
Vehicles	362,348	12,348	7,988	366,708
Equipment	6,500	3,038	-	9,538
Total accumulated depreciation	370,567	15,807	7,988	378,386
Total capital assets being depreciated, net	102,636	38,591	-	109,613
Total net capital assets	$ 104,636	$ 38,591	$ -	$ 111,613

NOTE 3: 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 $30 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 $18.5 million in limits provided by the CSAC EIA General Liability II Program.

NOTE 3: SELF INSURANCE - *Continued*

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 Risk Management Fund (an Internal Service Fund) except for unemployment insurance, and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies, and include amounts for claims incurred but not reported, and allocated loss adjustment expenses. The liabilities for these claims are reported using a discounted rate of 5.00%. It is the County's practice to obtain actuarial studies at least biennially.

The County has a risk management investment program agreement with the Bank of New York to finance the self-insured general liability, automobile liability, workers' compensation, and medical malpractice programs. The County's investment in the agreements totaled $45.7 million at June 30, 2004.

The claims liability of $101.7 million reported at June 30, 2004 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 2003 and 2004 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)
2002-03	$95,288	$30,685	($32,171)	$ 93,802
2003-04	$93,802	$45,128	($37,221)	$101,709

NOTE 4: RETIREMENT PLAN

Plan Description

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (Plan) operating under the California County Employees Retirement Act of 1937 (1937 Act). The Plan provides retirement, death, and disability benefits to members. Although legally established as a single employer plan for the County of San Bernardino (which includes this District), the organizations listed below were added later:

City of Big Bear Lake
City of Chino Hills
California State Association of Counties
San Bernardino County Law Library
Crest Forest Fire Protection District
Mojave Desert Air Quality Management District (MDAQMD)
South Coast Air Quality Management District (AQMD)
Local Agency Formation Commission (LAFCO)

The District and others covered under the Plan are collectively referred to as the "Participating Members". The Plan is governed by the San Bernardino Board of Retirement under the 1937 Act. The Board acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3rd floor, San Bernardino, California 92415-0014.

Funding Policy

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary based on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% - 13.46% of their annual covered salary of which the County pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act. The District's retirement contributions are included in the County's prepaid pension costs. For 2004, the County's annual pension costs can be determined by obtaining a copy of its Comprehensive Annual Financial Report by contacting the Auditor/Controller, 222 W. Hospitality Lane, 4th Floor, Attn: General Accounting Section, San Bernardino, Ca 92415-0018.

NOTE 5: PROPOSITION 111 APPROPRIATION LIMITS

Proposition 111, which added Article XIIIB to the State Constitution, established limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2003-2004 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

County of San Bernardino
Forest Falls Fire Protection District
Required Supplementary Information
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with
Fire Protection	**Original**	**Final**	**Budgetary Basis**	**Final Budget Positive (Negative)**
Budgetary fund Balance, July 1, 2002	$ 51,818	$ 76,157	$ 76,444	$ 287
Resources (inflows):				
Property taxes	137,865	151,064	162,133	11,069
Interest and rents	2,000	2,000	954	(1,046)
Current Services	1,953	-	-	-
Amounts available for appropriation	193,636	229,221	239,531	10,310
Charges to appropriations (outflows):				
Salaries and benefits	56,602	62,084	50,084	12,000
Services and supplies	71,131	85,295	71,778	13,517
Capital Outlays	-	-	22,783	(22,783)
Strucutres & Improvements	15,000	-	-	-
Central Computer	1,650	2,536	-	2,536
Operating Transfer	4,825	24,614	24,614	-
Reserves and contingencies	44,428	54,692	-	54,692
Total charges to appropriations	193,636	229,221	169,259	59,962
Budgetary fund balance, June 30, 2003	$ -	$ -	$ 70,272	$ 70,272

COUNTY OF SAN BERNARDINO

CALIFORNIA

SPECIAL DISTRICTS

AUDIT REPORT

LAKE ARROWHEAD FIRE PROTECTION DISTRICT

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Prepared by:

Internal Audits Section
Office of the Auditor/Controller-Recorder
October 11, 2004

County of San Bernardino Special Districts
Lake Arrowhead Fire Protection District

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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
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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

October 11, 2004

Peter Hills, Fire Chief/Fire Warden
County Fire Department
157 West Fifth Street, Second Floor
San Bernardino, CA 92415-0450

SUBJECT: AUDIT OF LAKE ARROWHEAD FIRE PROTECTION DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Introductory Remarks

In compliance with Section 26909 of the California Government Code, we have completed an audit of Lake Arrowhead Fire Protection District for the fiscal year ended June 30, 2004.

Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund, and the remaining aggregate fund information of the County of San Bernardino Special District's Lake Arrowhead Fire Protection District (District), a component unit of the County of San Bernardino, California, as of and for the year ended June 30, 2004, 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund, and the remaining aggregate fund information of the District, as of June 30, 2004, 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 budgetary comparison information on page 24 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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:
Barbara K. Redding, CPA, CGFM
Internal Audits Manager

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LDW:BKR:RLC:wds.1

County of San Bernardino
Lake Arrowhead Fire Protection District
Statement of Net Assets
June 30, 2004

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	$ 873,706	$ 34,201	$ 907,907
Accounts receivable	-	437,775	437,775
Less allowance for collectible accounts	-	(239,232)	(239,232)
Taxes receivable	295,318	-	295,318
Interest receivable	894	82	976
Due from other governments	158,161	-	158,161
Total current assets	1,328,079	232,826	1,560,905
Noncurrent assets:			
Capital assets:			
Land	577,500	-	577,500
Improvements to land	132,836	-	132,836
Construction in progress	3,514,990	-	3,514,990
Structures and improvements	4,271,040	-	4,271,040
Equipment and vehicles	1,536,998	254,096	1,791,094
Less accumulated depreciation	(2,067,503)	(160,880)	(2,228,383)
Total noncurrent assets	7,965,861	93,216	8,059,077
Total assets	$ 9,293,940	$ 326,042	$ 9,619,982
LIABILITIES			
Current liabilities:			
Salaries and benefits payable	$ 13,199	$ -	$ 13,199
Due to other governments	155,795	6,294	162,089
Total current liabilities	168,994	6,294	175,288
Noncurrent liabilities:			
Employee compensated absences	6,226	-	6,226
Total noncurrent liabilities	6,226	-	6,226
Total liabilities	175,220	6,294	181,514
NET ASSETS			
Invested in capital assets	7,965,861	93,216	8,059,077
Unrestricted	1,152,859	226,532	1,379,391
Total net assets	9,118,720	319,748	9,438,468
Total liabilities and net assets	$ 9,293,940	$ 326,042	$ 9,619,982

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

County of San Bernardino
Lake Arrowhead Fire Protection District
Statement of Activities
For the Fiscal Year Ended June 30, 2004

	Governmental Activities	Business-type Activities	Total
EXPENSES			
Salaries and benefits	$ 4,439,656	$ 26,526	$ 4,466,182
Professional Services	-	35,542	35,542
Services and Supplies	737,350	249,883	987,233
Depreciation	215,853	36,043	251,896
Total expenses	5,392,859	347,994	5,740,853
PROGRAM REVENUES			
Property taxes	4,850,112	-	4,850,112
Charges for services	344,027	772,513	1,116,540
Total program revenues	5,194,139	772,513	5,966,652
Net program (expense) revenue	(198,720)	424,519	225,799
GENERAL REVENUES			
Special assessments	386	-	386
Other taxes	187,823	-	187,823
State aid	102,957	-	102,957
Government aid	27,489	-	27,489
Interest	10,099	546	10,645
Gain on sale of fixed assets	2,026	-	2,026
Transfers in (out)	723,510	(723,510)	-
Total general revenues	1,054,290	(722,964)	331,326
Change in net assets	855,570	(298,445)	557,125
Net assets - beginning	8,263,150	618,193	8,881,343
Net assets - ending	$ 9,118,720	$ 319,748	$ 9,438,468

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

County of San Bernardino
Lake Arrowhead Fire Protection District
Balance Sheet
Governmental Funds
June 30, 2004

	Governmental Funds
ASSETS	
Cash and cash equivalents	$ 873,706
Taxes receivable	295,318
Interest receivable	894
Due from other governments	158,161
Total assets	$ 1,328,079
LIABILITIES AND FUND BALANCES	
Liabilities:	
Salaries and benefits payable	$ 13,199
Due to other governments	155,795
Total liabilities	168,994
Fund balances:	
Reserved for encumbrances	146,405
Unreserved	1,012,680
Total fund balances	1,159,085
Total liabilities and fund balances	$ 1,328,079

Reconciliation of Governmental Balance Sheet to Statement of Net Assets

Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Fund balance	$ 1,159,085
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	7,965,861
Long-term liabilities are not due and payable in the current period and, therefore are not reported in the funds.	(6,226)
Net assets of governmental activities	$ 9,118,720

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

County of San Bernardino
Lake Arrowhead Fire Protection District
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2004

	Fire (SRM, CCC, CGA, CPB)
REVENUES	
Property taxes	$ 4,850,112
Special assessments	386
Other taxes	187,823
State aid	102,957
Government aid	27,489
Interest	10,099
Charges for services	344,027
Total revenues	5,522,893
EXPENDITURES	
Salaries and benefits	4,440,456
Services and supplies	737,350
Capital outlay	1,085,102
Total expenditures	6,262,908
Excess of revenues over (under) expenditures	(740,015)
OTHER FINANCING SOURCES (USES)	
Sale of Capital Assets	2,026
Transfers in	723,510
Total other financing sources (uses)	725,536
Net change in fund balance	(14,479)
Fund balances - beginning	1,173,564
Fund balances - ending	$ 1,159,085

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

County of San Bernardino
Lake Arrowhead Fire Protection District
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, 2004

Net change in fund balances - total governmental funds	$	(14,479)
Amounts reported for governmental activities in the Statement of Activities are different because:		
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.		869,249
Some expenditures in the statement of activities do not require the use of current financial resources and, therefore are not reported as expenditures in the governmental funds:		
Decrease in employee compensated absences		800
Change in net assets of governmental activities	$	855,570

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

County of San Bernardino
Lake Arrowhead Fire Protection District
Statement of Net Assets
Proprietary Funds
June 30, 2004

	Enterprise Fund Ambulance
ASSETS	
Current assets:	
Cash and cash equivalents	$ 34,201
Accounts receivable	437,775
Less allowance for uncollectible accounts	(239,232)
Interest receivable	82
Total current assets	232,826
Noncurrent assets:	
Capital assets:	
Equipment and vehicles	254,096
Less accumulated depreciation	(160,880)
Total noncurrent assets	93,216
Total assets	$ 326,042
LIABILITIES	
Current Liabilities:	
Due to other governments	$ 6,294
Total liabilities	6,294
NET ASSETS	
Invested in capital assets	93,216
Unrestricted	226,532
Total net assets	319,748
Total liabilities and net assets	$ 326,042

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

County of San Bernardino
Lake Arrowhead Fire Protection District
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2004

	Enterprise Fund Ambulance
OPERATING REVENUES	
Charges for services	$ 772,513
Total operating revenues	772,513
OPERATING EXPENSES	
Salaries and benefits	26,526
Professional services	35,542
Services and supplies	249,883
Depreciation	36,043
Total operating expenses	347,994
Operating income (loss)	424,519
NONOPERATING REVENUES (EXPENSES)	
Interest revenue	546
Total non-operating revenues (expenses)	546
Income (loss) before transfers	425,065
Transfers out	(723,510)
Change in net assets	(298,445)
Net assets - beginning	618,193
Net assets - ending	$ 319,748

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

County of San Bernardino
Lake Arrowhead Fire Protection District
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2004

	Enterprise Fund Ambulance
CASH FLOWS FROM OPERATING ACTIVITIES	
Received from user charges	$ 686,374
Payments to employees for services	(26,526)
Payments to suppliers for goods and services	(281,115)
Net cash provided (used) by operating activities	378,733
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers out	(723,510)
Net cash provided (used) by noncapital financing activities	(723,510)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest revenue	3,815
Net cash provided (used) by investing activities	3,815
Net increase (decrease) in cash and cash equivalents	(340,962)
Cash and cash equivalents - beginning	375,163
Cash and cash equivalents - ending	$ 34,201
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	$ 424,519
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation expense	36,043
Change in assets and liabilities:	
Receivables, net	(86,139)
Due to other governments	4,310
Net cash provided (used) by operating activities	$ 378,733

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Lake Arrowhead Fire Protection District (District) – is a special district located within the County of San Bernardino. The District has governmental powers as established by the San Bernardino County Government Charter (County). 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 (Board) on January 3, 1939 with the active powers of fire (inspection, suppression, protection, first aid, and rescue). Currently, the governmental reporting entity consists of fire protection and emergency medical services to the community of Lake Arrowhead.

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 the District and are not intended to present the financial position of the County taken as a whole.

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. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial 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. Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments.

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

Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

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 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 taxes and federal and state grants, the County expanded its definition of "available" 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.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

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

The government reports the following major governmental funds:

> The *special revenue fund* labeled "Fire" 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.

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 both the government-wide and proprietary 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.

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 principal ongoing operations. The principal operating revenue of the District's enterprise fund is charges to customers for ambulance services. Operating expenses for enterprise funds include the cost of salaries and benefits, services and supplies, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

The government reports the following major proprietary funds:

> The *enterprise fund* labeled "Ambulance" accounts for the emergency transport activities of the District. The District operates an ambulance under the administration of the San Bernardino County Fire Department.

Cash and Cash Equivalents

Cash and cash equivalents are defined as cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

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

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, 2004.

Receivables and payables

All accounts receivable are shown net of an allowance for uncollectible accounts when applicable.

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

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.

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 applicable governmental or business-type activities columns 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 (1) 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
Improvements to land	20 - 45
Structures & improvements	10 - 45
Equipment and vehicles	6 - 15

Use of Estimates

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

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

Employee Compensated Absences

Accumulated vacation, holiday benefits, sick pay and compensatory time are recorded as an expense and liability as the benefits are earned. Compensated absence liabilities are recorded as a noncurrent liability. The District is not obligated to pay for unused sick leave if an employee terminates or retires.

Compensated absences activity for the year ended June 30, 2004 was as follows:

Beginning Balance	Additions	Deletions	Ending Balance
$7,026	$17,987	$18,817	$6,226

Reconciliation of government-wide and fund financial statements

Explanation of certain differences between the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the government-wide Statement of Activities.

The governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances includes a reconciliation between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide Statement of Activities. One element of that reconciliation explains that "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." The details of this $ 869,249 difference are as follows:

Capital outlay	$ 1,085,102
Depreciation expense	(215,853)
Net adjustment to decrease *net change in fund balances – total governmental funds* to arrive at *changes in net assets of governmental activities*	$ 869,249

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

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 reappropriated and honored during the subsequent year.

C. Net Assets

Net assets comprise the various net earnings from operating and non-operating 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.

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

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 – The component of net asset consist of net assets of the County that are not restricted for any project or other purpose.

Net asset amounts at June 30, 2004 were as follows:

	Governmental Activities	Business-Type Activities
Invested in capital assets, net of related debt: Net land, improvements to land, infrastructure, construction in progress, utility plant in service, structures and improvements, and equipment and vehicles	$ 7,965,861	$ 93,216
Unrestricted	1,152,859	226,532
Total net assets	$ 9,118,720	$ 319,478

NOTE 2: CAPITAL ASSETS

The costs of building and acquiring capital assets (land, 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 and business-type activities for the year ended June 30, 2004 follows. All governmental assets and depreciation are from the fire protection activity.

Governmental activities

	Balance at July 1, 2003	Additions	Disposals	Balance at June 30, 2004
Capital assets not being depreciated:				
Land	$ 577,500	-	-	$ 577,500
Construction in progress	2,792,091	722,899	-	3,514,990
Total capital assets not being depreciated	3,369,591	722,899	-	4,092,490
Capital assets being depreciated:				
Improvements to land	132,836	-	-	132,836
Structures and improvements	4,271,040	-	-	4,271,040
Equipment	101,761	5,603		107,364
Vehicles	1,130,173	356,600	57,139	1,429,634
Total capital assets being depreciated	5,635,810	362,203	57,139	5,940,874
Less accumulated depreciation for:				
Improvements to land	63,848	2,677	-	66,525
Structures and improvements	902,852	88,250	-	991,102
Equipment	27,518	9,437	-	36,955
Vehicles	914,571	115,489	57,139	972,921
Total accumulated depreciation	1,908,789	215,853	57,139	2,067,503
Total capital assets being depreciated, net	3,727,021			3,873,371
Total net capital assets	**$ 7,096,612**			**$ 7,965,861**

Business-type activities

	Balance at July 1, 2003	Additions	Disposals	Balance at June 30, 2004
Capital assets being depreciated:				
Vehicles	$ 254,096	-	-	$ 254,096
Total capital assets being depreciated	254,096	-	-	254,096
Less accumulated depreciation for:				
Vehicles	124,837	36,043	-	160,880
Total accumulated depreciation	124,837	36,043	-	160,880
Total capital assets being depreciated, net	129,259		-	93,216
Total net capital assets	**$ 129,259**			**$ 129,259**

NOTE 2: CAPITAL ASSETS – *Continued*

Construction in progress represents the following projects:

Project Title	Budget	YTD Expenses	Projected Completion Date
Fire Station # 94	$ 10,424,898	$ 3,472,442	FY 04/05
Total		**$ 3,472,442**	

NOTE 3: TRANSFERS IN (OUT)

Interfund Transfers In (Out) transactions are used to reimburse an operating fund and transfer cash between operating funds and capital project funds. At June 30, 2004, the District made the following Interfund Transfers In and Out:

Fund	Purpose	Amount
EGM	To CCC for fire new fire station	$ 202,214
EGM	To SRM for share of ambulance costs	521,296
CCC	From EGM for new fire station	(202,214)
SRM	From EGM for share of ambulance costs	(521,296)
	Net interfund transfers	$ -

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 $30 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.

NOTE 4: SELF INSURANCE - *Continued*

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 $18.5 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 Risk Management Fund (an Internal Service Fund) except for unemployment insurance, and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies, and include amounts for claims incurred but not reported, and allocated loss adjustment expenses. The liabilities for these claims are reported using a discounted rate of 5.00%. It is the County's practice to obtain actuarial studies at least biennially.

The County has a risk management investment program agreement with the Bank of New York to finance the self-insured general liability, automobile liability, workers' compensation, and medical malpractice programs. The County's investment in the agreements totaled $45.7 million at June 30, 2004.

The claims liability of $101.7 million reported at June 30, 2004 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 2003 and 2004 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)
2002-03	$ 95,288	$ 30,685	($ 32,171)	$ 93,802
2003-04	$ 93,802	$ 45,128	($ 37,221)	$ 101,709

NOTE 5: 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.

NOTE 6: RETIREMENT PLAN

Plan Description

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (Plan) operating under the California County Employees Retirement Act of 1937 (1937 Act). The Plan provides retirement, death, and disability benefits to members. Although legally established as a single employer plan for the County of San Bernardino (which includes this District), the organizations listed below were added later:

City of Big Bear Lake
City of Chino Hills
California State Association of Counties
San Bernardino County Law Library
Crest Forest Fire Protection District
Mojave Desert Air Quality Management District (MDAQMD)
South Coast Air Quality Management District (AQMD)
Local Agency Formation Commission (LAFCO)

The District and others covered under the Plan are collectively referred to as the Participating Members". The Plan is governed by the San Bernardino Board of Retirement under the 1937 Act. The Board acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3rd floor, San Bernardino, California 92415-0014.

Funding Policy

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary based on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to

NOTE 6: RETIREMENT PLAN - *Continued*

contribute 8.36% - 13.46% of their annual covered salary of which the County pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act. The District's retirement contributions are included in the County's prepaid pension costs. For 2004, the County's annual pension costs can be determined by obtaining a copy of its Comprehensive Annual Financial Report by contacting the Auditor/Controller, 222 W. Hospitality Lane, 4th Floor, Attn: General Accounting Section, San Bernardino, Ca 92415-0018.

NOTE 7: PROPOSITION 111 APPROPRIATION LIMITS

Proposition 111, which added Article XIIIB to the State Constitution, established limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2003-2004 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

County of San Bernardino
Lake Arrowhead Fire Protection District
Required Supplementary Information
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2004

Fire	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
Budgetary fund balance, July 1, 2003	$ 876,423	$ 380,143	$ 1,173,564	$ 793,421
Resources (inflows):				
Property taxes	4,551,829	4,842,484	4,850,112	7,628
Other taxes	-	-	187,823	187,823
Special assessments	-	-	386	386
Interest and rents	12,000	12,000	10,099	(1,901)
Other state aid	-	-	102,957	102,957
Other governmental aid	-	-	27,489	27,489
Charges for services	390,465	408,630	344,027	(64,603)
Operating transfer in	400,000	521,296	723,510	202,214
Other revenue	-	-	2,026	2,026
Amount available for appropriation	6,230,717	6,164,553	7,421,993	1,257,440
Charges to appropriations (outflows):				
Salaries and benefits	4,085,695	4,733,137	4,440,456	292,681
Services and supplies	750,485	699,407	737,350	(37,943)
Operating transfers out	1,095,971	17,087	-	17,087
Capital outlay:				
Structures and improvements	-	-	1,085,102	(1,085,102)
Equipment and vehicles	88,000	391,000	-	391,000
Reserves and contingencies	210,566	323,922	-	323,922
Total charges to appropriations	6,230,717	6,164,553	6,262,908	(98,355)
Budgetary fund balance, June 30, 2004	$ -	$ -	$ 1,159,085	$ 1,159,085

COUNTY OF SAN BERNARDINO

CALIFORNIA

SPECIAL DISTRICTS

AUDIT REPORT

YUCCA VALLEY FIRE PROTECTION DISTRICT

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Prepared by:

Internal Audits Section
Office of the Auditor/Controller-Recorder
October 6, 2004

County of San Bernardino Special Districts
Yucca Valley Fire Protection District

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AUDITOR/CONTROLLER-RECORDER
COUNTY CLERK

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

COUNTY OF SAN BERNARDINO

LARRY WALKER
Auditor/Controller-Recorder
County Clerk

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

Independent Auditor's Report

October 6, 2004

Peter Hills, Fire Chief/Fire Warden
County Fire Department
157 West Fifth Street, Second Floor
San Bernardino, CA 92415-0450

SUBJECT: AUDIT OF YUCCA VALLEY FIRE PROTECTION DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Introductory Remarks

In compliance with Section 26909 of the California Government Code, we have completed an audit of Yucca Valley Fire Protection District for the fiscal year ended June 30, 2004.

Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the remaining aggregate fund information of the County of San Bernardino Special District's Yucca Valley Fire Protection District (District), a component unit of the County of San Bernardino, California, as of and for the year ended June 30, 2004, 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the remaining aggregate fund information of the District, as of June 30, 2004, 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 budgetary comparison information on page 23 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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: _____
Barbara K. Redding, CPA, CGFM
Internal Audits Manager

Quarterly copies to:

County Administrative Office
Board of Supervisors
Grand Jury (2)

Audit File (3)
Date Report Distributed: 2/23/05

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County of San Bernardino Special Districts
Yucca Valley Fire Protection District
Statement of Net Assets
June 30, 2004

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	$ 101,891	$ 9,860	$ 111,751
Accounts Receivable	-	634,707	634,707
Less allowance for uncollectible accounts	-	(439,934)	(439,934)
Taxes receivable	163,719	-	163,719
Interest receivable	-	323	323
Total current assets	265,610	204,956	470,566
Noncurrent assets:			
Capital assets:			
Land	8,271	-	8,271
Improvements to land	8,359	-	8,359
Structures and improvements	222,880	-	222,880
Equipment and vehicles	1,413,743	244,272	1,658,015
Less accumulated depreciation	(1,284,829)	(166,779)	(1,451,608)
Total noncurrent assets	368,424	77,493	445,917
Total assets	$ 634,034	$ 282,449	$ 916,483
LIABILITIES			
Current liabilities:			
Salaries and benefits payable	$ 6,871	$ -	$ 6,871
Due to other governments	91,128	5,000	96,128
Total current liabilities	97,999	5,000	102,999
Noncurrent liabilities:			
Employee compensated absences	129,339	-	129,339
Total noncurrent liabilities	129,339	-	129,339
Total liabilities	227,338	5,000	232,338
NET ASSETS			
Invested in capital assets	368,424	77,493	445,917
Unrestricted	38,272	199,956	238,228
Total net assets	406,696	277,449	684,145
Total liabilities and net assets	$ 634,034	$ 282,449	$ 916,483

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

County of San Bernardino Special Districts
Yucca Valley Fire Protection District
Statement of Activities
For the Fiscal Year Ended June 30, 2004

	Governmental Activities	Business-type Activities	Total
EXPENSES			
Salaries and benefits	$ 3,318,971	$ 39,195	$ 3,358,166
Services and supplies	291,473	718,438	1,009,911
Professional services	169,228	62,315	231,543
Rents and leases	14,341	-	14,341
Transfers out	10,358	525,000	535,358
Depreciation	67,601	32,317	99,918
Total expenses	3,871,972	1,377,265	5,249,237
PROGRAM REVENUES			
Charges for services	-	1,404,116	1,404,116
Total program revenues	-	1,404,116	1,404,116
Net program (expense) revenue	(3,871,972)	26,851	(3,845,121)
GENERAL REVENUES			
Property taxes	2,598,535	-	2,598,535
Other taxes	112,308	-	112,308
Interest	61	1,590	1,651
Rents and concessions	36,136	-	36,136
State aid	55,486	-	55,486
Federal aid	55,567	-	55,567
Other	28,135	-	28,135
Donations from private sources	11,101	-	11,101
Transfers in	802,665	-	802,665
Total general revenues	3,699,994	1,590	3,701,584
Change in net assets	(171,978)	28,441	(143,537)
Net assets - beginning	578,674	249,008	827,682
Net assets - ending	$ 406,696	$ 277,449	$ 684,145

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

County of San Bernardino Special Districts
Yucca Valley Fire Protection District
Balance Sheet
Governmental Funds
June 30, 2004

	Governmental Funds
ASSETS	
Cash and cash equivalents	$ 101,891
Taxes receivable	163,719
Total assets	$ 265,610
LIABILITIES AND FUND BALANCES	
Liabilities:	
Salaries and benefits payable	$ 6,871
Due to other governments	91,128
Total liabilities	97,999
Fund balances:	
Unreserved	167,611
Total fund balances	167,611
Total liabilities and fund balances	$ 265,610

Reconciliation of Governmental Balance Sheet to Statement of Net Assets

Fund balance	$ 167,611
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	368,424
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(129,339)
Net assets of governmental activities	$ 406,696

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

County of San Bernardino Special Districts
Yucca Valley Fire Protection District
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2004

	Special Revenue Fire Protection
REVENUES	
Property taxes	$ 2,598,535
Other taxes	112,308
interest	61
Rents and concessions	36,136
State aid	55,486
Federal aid	55,567
Other	28,135
Total revenues	2,886,228
EXPENDITURES	
Salaries and benefits	3,191,827
Professional Services	169,228
Services and supplies	291,473
Rents and leases	14,341
Total expenditures	3,666,869
Excess of revenues over (under) expenditures	(780,641)
OTHER FINANCING SOURCES (USES)	
Transfers in	802,665
Transfers out	(10,358)
Total other financing sources (uses)	792,307
Net change in fund balances	11,666
Fund balances - beginning	155,945
Fund balances - ending	$ 167,611

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

County of San Bernardino Special Districts
Yucca Valley Fire Protection District
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, 2004

Net change in fund balances - total governmental funds	$ 11,666
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays 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 of depreciation expense in the current period.	(67,601)
Capital assets used in governmental activities that are not financial resources and, therefore, are not reported in the funds. This is the amount of a capital asset donated from private sources.	11,101
Some expenditures in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. Increase in compensated absences.	(127,144)
Change in net assets of govermental activities	$ (171,978)

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

County of San Bernardino Special Districts
Yucca Valley Fire Protection District
Statement of Net Assets
Propriety Fund
June 30, 2004

	Enterprise Fund Ambulance
ASSETS	
Current assets:	
Cash and cash equivalents	$ 9,860
Accounts receivable	634,707
Less allowance for uncollectible accounts	(439,934)
Interest receivable	323
Total current assets	204,956
Noncurrent assets:	
Capital assets:	
Equipment and vehicles	244,272
Less accumulated depreciation	(166,779)
Total noncurrent assets	77,493
Total assets	$ 282,449
LIABILITIES	
Current liabilities:	
Due to other governments	$ 5,000
Total liabilities	5,000
NET ASSETS	
Invested in capital assets	77,493
Unrestricted	199,956
Total net assets	277,449
Total liabilities and net assets	$ 282,449

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

County of San Bernardino Special Districts
Yucca Valley Fire Protection District
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Fund
For the Fiscal Year Ended June 30, 2004

	Enterprise Fund Ambulance
OPERATING REVENUES	
Charges for services	$ 1,404,116
Total operating revenues	1,404,116
OPERATING EXPENSES	
Salaries and benefits	39,195
Professional services	62,315
Services and supplies	718,438
Depreciation	32,317
Total operating expenses	852,265
Operating income (loss)	551,851
NONOPERATING REVENUES (EXPENSES)	
Interest revenue	1,590
Total nonoperating revenues (expenses)	1,590
Income before contributions and transfers	553,441
Transfers Out	(525,000)
Change in net assets	28,441
Net assets - beginning	249,008
Net assets - ending	$ 277,449

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

County of San Bernardino Special Districts
Yucca Valley Fire Protection District
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2004

	Enterprise Fund Ambulance
CASH FLOWS FROM OPERATING ACTIVITIES	
Received from user charges	$ 1,314,926
Payments to suppliers for goods and services	(776,202)
Payments to employees for services	(39,195)
Net cash provided by operating activities	499,529
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers out	(525,000)
Net cash used by noncapital financing activities	(525,000)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest revenue	1,590
Net cash provided (used) by investing activities	1,590
Net increase (decrease) in cash and cash equivalents	(23,881)
Cash and cash equivalents - beginning	33,741
Cash and cash equivalents - ending	$ 9,860

Reconciliation of operating income (loss) to net cash provided by operating activities:

Operating income (loss)	$ 551,851
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	32,317
Change in assets and liabilities:	
Receivables, net	(89,190)
Due to other governments	4,551
Net cash provided by operating activities	$ 499,529

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Yucca Valley Fire Protection District (District) – is a special district located within the County of San Bernardino. The District has governmental powers as established by the San Bernardino County Government Charter (County). 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 in July 1951, with the active powers of fire (suppression, prevention, first aid, and rescue). Currently, the governmental reporting entity consists of fire protection and emergency medical services to the community of Yucca Valley.

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 (i) either the County's 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 the District and are not intended to present the financial position of the County taken as a whole.

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. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial 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. Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

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 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 taxes and federal and state grants, the County expanded its definition of "available" 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.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

> The *special revenue fund* labeled "Fire" 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*

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 both the government-wide and proprietary 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.

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 principal ongoing operations. The principal operating revenue of the Fire Protection District's enterprise fund is charges to customers for ambulance services. Operating expenses for enterprise funds include the cost of salaries and benefits, services and supplies, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

The government reports the following major proprietary fund:

> The *enterprise fund* labeled "Ambulance" accounts for the emergency transport activities of the District. The District operates the ambulance activities under the administration of San Bernardino County Fire Department

Cash and cash equivalents

Cash and cash equivalents are defined as 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 earnings 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.

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

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, 2004.

Receivables and payables

All account receivables are shown net of an allowance for uncollectible accounts when applicable.

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

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.

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 applicable governmental or business-type activities columns 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 (1) 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 lives are 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
Improvements to land	40
Structures & improvements	5 – 45
Equipment and vehicles	6 – 15

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.

Employee compensated absences

Accumulated vacation, holiday benefits, sick pay and compensatory time are recorded as an expense and liability as the benefits are earned. Compensated absence liabilities are recorded as a current liability. The District is not obligated to pay for unused sick leave if an employee terminates or retires.

Compensated absences activity for the year ended June 30, 2004 was as follows:

Beginning Balance	Additions	Deletions	Ending Balance
$ 2, 195	293,724	166,580	$ 129,339

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.

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

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 sources 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 reappropriated and honored during the subsequent year.

C. Net Assets

Net assets comprise the various net earnings from operating and non-operating 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 – The component of net asset consist of net assets of the County that are not restricted for any project or other purpose.

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

Net asset amounts at June 30, 2004 were as follows:

	Governmental Activities	Business Type Activities
Invested in capital assets, net of related debt: Net land, improvements to land, infrastructure, construction in progress, utility plant in service, structures and improvements, and equipment and vehicles	$ 368,424	$ 77,493
Unrestricted	38,272	199,956
Total net assets	$ 406,696	$ 277,449

NOTE 2: CAPITAL ASSETS

The costs of building and acquiring capital assets (land, 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 and business-type activities for the year ended June 30, 2004 follows:

NOTE 2: CAPITAL ASSETS - *Continued*

Governmental Activities

	Balance at June 30, 2003	Additions	Disposals	Balance at June 30, 2004
Capital assets not being depeciated:				
Land	$ 8,271	$ -	$ -	$ 8,271
Total capital assets not being depreciated	8,271	-	-	8,271
Capital assets being depreciated:				
Improvements to land	8,359	-	-	8,359
Structures and improvements	222,880	-	-	222,880
Equipment and Vehicles	1,396,888	37,024	20,169	1,413,743
Total capital assets being depreciated	1,628,127	37,024	20,169	1,644,982
Less accumulated depreciation for:				
Improvements to land	4,423	209	-	4,632
Structures and improvements	14,179	4,953	-	19,132
Equipment	49,567	4,453	-	54,020
Vehicles	1,169,227	57,986	20,169	1,207,044
Total accumulated depreciation	1,237,396	67,601	20,169	1,284,828
Total capital assets being depreciated, net	390,731			360,154
Total net capital assets	$ 399,002			$ 368,425

Business-type activities

	Balance at June 30, 2003	Additions	Disposals	Balance at June 30, 2004
Capital assets being depreciated:				
Equipment and Vehicles	$ 296,629	$ -	$ 52,357	$ 244,272
Total capital assets being depreciated	296,629	-	52,357	244,272
Less accumulated depreciation for:				
Equipment and Vehicles	186,819	32,317	52,357	$ 166,779
Total accumulated depreciation	186,819	32,317	52,357	166,779
Total capital assets being depreciated, net	109,810			77,493
Total net capital assets	$ 109,810			$ 77,493

NOTE 3: 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 $30 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 $18.5 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 3: SELF INSURANCE -*Continued*

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance, and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies, and include amounts for claims incurred but not reported, and allocated loss adjustment expenses. The liabilities for these claims are reported using a discounted rate of 5.00%. It is the County's practice to obtain actuarial studies at least biennially.

The County has a risk management investment program agreement with the Bank of New York to finance the self-insured general liability, automobile liability, workers' compensation, and medical malpractice programs. The County's investment in the agreements totaled $45.7 million at June 30, 2004.

The claims liability of $101.7 million reported at June 30, 2004 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 2003 and 2004 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)
2002-03	$95,288	$30,685	($32,171)	$93,802
2003-04	$93,802	$45,128	($37,221)	$101,709

NOTE 4: RETIREMENT PLAN

Plan Description

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (Plan) operating under the California County Employees Retirement Act of 1937 (1937 Act). The Plan provides retirement, death, and disability benefits to members. Although legally established as a single employer plan for the County of San Bernardino (which includes this District), the organizations listed below were added later:

City of Big Bear Lake
City of Chino Hills
California State Association of Counties
San Bernardino County Law Library
Crest Forest Fire Protection District
Mojave Desert Air Quality Management District (MDAQMD)
South Coast Air Quality Management District (AQMD)
Local Agency Formation Commission (LAFCO)

The District and others covered under the Plan are collectively referred to as the "Participating Members". The Plan is governed by the San Bernardino Board of Retirement under the 1937 Act. The Board acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3rd floor, San Bernardino, California 92415-0014.

Funding Policy

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary based on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% - 13.46% of their annual covered salary of which the County pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act. The District's retirement contributions are included in the County's prepaid pension costs. For 2004, the County's annual pension costs can be determined by obtaining a copy of its Comprehensive Annual Financial Report by contacting the Auditor/Controller, 222 W. Hospitality Lane, 4th Floor, Attn: General Accounting Section, San Bernardino, Ca 92415-0018.

NOTE 5: 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.

NOTE 6: PROPOSITION 111 APPROPRIATION LIMITS

Proposition 111, which added Article XIIIB to the State Constitution, established limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2003-2004 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

NOTE 7: TRANSFERS IN/OUT

Interfund Transfers In/Out transactions are used to close out a fund, reimburse an operating fund, and transfer cash between operating funds and capital project funds. At June 30, 2004, the District made the following Interfund Transfers In and Out:

Fund	Purpose	Amount
SRS	From EGP for share of ambulance costs	$ 525,000
EGP	To SRS for share of ambulance costs	(525,000)
	Net interfund transfers	$ -

County of San Bernardino Special Districts
Yucca Valley Fire Protection District
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final	Budgetary Basis	Positive (Negative)
Budgetary fund balance July 1, 2003	$ 67,023	$ 149,295	$ 155,945	$ 6,650
Resources (Inflows):				
Property taxes	2,549,830	2,591,226	2,598,535	7,309
Other taxes	-	-	112,308	112,308
Interest and rents	35,563	36,040	36,197	157
State aid	-	-	55,486	55,486
Federal aid	-	-	55,567	55,567
Other	-	-	28,135	28,135
Operating transfer in	862,344	1,019,478	802,665	(216,813)
Amount available for appropriation	$ 3,514,760	$ 3,796,039	$ 3,844,838	$ 48,799
Charges to appropriations (Outflows)				
Salaries and benefits	$ 3,012,638	$ 3,222,702	$ 3,191,827	$ 30,875
Services and supplies	482,128	465,364	460,701	4,663
Other charges	10,350	16,186	14,341	1,845
Operating transfer out	9,644	10,358	10,358	-
Reserves and contingencies	-	81,429	91,127	(9,698)
Total charges to appropriations	3,514,760	3,796,039	3,768,354	27,685
Budgetary fund balance June 30, 2004	$ -	$ -	$ 76,484	$ 76,484