

**COUNTY OF SAN BERNARDINO
CALIFORNIA
SPECIAL DISTRICTS
AUDIT REPORT
COUNTY SERVICE AREA NO. 70
IMPROVEMENT ZONE GH (GLEN HELEN)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

Prepared by:

**Internal Audits Section
Office of the Auditor/Controller-Recorder
January 27, 2010**

**County of San Bernardino Special Districts
County Service Area No. 70 – Improvement Zone GH**

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AUDITOR/CONTROLLER-RECORDER COUNTY CLERK



COUNTY OF SAN BERNARDINO

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LARRY WALKER

Auditor/Controller-Recorder
County Clerk

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

Independent Auditor's Report

January 27, 2010

Jeffrey Rigney, Director

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

**SUBJECT: AUDIT OF COUNTY SERVICE AREA NO. 70 – IMPROVEMENT ZONE
GH (GLEN HELEN) FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

Introductory Remarks

In compliance with Section 26909 of the California Government Code, we have completed an audit of County Service Area No. 70- Improvement Zone GH for the fiscal year ended June 30, 2009.

Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the County of San Bernardino Special District County Service Area No. 70 – Improvement Zone GH (CSA), a component unit of the County of San Bernardino, California, as of and for the year ended June 30, 2009, which collectively comprise the CSA's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the CSA'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 of the CSA, as of June 30, 2009, and the respective changes in financial position and, where applicable, 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 25 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Respectfully submitted,

Larry Walker
Auditor/Controller-Recorder

By:

Howard M. Ochi, CPA
Chief Deputy Auditor

Quarterly copies to:

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Board of Supervisors (5)
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Date Report Distributed: 2/5/10

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County of San Bernardino
County Service Area No. 70 – Improvement Zone GH
Statement of Net Assets
June 30, 2009

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets			
Cash and cash equivalents (Note 2)	\$ 298,619	\$ 1,364,886	\$ 1,663,505
Accounts receivable	-	14,745	14,745
Interest receivable	1,418	7,148	8,566
Special assessments receivable	473	-	473
Due from other governments	23,762	-	23,762
Total current assets	<u>324,272</u>	<u>1,386,779</u>	<u>1,711,051</u>
Noncurrent assets			
Capital assets (Note 3):			
Easement (Note 4)	2,000,000	-	2,000,000
Construction in progress	-	2,179,391	2,179,391
Improvements to land	-	448,841	448,841
Equipment	-	20,896	20,896
Less accumulated depreciation	-	(28,812)	(28,812)
Total noncurrent assets	<u>2,000,000</u>	<u>2,620,316</u>	<u>4,620,316</u>
Total assets	<u>\$ 2,324,272</u>	<u>\$ 4,007,095</u>	<u>\$ 6,331,367</u>
LIABILITIES			
Current liabilities			
Accounts payable	\$ 3,311	\$ -	\$ 3,311
Retentions payable	-	-	-
Due to other governments	1,084	8,262	9,346
Total liabilities	<u>4,395</u>	<u>8,262</u>	<u>12,657</u>
NET ASSETS			
Invested in capital assets	2,000,000	2,620,316	4,620,316
Unrestricted	319,877	1,378,517	1,698,394
Total net assets	<u>2,319,877</u>	<u>3,998,833</u>	<u>6,318,710</u>
Total liabilities and net assets	<u>\$ 2,324,272</u>	<u>\$ 4,007,095</u>	<u>\$ 6,331,367</u>

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

County of San Bernardino
County Service Area No. 70 – Improvement Zone GH
Statement of Activities
For the Fiscal Year Ended June 30, 2009

	Governmental Activities	Business-type Activities	Total
EXPENSES			
Services and supplies	\$ 42,174	\$ 133,677	\$ 175,851
Professional services	2,813	367,651	370,464
Utilities	-	95,754	95,754
Depreciation expense	-	18,348	18,348
Total expenses	<u>44,987</u>	<u>615,430</u>	<u>660,417</u>
PROGRAM REVENUES			
Charges for services	50,405	124,382	174,787
Total program revenues	<u>50,405</u>	<u>124,382</u>	<u>174,787</u>
Net program (expenses) revenue	<u>5,418</u>	<u>(491,048)</u>	<u>(485,630)</u>
GENERAL REVENUES			
Interest and investment income	7,918	61,405	69,323
Contributions from other agencies	-	152,207	152,207
Contributions from private sources (Note 8)	-	596,362	596,362
Other	-	7,863	7,863
Total general revenues	<u>7,918</u>	<u>817,837</u>	<u>825,755</u>
TRANSFERS			
Transfer from other fund	250,000	-	250,000
Transfer to other fund	-	(250,000)	(250,000)
Fixed Asset transfer (Note 4)	2,000,000	(2,000,000)	-
Total transfers	<u>2,250,000</u>	<u>(2,250,000)</u>	<u>-</u>
Change in net assets	2,263,336	(1,923,211)	340,125
Net Assets - beginning	<u>56,541</u>	<u>5,922,044</u>	<u>5,978,585</u>
Net Assets - ending	<u>\$ 2,319,877</u>	<u>\$ 3,998,833</u>	<u>\$ 6,318,710</u>

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

County of San Bernardino
County Service Area No. 70 – Improvement Zone GH
Balance Sheet
Governmental Fund
June 30, 2009

	Streetlighting (RWX)	Detention Basin (CXI)	Total Governmental Funds
ASSETS			
Cash and cash equivalents (Note 2)	\$ 43,611	\$ 255,008	\$ 298,619
Interest receivable	225	1,193	1,418
Special assessments receivable	473	-	473
Due from other governments	-	23,762	23,762
Total assets	\$ 44,309	\$ 279,963	\$ 324,272
 LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 3,311	\$ -	\$ 3,311
Due to other governments	-	1,084	1,084
Total liabilities	3,311	1,084	4,395
 Fund Balances:			
Unreserved:			
Undesignated	40,998	278,879	319,877
Total fund balance	40,998	278,879	319,877
Total liabilities and fund balance	\$ 44,309	\$ 279,963	
 Amounts to reconcile to net assets reported in the statement of net assets:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.			2,000,000
Net assets of governmental activities			\$ 2,319,877

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

County of San Bernardino
County Service Area No. 70 – Improvement Zone GH
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Fund
For the Fiscal Year Ended June 30, 2009

	Streetlighting (RWX)	Detention Basin (CXI)	Total Governmental Funds
REVENUES			
Special assessments	\$ 26,643	\$ 23,762	\$ 50,405
Interest and investment income	1,716	6,202	7,918
Total revenues	28,359	29,964	58,323
EXPENDITURES			
Services and supplies	41,089	1,085	42,174
Utilities	-	-	-
Professional services	2,813	-	2,813
Total expenditures	43,902	1,085	44,987
Excess of revenues over (under) expenditures	(15,543)	28,879	13,336
OTHER FINANCING SOURCES (USES)			
Transfers from other fund	-	250,000	250,000
Total other financing sources (uses)	-	250,000	250,000
Net change in fund balances	(15,543)	278,879	263,336
Fund balances - beginning	56,541	-	56,541
Fund balances - ending	\$ 40,998	\$ 278,879	\$ 319,877

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

County of San Bernardino
County Service Area No. 70 – Improvement Zone GH
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, 2009

Net Change in Fund Balances - Total Governmental Funds	\$ 263,336
Amounts to reconcile to governmental activities reported in the statement of activities:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	2,000,000
Change in Net Assets of Governmental Activities	<u>\$ 2,263,336</u>

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

County of San Bernardino
County Service Area No. 70 – Improvement Zone GH
Statement of Net Assets
Proprietary Fund
June 30, 2009

	Enterprise Fund
	Sewer
ASSETS	
Current assets	
Cash and cash equivalents (Note 2)	\$ 1,364,886
Interest receivable	7,148
Accounts receivable	14,745
Total current assets	1,386,779
Noncurrent assets	
Capital assets (Note 3):	
Construction in progress	2,179,391
Improvements to land	448,841
Equipment	20,896
Less accumulated depreciation	(28,812)
Total noncurrent assets	2,620,316
Total assets	\$ 4,007,095
LIABILITIES	
Current liabilities	
Due to other governments	\$ 8,262
Total liabilities	8,262
NET ASSETS	
Invested in capital assets	2,620,316
Unrestricted	1,378,517
Total net assets	3,998,833
Total liabilities and net assets	\$ 4,007,095

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

County of San Bernardino
County Service Area No. 70 – Improvement Zone GH
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Fund
For the Fiscal Year Ended June 30, 2009

	<u>Enterprise Fund</u> <u>Sewer</u>
OPERATING REVENUES	
Charges for services	\$ 124,382
Total operating revenues	<u>124,382</u>
OPERATING EXPENSES	
Professional services	367,651
Services and supplies	133,677
Utilities	95,754
Depreciation	18,348
Total operating expenses	<u>615,430</u>
Operating income (loss)	<u>(491,048)</u>
NONOPERATING REVENUES (EXPENSES)	
Interest and investment revenue	61,405
Contributions from other agencies	152,207
Contributions from private sources (Note 8)	596,362
Other nonoperating revenues	7,863
Total nonoperating revenues (expenses)	<u>817,837</u>
TRANSFERS	
Fixed asset transfer out (Note 4)	(2,000,000)
Transfer to other fund	(250,000)
Total transfers	<u>(2,250,000)</u>
Change in net assets	(1,923,211)
Total net assets - beginning	<u>5,922,044</u>
Total net assets - ending	<u><u>\$ 3,998,833</u></u>

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

County of San Bernardino
County Service Area No. 70 – Improvement Zone GH
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2009

	Enterprise Fund
	Sewer
CASH FLOWS FROM OPERATING ACTIVITIES	
Received from user charges	\$ 124,939
Payments to suppliers for goods and services	(663,472)
Net cash provided (used) by operating activities	(538,533)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Contributions received	748,569
Other nonoperating revenue	7,863
Operating transfer out	(250,000)
Net cash provided (used) by noncapital financing activities	506,432
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of fixed assets	(470,478)
Net cash provided (used) by capital and related financing activities	(470,478)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest revenue	72,567
Net cash provided by investing activities	72,567
Net increase (decrease) in cash and cash equivalents	(430,012)
Balance - beginning of the year	1,794,898
Balance - end of the year	\$ 1,364,886
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ (491,048)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	18,348
Change in assets and liabilities:	
Increase (decrease) in due to other governments	7,923
Increase (decrease) in accounts payable	(74,313)
(Increase) decrease in accounts receivable	557
Net cash provided by operating activities	\$ (538,533)

NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES

The CSA transferred a \$2 million easement from the enterprise fund to fund CXI, a special revenue fund.

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

County of San Bernardino
County Service Area No. 70 – Improvement Zone GH
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2009

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The County Service Area No. 70 – Improvement Zone Glen Helen (CSA) is a special district located within the County of San Bernardino. The CSA 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 CSA was established by an act of the Board of Supervisors of the County of San Bernardino on July 12, 2005, to provide sewer, water, recreation and park, streetlighting and storm drain services to the Glen Helen area. The CSA also provides sanitation services to San Bernardino Sheriff's Department Detention facility as well as a Master Planned community currently in development.

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

The accompanying financial statements reflect only the accounts of County Service Area No. 70 – Improvement Zone Glen Helen 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, except when the interfund activity is between the enterprise and governmental funds. *Governmental activities* normally are supported by taxes and intergovernmental revenues.

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, including special assessments, 2) operating grants and contributions, and 3) capital grants and contributions. Taxes and other items not properly included among program revenues are reported instead as general revenues.

County of San Bernardino
County Service Area No. 70 – Improvement Zone GH
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2009

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. However, for revenue derived from voluntary non-exchange transactions, such as federal and state grants, the CSA expanded its definition of “available” to within 9 months of year end. 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.

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties after 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 after August 31.

The CSA reports the following major governmental fund:

The *special revenue fund RWX* is the government’s primary operating fund for streetlight services provided to the community of Glen Helen. It accounts for all financial resources of the general government related to streetlight services.

The *special revenue fund CXI* is the government’s primary operating fund for detention basin services provided to the community of Glen Helen. It accounts for all financial resources of the general government related to detention basin services. This fund was established during Fiscal Year 2008/2009. Previously, the detention basin activity was reported within the enterprise fund.

County of San Bernardino
County Service Area No. 70 – Improvement Zone GH
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2009

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

The CSA reports the following major proprietary fund:

The *enterprise fund* accounts for sewer activities of the CSA.

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 CSA enterprise funds is charges to customers for water and sanitation 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.

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.

The Department of Special Districts allocates the cost of salaries and benefits, administrative services, and management services to the CSA. These costs are presented on the financial statements as professional services, an operating expense.

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.

**County of San Bernardino
County Service Area No. 70 – Improvement Zone GH
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2009**

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

Interest income, and realized gains and losses earned on pooled investments are deposited quarterly to the CSA's accounts based upon the CSA's average daily deposit balances during the quarter. Unrealized gains and losses of the pooled investments are distributed to the CSA annually. Cash and cash equivalents are shown at fair value as of June 30, 2009.

Capital assets

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

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

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

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

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

Net assets

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

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

County of San Bernardino
County Service Area No. 70 – Improvement Zone GH
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2009

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

Fund balance

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

Use of estimates

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

Stewardship, compliance and accountability

A. Budgetary information

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the CSA 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 CSA'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.

County of San Bernardino
County Service Area No. 70 – Improvement Zone GH
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2009

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.

NOTE 2: CASH AND INVESTMENTS (amounts in thousands)

Cash and investments include the cash balances of substantially all funds which are pooled (Pool) and invested by the County Treasurer for the purpose of increasing interest earnings through investment activities. The County sponsors an external investment pool which includes cash and investments held by certain joint powers authorities and cash held by various trustee financial institutions in accordance with the California Government Code.

State law requires that all operating monies of the County, school districts, and board-governed special districts be held by the County Treasurer. The net asset value associated with legally mandated participants in the asset pool was \$3,966,232 at June 30, 2009.

As of June 30, 2009, the fair value of the County Pool was \$4.18 billion. Approximately 7% of the County pool is attributable to the County General Fund, with the remainder of the balance comprised of other County funds, school districts and special districts. Additionally, as of June 30, 2009, \$216,351 of the amounts deposited in the County pool was attributable to depositors who are not required to, but choose to, invest in the County pool. These include independent special districts, State Trial Court, and other governmental agencies. The deposits held for both involuntary and voluntary entities are reported in the Investment Trust Fund.

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

The County has not produced or provided any letters of credit or legal binding guarantees as supplemental support of Pool values during the year ended at June 30, 2009. The Pool provides monthly reporting to both the Board of Supervisors and the County Treasury Oversight Committee who also review and approve investment policy.

The County pools its external participants' investments with the County Pool. The average rate of return on investments during fiscal year 2009 was 2.54%.

County of San Bernardino
County Service Area No. 70 – Improvement Zone GH
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2009

NOTE 2: CASH AND INVESTMENTS - *Continued*

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

<u>Investment Type</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Interest Rate Range</u>	<u>Maturity Range</u>	<u>Average Maturity</u>
U.S. Treasury Securities	\$ 79,721	\$ 79,841	1.25 % - 1.75%	05/15/12 - 04/15/14	1,314
U.S. Government Agencies	2,868,755	2,900,027	0.79% - 5.27%	07/06/09 - 06/29/12	480
Negotiable Certificates of Deposit	340,022	340,003	0.24% - 0.54%	07/01/09 - 09/04/09	21
Commercial Paper	274,667	274,904	0.20% - 0.81%	07/01/09 - 12/01/09	39
Corporate Notes	197,310	196,808	1.23% - 3.06%	08/10/09 - 07/15/11	197
Money Market Mutual Funds	391,000	391,000	0.24%	07/01/09	1
Total Treasurer's Pooled Investments	4,151,475	4,182,583			
Investments Controlled by Fiscal Agents:					
Mutual Funds	17,808	17,808			
Guaranteed Investment Contracts	9,707	9,707			
U.S. Treasury Securities	79,090	79,090			
Total Investments Controlled by Fiscal Agents	106,605	106,605			
Total Investments	\$ 4,258,080	\$ 4,289,188			
Cash in Banks:					
Non-Interest Bearing Deposits		280,050			
Total Cash and Investments		\$ 4,569,238			

Investments authorized by debt agreement

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

Investment credit risk

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

**County of San Bernardino
County Service Area No. 70 – Improvement Zone GH
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2009**

NOTE 2: CASH AND INVESTMENTS - *Continued*

California Law and San Bernardino County Treasury Pool Investment Policy (where more restrictive) place limitations on the purchase of investments in the County Pool. Purchases of commercial paper and negotiable certificates of deposit are restricted to the top two ratings issued by a minimum of two of three nationally recognized statistical rating organizations (NRSRO's). For an issuer of short-term debt, the rating must be no less than A-1 (S&P), P-1 (Moody's), or F-1 (Fitch) while an issuer of long-term corporate debt must have a minimum letter rating of "AA". Federal Agency notes and bonds, municipal notes and bonds, and money market mutual funds must have a minimum letter rating of "AAA". Limits are also placed on the maximum percentage investment by sector and by individual issuer (see schedule). As of June 30, 2009, all investments held by the County Pool were within policy limits.

<u>Investment Type</u>	<u>Maximum Allowed % of Portfolio</u>	<u>Individual Issuer Limitations</u>	<u>% of Pool 06/30/09</u>
U.S. Treasury Securities	100	None	1.90
U.S. Government Agencies	100	None	69.40
Negotiable Certificates of Deposit	30	\$100MM/5%	8.10
Commercial Paper	40	5%	6.60
Corporate Notes	10/5	\$50MM/5%	3.50
TLGP Corporate Notes	30	None	1.20
Money Market Mutual Funds	15	10%	9.30

Concentration of credit risk

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

GASB Statement No. 40 requires disclosure of investments by amount and issuer that represent five-percent or more of total investments held. This requirement excludes investments issued or explicitly guaranteed by the United States Government, investments in mutual funds, external investment pools, and other pooled investments. As of June 30, 2009, the following issuers represented more than five-percent of the County Pool balance (amounts in thousands):

<u>Issuer</u>	<u>Fair Value</u>	<u>% of Portfolio</u>
FHLB	\$ 924,634	22.11
FNMA	830,708	19.86
FHLMC	644,259	15.41
FFCB	500,426	11.97

**County of San Bernardino
County Service Area No. 70 – Improvement Zone GH
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2009**

NOTE 2: CASH AND INVESTMENTS - *Continued*

Interest rate risk

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

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

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

California Law and where more restrictive, the San Bernardino County Pool Investment Policy, place limitations on the maximum maturity of investments to be purchased by sector (see schedule). As of June 30, 2009, all investments held by the County Pool were within policy limits.

A summary of investments for Maturity Range, Limits, and effective duration is as follows (amounts in thousands):

Investment Type	Fair Value	Maturity Range (Days)	Maturity Limits	Effective Duration
U.S. Treasury Securities	\$ 79,841	1,050 - 1,749	5 Years	3.54
U.S. Government Agencies	2,900,027	6 - 1,095	5 Years	0.83
Negotiable Certificates of Deposit	340,003	1 - 66	365 days	0.06
Commercial Paper	274,904	1 - 154	270 days	0.11
Corporate Notes	146,570	41 - 127	18 months	0.20
TLGP Corporate Notes**	50,238	395 - 745	5 Years	1.53
Money Market Mutual Funds	391,000	1	Daily Liq.	0.003
Total Securities	<u>\$ 4,182,583</u>			

**Fully insured and issued through the FDIC's Temporary Liquidity Guarantee Program.

Custodial credit risk

Custodial Credit Risk for Deposits exists when, in the event of a depository financial institution failure, a government may be unable to recover deposits, or recover collateral securities that are in the possession of an outside party.

County of San Bernardino
County Service Area No. 70 – Improvement Zone GH
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2009

NOTE 2: CASH AND INVESTMENTS - *Continued*

GASB Statement No. 40 requires the disclosure of deposits into a financial institution that are not covered by FDIC depository insurance and are uncollateralized.

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

As of June 30, 2009, the carrying amount of the County's deposits was \$280,050 and the corresponding bank balance was \$139,953. The difference of \$140,097 was primarily due to outstanding warrants, wires and deposits in transit. Of the bank balance, \$138,078 was insured by the FDIC depository insurance through the Transaction Account Guarantee Program.

Custodial Credit Risk for Investments exists when, in the event of a failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

In order to limit *Custodial Credit Risk for Investments*, San Bernardino County Pool Investment Policy requires that all investments and investment collateral be transacted on a delivery versus payment basis with a third-party custodian and registered in the County's name. All counterparties to repurchase agreements must sign a TBMA Master Repurchase Agreement and/or Tri-Party Repurchase Agreement before engaging in repurchase agreement transactions.

The following represents a condensed statement of net assets and changes in net assets for the Treasurer's investment pool as of June 30, 2009 (amounts in thousands):

Statement of Net Assets	
Equity of internal pool participants	\$ 1,588,613
Equity of external pool participants:	
Voluntary	216,351
Involuntary	2,377,619
Total Net Assets held for pool participants	\$ 4,182,583
Statement of Changes in Net Assets	
Net Assets at July 1, 2008	\$ 4,335,079
Net change in investments by pool participants	(152,496)
Net Assets at June 30, 2009	\$ 4,182,583

County of San Bernardino
County Service Area No. 70 – Improvement Zone GH
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2009

NOTE 2: CASH AND INVESTMENTS - Continued

As of June 30, 2009, Cash and Investments are classified in the accompanying financial statements as follows (amounts reported in dollars):

	Total Governmental Activities	Total Business-type Activities	Total
Cash and cash equivalents	\$ 298,619	\$ 1,364,886	\$ 1,663,505

NOTE 3: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2009 follows:

	Beginning Balance July 1, 2008	Additions	Deletions	Transfers	Ending Balance June 30, 2009
Business-type activities					
Capital assets, not being depreciated:					
Easement - permanent	\$ 2,000,000	\$ -	\$ -	\$ (2,000,000)	\$ -
Construction in progress	1,874,749	304,642	-	-	2,179,391
Total capital assets, not being depreciated	3,874,749	304,642	-	(2,000,000)	2,179,391
Capital assets, being depreciated:					
Land improvements	357,963	90,878	-	-	448,841
Equipment	20,896	-	-	-	20,896
Total capital assets, being depreciated	378,859	90,878	-	-	469,737
Less accumulated depreciation for:					
Land improvements	(9,535)	(16,955)	-	-	(26,490)
Equipment	(929)	(1,393)	-	-	(2,322)
Total accumulated depreciation	(10,464)	(18,348)	-	-	(28,812)
Total capital assets, being depreciated, net	368,395	72,530	-	-	440,925
Capital assets, net	\$ 4,243,144	\$ 377,172	\$ -	\$ (2,000,000)	\$ 2,620,316

	Beginning Balance July 1, 2008	Additions	Deletions	Transfers	Ending Balance June 30, 2009
Governmental activities					
Capital assets, not being depreciated:					
Easement - permanent	\$ -	\$ -	\$ -	\$ 2,000,000	\$ 2,000,000
Total capital assets, not being depreciated	-	-	-	2,000,000	2,000,000
Capital assets, net	\$ -	\$ -	\$ -	\$ 2,000,000	\$ 2,000,000

**County of San Bernardino
County Service Area No. 70 – Improvement Zone GH
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2009**

NOTE 3: CAPITAL ASSETS – *Continued*

Construction in Progress

Construction in progress represents the following projects:

<u>Project Title</u>	<u>Total Budget</u>	<u>Total expenses through June 30, 2009</u>	<u>Projected Fiscal Year of Completion</u>
Glen Helen Recycled Water System	2,500,000	\$ 2,150,207	2010
Vactor Dump - Basin	50,000	29,184	2010
Total		<u><u>\$ 2,179,391</u></u>	

NOTE 4: LAND EASEMENT SALE CONTRACT

On January 8, 2008, the CSA and the County of San Bernardino entered into a Land Easement Sale Contract. The contract conveyed an easement over 10.2 acres of County-owned property to the CSA for the construction, operation, and maintenance of detention basins. The contract required the CSA to purchase the easement by making a one-time lump sum payment of \$2 million to the County. If the detention basins are constructed but the easement ceases to be used for the detention basins for a period of one year or more, the County shall have the power to terminate this Agreement and the Deed given under this Agreement. A private development company agreed to contribute the \$2 million needed by the CSA for the purchase of the easement (See Note 5). During Fiscal Year 2009, the easement was transferred from the business-type activity to the governmental activity.

NOTE 5: DETENTION BASIN AGREEMENT

On January 8, 2008, the CSA and a private development company (Company) entered into a Detention Basin Agreement. The Company is responsible for the construction of detention basins for the purpose of collecting storm runoff in the Lytle Creek North Planned Development Project. The agreement requires the Company to pay the CSA \$2 million for the right to construct and use the basins on the CSA's Easement Property (See note 4). When construction is complete, ownership will be transferred to the CSA which will be responsible for maintaining and monitoring the basins' operation. Additionally, the Company has paid an additional \$250,000 to the CSA for the cost to operate and maintain the basins for approximately the first two years after completion. Both the \$2 million and the \$250,000 were received during Fiscal Year 2008; however, as of the date of this report the detention basin has been constructed but the CSA is awaiting the final inspection reports and grant deeds to take ownership. During Fiscal Year 2009, the \$250,000 paid by the Company was transferred from the business-type activity to the governmental activity.

County of San Bernardino
County Service Area No. 70 – Improvement Zone GH
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2009

NOTE 6: SELF INSURANCE

The CSA 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 \$2 million per occurrence. Excess insurance coverage over the Self-Insured Retention (SIR) up to \$50 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 \$5 million per occurrence, and covered by Arch Ins. Co. for up to \$3 million for employer's liability, and up to statutory limits for workers' compensation per occurrence. Property damage claims are insured on an occurrence basis over a \$25 thousand deductible, and insured with several insurers like Lexington Ins. Co, Affiliated FM, and Lloyd's of London, among others.

The County supplements its self-insurance for medical malpractice claims with Zurich Ins. Co., which provides annual coverage on a claims made form basis with an SIR of \$2 million for each claim. Maximum coverage under the policy is \$25 million in limits per claim provided by Illinois Union Ins. Co.

All public officials and County employees are insured under a blanket Comprehensive Disappearance, Destruction, and Dishonesty policy covering County monies and securities, with National Union Fire Ins. Co of Pittsburgh with a \$100 thousand deductible, and excess limits up to \$10 million per occurrence.

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

The total claims liability of \$149.9 million reported at June 30, 2009 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.

**County of San Bernardino
County Service Area No. 70 – Improvement Zone GH
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2009**

NOTE 6: SELF INSURANCE - *Continued*

Changes in the claims liability amount in fiscal years 2008 and 2009 were (amounts in thousands):

<u>Fiscal Year</u>	<u>Beginning of Fiscal Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claims Payments</u>	<u>Balance at Fiscal Year-end</u>
2007-08	\$129,683	\$51,702	(\$32,064)	\$149,321
2008-09	\$149,321	\$32,909	(\$32,289)	\$149,941

NOTE 7: WASTEWATER SYSTEM AGREEMENT

On August 24, 2004, the CSA and a private development company (Company) entered into a Wastewater System Agreement. The Company is responsible for the construction of a Waste Water Treatment Plant to serve the Lytle Creek North Planned Development Project, the San Bernardino County Sheriff's detention facility, and future expansion within the CSA. When construction is complete and final acceptance is granted by Special Districts Department on behalf of the CSA, ownership will be transferred to the CSA which will be responsible for maintaining and monitoring the Waste Water Treatment Plant. On July 25, 2006, Special Districts Department issued 'Preliminary Acceptance', which transferred possession of the Waste Water Treatment Plant, but not ownership, to the CSA. As of 6/30/09, 'Final Acceptance' has not been granted; thus ownership has not transferred to the CSA.

NOTE 8: FAIR-SHARE CONTRIBUTION AGREEMENT

On April 19, 2005, the CSA and a private development company (Company) entered into a Fair-Share Contribution Agreement. The Company is required to pay an annual fair-share contribution to mitigate operating cost deficits in connection with the operation and maintenance of the Waste Water Treatment Plant and all related appurtenances and facilities including the trunk sewer and effluent treatment ponds, and the Lytle North Sewer Collection Systems commencing upon 'Final Acceptance' of the Waste Water Treatment Plant by Special Districts Department and continues until either the certificates of occupancy have been issued for residences and other buildings constituting at least 2,093 equivalent dwelling units or until such time as there has been no operating cost deficit for two consecutive fiscal years. The Company is required to make this contribution annually for each fiscal year and shall be in an amount equal to the amount, if any, by which the sum of 88% of the Waste Water Treatment Costs plus 100% of the Lytle North Sewer Collection System Costs exceeds user fee revenues. During fiscal year 2009, the CSA received a total of \$596,362 from the Company. In addition, the San Bernardino County Sheriff's Department is required to pay 12% of the Waste Water Treatment Plant Costs and 100% of the pretreatment costs in consideration of the sewer services provided for the County Sheriff's facilities serviced by the Waste Water Treatment Plant.

County of San Bernardino
County Service Area No. 70 – Improvement Zone GH
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2009

Streetlighting (RWX)	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	Budgetary Basis	Final Budget
Budgetary Fund Balance, July 1, 2008	\$ 59,691	\$ 59,691	\$ 56,541	\$ (3,150)
Resources (inflows):				
Special assessments	14,897	14,897	26,643	11,746
Interest and investment income	1,000	1,000	1,716	716
Amounts available for appropriations	<u>75,588</u>	<u>75,588</u>	<u>84,900</u>	<u>9,312</u>
Charges to appropriations (outflows):				
Services and supplies	60,618	60,618	41,089	19,529
Professional services	2,080	2,080	2,813	(733)
Reserves and Contingencies	12,890	12,890	-	12,890
Total charges to appropriations	<u>75,588</u>	<u>75,588</u>	<u>43,902</u>	<u>31,686</u>
Budgetary Fund Balance, June 30, 2009	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 40,998</u>	<u>\$ 40,998</u>