

**COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 70
IMPROVEMENT ZONE GH

FINANCIAL STATEMENTS

JUNE 30, 2015**

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 70
IMPROVEMENT ZONE GH
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June 30, 2015

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An Independent CPA Firm

Board of Supervisors
County of San Bernardino
County of San Bernardino Special
District County Service Area
No. 70 – Improvement Zone GH

Independent Auditors' Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information 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, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise CSA's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the CSA, as of June 30, 2015, and the respective changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

Board of Supervisors
County of San Bernardino Special
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Emphasis of Matter

As described in Note 1 to the financial statements, during the year ended June 30, 2015, the CSA implemented GASB No. 68, 69 and 71. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

David L. Gruber and Associates, Inc.
David L. Gruber and Associates, Inc.
Huntington Beach, California
December 2, 2015

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 70
IMPROVEMENT ZONE GH
Statement of Net Position

June 30, 2015

	Governmental Activities	Business-type Activities	Total
<u>Assets</u>			
Cash and cash equivalents	\$ 488,650	\$ 2,138,903	\$ 2,627,553
Accounts receivable, net	-	206,817	206,817
Interest receivable	426	3,963	4,389
Special assessments receivable	493	-	493
Capital assets, net of depreciation	<u>3,487,002</u>	<u>3,589,197</u>	<u>7,076,199</u>
Total Assets	<u>3,976,571</u>	<u>5,938,880</u>	<u>9,915,451</u>
<u>Deferred outflows of resources</u>			
Pensions	<u>-</u>	<u>37,393</u>	<u>37,393</u>
<u>Liabilities</u>			
Current:			
Accounts payable	9,278	21,972	31,250
Due to other funds	12,306	113,303	125,609
Customer deposits	-	1,500	1,500
Long-term:			
Net pension liability	<u>-</u>	<u>210,751</u>	<u>210,751</u>
Total Liabilities	<u>21,584</u>	<u>347,526</u>	<u>369,110</u>
<u>Deferred inflows of resources</u>			
Pensions	<u>-</u>	<u>124,167</u>	<u>124,167</u>
<u>Net position</u>			
Invested in capital assets	3,487,002	3,589,197	7,076,199
Restricted for public works	73,152	-	73,152
Restricted for community services	394,833	-	394,833
Unrestricted	<u>-</u>	<u>1,915,383</u>	<u>1,915,383</u>
Total Net Position	<u>\$ 3,954,987</u>	<u>\$ 5,504,580</u>	<u>\$ 9,459,567</u>

The accompanying notes are an integral part of these financial statements.
See accompanying independent auditor's report.

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 70
IMPROVEMENT ZONE GH
Statement of Activities

For the Year Ended June 30, 2015

	Governmental Activities	Business-type Activities	Total
<u>Expenses</u>			
Professional services	\$ -	\$ 71	\$ 71
Salaries and benefits	11,538	311,943	323,481
Services and supplies	11,198	300,178	311,376
Utilities	-	98,489	98,489
Other	57,066	38,107	95,173
Depreciation	42,486	132,614	175,100
 Total Expenses	 <u>122,288</u>	 <u>881,402</u>	 <u>1,003,690</u>
<u>Program Revenues (Expenses)</u>			
Charges for services	4,825	509,808	514,633
 Net Program Revenue (Expense)	 <u>(117,463)</u>	 <u>(371,594)</u>	 <u>(489,057)</u>
<u>General Revenues</u>			
Property taxes	-	-	-
Special assessments	104,104	15,047	119,151
Investment earnings	1,936	9,386	11,322
Penalties	-	10,774	10,774
Contributions from private sources	-	478,662	478,662
Other	737	34,987	35,724
 Total General Revenues	 <u>106,777</u>	 <u>548,856</u>	 <u>655,633</u>
<u>Other Financing Sources (Uses)</u>			
Transfer in from County	2,724	-	2,724
 Total other financing sources (uses)	 <u>2,724</u>	 <u>-</u>	 <u>2,724</u>
 Change in net position	 (7,962)	 177,262	 166,576
 Net position at beginning of year, as restated (note 13)	 <u>3,962,949</u>	 <u>5,327,318</u>	 <u>9,290,267</u>
 Net position at end of year	 <u>\$ 3,954,987</u>	 <u>\$ 5,504,580</u>	 <u>\$ 9,456,843</u>

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

See accompanying independent auditor's report.

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
 COUNTY SERVICE AREA No. 70
 IMPROVEMENT ZONE GH
 Balance Sheet
 Governmental Funds
 June 30, 2015

	Special Revenue Fund		
	Streetlighting (RWX)	Detention Basin (CXI)	Total Governmental Funds
<u>Assets</u>			
Cash and cash equivalents	\$ 89,763	\$ 398,887	\$ 488,650
Interest receivable	77	349	426
Special assessments receivable	249	244	493
Total Assets	\$ 90,089	\$ 399,480	\$ 489,569
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts payable	\$ 9,278	\$ -	\$ 9,278
Due to other funds	7,659	4,647	12,306
Total Liabilities	16,937	4,647	21,584
Fund balances:			
Restricted for:			
Streetlighting	73,152	-	73,152
Detention Basin	-	394,833	394,833
Total Fund Balances	73,152	394,833	467,985
Total Liabilities and Fund Balance	\$ 90,089	\$ 399,480	\$ 489,569
Total Fund Balance - Governmental Fund			\$ 467,985
Amounts reported for <i>governmental activities</i> in the statement of net position are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.			
Capital assets, net of depreciation			3,487,002
Net Position of Governmental Activities			\$ 3,954,987

The accompanying notes are an integral part of these financial statements.
 See accompanying independent auditor's report.

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
 COUNTY SERVICE AREA No. 70
 IMPROVEMENT ZONE GH
 Statement of Revenues, Expenditures and Changes in Fund Balance
 Governmental Fund
 For the Year Ended June 30, 2015

	<u>Special Revenue Funds</u>		Total Governmental Funds
	Streetlighting (RWX)	Detention Basin (CXI)	
<u>Revenues</u>			
Property taxes	\$ -	\$ -	\$ -
Special assessments	60,081	44,023	104,104
Other services	4,825	-	4,825
Other revenues	737	-	737
Investment earnings	338	1,598	1,936
Total Revenues	<u>65,981</u>	<u>45,621</u>	<u>111,602</u>
<u>Expenditures</u>			
General Government			
Salaries and benefits	7,234	4,304	11,538
Services and supplies	58,968	9,296	68,264
Total Expenditures	<u>66,202</u>	<u>13,600</u>	<u>79,802</u>
Excess of Revenues Over (Under) Expenditures	<u>(221)</u>	<u>32,021</u>	<u>31,800</u>
<u>Other Financing Sources (Uses)</u>			
Transfer in	-	2,724	2,724
Transfer out	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>2,724</u>	<u>2,724</u>
Net Change in Fund Balance	(221)	34,745	34,524
Fund Balance - beginning	<u>73,373</u>	<u>360,088</u>	<u>433,461</u>
Fund Balance - ending	<u>\$ 73,152</u>	<u>\$ 394,833</u>	<u>\$ 467,985</u>

The accompanying notes are an integral part of these financial statements.
 See accompanying independent auditor's report.

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 70
IMPROVEMENT ZONE GH
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balance of Governmental Fund to the Statement of Activities

For the Year Ended June 30, 2015

Net Change in Fund Balance - Total Government Funds	\$ 34,524
Amounts reported for <i>governmental activities</i> 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 by which depreciation expense (\$42,486) exceeded capital outlay (\$-0-) in the current year.	<u>(42,486)</u>
Change in Net Position of Governmental Activities	<u><u>\$ (7,962)</u></u>

The accompanying notes are an integral part of these financial statements.
See accompanying independent auditor's report.

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
 COUNTY SERVICE AREA No. 70
 IMPROVEMENT ZONE GH
 Statement of Net Position
 Proprietary Fund

June 30, 2015

	<u>Enterprise Fund</u>
<u>Assets</u>	
Current assets:	
Cash and cash equivalents	\$ 2,138,903
Accounts receivable, net	206,817
Interest receivable	3,963
Total current assets	2,349,683
Noncurrent assets:	
Capital assets:	
Land	21,626
Improvements to land	4,088,325
Construction in progress	5,728
Accumulated depreciation	(526,482)
Total noncurrent assets	3,589,197
Total Assets	5,938,880
<u>Deferred outflows of resources</u>	
Pensions	37,393
<u>Liabilities</u>	
Current liabilities:	
Accounts payable	21,972
Due to other funds	113,303
Customer deposits	1,500
Total current liabilities	136,775
Long-term liabilities	
Net pension liability	210,751
Total long-term liabilities	210,751
Total Liabilities	347,526
<u>Deferred inflows of resources</u>	
Pensions	124,167
<u>Net position</u>	
Invested in capital assets	3,589,197
Unrestricted	1,915,383
Total Net Position	\$ 5,504,580

The accompanying notes are an integral part of these financial statements.
 See accompanying independent auditor's report.

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
 COUNTY SERVICE AREA No. 70
 IMPROVEMENT ZONE GH
 Statement of Revenues, Expenses and Changes in Net Position
 Proprietary Fund
 For the Year Ended June 30, 2015

	Enterprise Fund
<u>Operating Revenues</u>	
Water sales	\$ (51,992)
Connection fees	-
Sanitation services	539,234
Other services	22,566
Total Operating Revenues	509,808
<u>Operating Expenses</u>	
Professional services	71
Salaries and benefits	311,943
Services and supplies	300,178
Utilities	98,489
Other	38,107
Depreciation	132,614
Total Operating Expenses	881,402
Operating Loss	(371,594)
<u>Nonoperating Revenues</u>	
Investment earnings	9,386
Special assessments	15,047
Penalties	10,774
Contributions from private sources	478,662
Other	34,987
Total Nonoperating Revenues	548,856
Net Change in Net Position	177,262
Net Position - beginning, as restated (note 13)	5,327,318
Net Position - ending	\$ 5,504,580

The accompanying notes are an integral part of these financial statements.
 See accompanying independent auditor's report.

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
 COUNTY SERVICE AREA No. 70
 IMPROVEMENT ZONE GH
 Statement of Cash Flows
 Proprietary Fund
 For the Year Ended June 30, 2015

	Enterprise Fund
<u>Cash Flows from Operating Activities</u>	
Receipts from customers	\$ 1,102,631
Payments to suppliers	(670,667)
Payments to employees	(337,007)
Net cash provided by operating activities	94,957
<u>Cash Flows from Noncapital Financing Activities</u>	
Special assessments	15,047
Penalties	10,774
Contributions from private sources	478,662
Other nonoperating revenues	34,987
Net cash provided by noncapital financing activities	539,470
<u>Cash Flows from Capital and Related Financing Activities</u>	
Acquisition of capital assets	(749,391)
Net cash used for capital and related financing activities	(749,391)
<u>Cash Flows from Investing Activities</u>	
Investment earnings	11,116
Net cash provided by investing activities	11,116
Net decrease in cash and cash equivalents	(103,848)
Cash and Cash Equivalents - beginning	2,242,751
Cash and Cash Equivalents - ending	\$ 2,138,903

The accompanying notes are an integral part of these financial statements.
 See accompanying independent auditor's report.

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
 COUNTY SERVICE AREA No. 70
 IMPROVEMENT ZONE GH
 Statement of Cash Flows (continued)
 Proprietary Fund
 For the Year Ended June 30, 2015

	Enterprise Fund
Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	\$ (371,594)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation expense	132,614
Change in assets and liabilities:	
Decrease in accounts receivable, net	592,823
Decrease in accounts payable	(312,047)
Decrease in retentions payable	(29,343)
Increase in due to other funds	107,568
Decrease in net pension liability, net of deferred outflows and inflows	(25,064)
Net cash used for operating activities	\$ 94,957

The accompanying notes are an integral part of these financial statements.
 See accompanying independent auditor's report.

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 70
IMPROVEMENT ZONE GH
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the County of San Bernardino Special District County Service Area No.70 – Improvement Zone GH conform to generally accepted accounting principles as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Reporting Entity

The County Service Area (CSA) No. 70 - Improvement Zone GH was established by an act of the Board of Supervisors of the County of San Bernardino (the County) on July 12, 2005 to provide park and recreation, sanitation, and streetlight services to the Glen Helen area. The CSA provides sanitation services to the San Bernardino Sheriff's Department Detention facility as well as a Master Planned community currently in development. The CSA provides sewer service to 217 Equivalent Dwelling Units (EDUs).

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

The accompanying financial statements reflect only the accounts of the County Service Area No.70 – Improvement Zone GH of the County of San Bernardino and are not intended to present the financial position of the Count taken as a whole.

Because the CSA meets the reporting entity criteria established by the Governmental Accounting Standards Board (GASB), the CSA's financial statements have also been included in the Comprehensive Annual Financial Report of the County as a "component unit" for the fiscal year ended June 30, 2015.

Government-wide and fund financial statements

The government-wide financial statements (e.g., the statement of net position and the statement of changes in net position) report information on all of the non-fiduciary activities of the reporting entity. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

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 CSA does not have fiduciary fund types. Major individual governmental funds are reported as separate columns in the fund financial statements.

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 70
IMPROVEMENT ZONE GH
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement focus, basis of accounting, and financial statements 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. 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 fund:

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

The *special revenue fund* labeled “Detention Basin” accounts for all financial resources of the general government related to detention basin services.

The government reports the following major proprietary fund:

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

Financial reporting is based upon all GASB pronouncements including the Codification of Accounting and Financial Reporting Guidelines.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contribution, 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. When both restricted and unrestricted resources are available for us, it is the government’s policy to use restricted resources first, and then unrestricted resources as they are needed.

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 70
IMPROVEMENT ZONE GH
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Investments

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

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (e.g., the current portion of interfund loans) or “advances to/from other funds” (e.g., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

All accounts receivable are shown net of an allowance for uncollectibles when applicable. No allowance for uncollectibles has been recorded as of June 30, 2014 based on management’s expectation that all accounts receivable will be collected through the regular tax roll.

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 March 1 and become delinquent with penalties on August 31.

Inventories and prepaid items

Inventories, if any, are valued at cost using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of two years. 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 assets or materially extend assets’ lives are not capitalized.

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

**COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 70
IMPROVEMENT ZONE GH
NOTES TO FINANCIAL STATEMENTS
June 30, 2015**

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital assets (continued)

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

Assets	Years
Infrastructure	40-60
Structure and improvements	5-40
Equipment and vehicles	4-15

Long-Term Debt and Interest Payable

In the Government-Wide Financial Statements, long-term debt and other long-term obligations are reported as liabilities in the appropriate activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are immediately expensed in the Government- Wide Financial Statements in addition to the Proprietary and Fiduciary Fund Statements in accordance with GASB No. 65. In the Fund Financial Statements, with the exception of advances from other funds, long-term liabilities are not presented. Consequently, long term debt is shown as a reconciling item in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position.

In the Government-Wide Financial Statements, interest payable on long-term debt is recognized as the liability is incurred for governmental activities and business-type activities. In the Fund Financial Statements, only propriety fund types recognize the interest payable when the liability is incurred.

Net Position

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

Invested in capital assets, net of related debt -This component of net position 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 position 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 position consist of net position of the CSA that are not restricted for any project or other purpose.

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 70
IMPROVEMENT ZONE GH
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

In the Government-Wide Financial Statements, net position are classified in the following categories: Net Investment in Capital Assets consists of capital assets net of accumulated depreciation and reduced by outstanding debt that attributed to the acquisition, construction, or improvement of the assets.

Restricted Net position are restricted by external creditors, grantors, contributors, laws or regulations of other governments. Unrestricted Net position is all net position that do not meet the definition of “invested in capital assets, net of related debt” or “restricted net position.”

Deferred Outflows/ Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow or resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds of the balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

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.

Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the CSA’s San Bernardino County Employee’s Retirement Association (SBCERA) plan (Plan) and additions to/deductions from the Plans’ fiduciary net position have been determined on the same basis as they are reported by SBCERA. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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June 30, 2015

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 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 fixed 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 do not constitute expenditures or liabilities because the commitment will be re-appropriated and honored during the subsequent year.

New Accounting Pronouncements

The District adopted Statement on Governmental Accounting Standards (GASB Statement) No. 68, *Accounting and Financial Reporting for Pensions*, GASB Statement No. 69 *Government Combinations and Disposals of Government Operations*, and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

Note 2: CASH AND INVESTMENTS

Cash, cash equivalents, and investments include balances of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the CSA's account based upon the CSA's average daily deposit balance during the allocation period. Cash, cash equivalents, and investments are shown at the fair value as of June 30, 2015. Changes in fair value that occur during a fiscal year are recognized as *investment earnings* reported for that fiscal year. *Investment earnings* reports interest earnings, changes in fair value, and any gains or losses realized upon the liquidation, maturity, or sale of investments. The County's practice is to hold investments until maturity.

See the County of San Bernardino's Comprehensive Annual Financial Report (CAFR) for details of their investment policy and disclosures related to investment credit risk, concentration of credit risk, interest rate risk and custodial credit risk, as required by GASB Statement No. 40.

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NOTES TO FINANCIAL STATEMENTS
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Note 3: ACCOUNTS RECEIVABLE

At June 30, 2015, the accounts receivable was composed of the following:

	Enterprise Fund
Accounts receivable	\$ 206,817
Less: allowance for uncollectibles	-
Total accounts receivable, net	<u>\$ 206,817</u>

Note 4: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015 was as follows:

Governmental activities:	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, not being depreciated:				
Easements	\$ 2,000,000	\$ -	\$ -	\$ 2,000,000
Total capital assets, not being depreciated:	<u>2,000,000</u>	<u>-</u>	<u>-</u>	<u>2,000,000</u>
Capital assets, being depreciated:				
Infrastructure	1,699,431	-	-	1,699,431
Total capital assets, being depreciated	<u>1,699,431</u>	<u>-</u>	<u>-</u>	<u>1,699,431</u>
Less accumulated depreciation for:				
Infrastructure	(169,943)	(42,486)	-	(212,429)
Total accumulated depreciation	<u>(169,943)</u>	<u>(42,486)</u>	<u>-</u>	<u>(212,429)</u>
Total capital assets, being depreciated, net	<u>1,529,488</u>	<u>(42,486)</u>	<u>-</u>	<u>1,487,002</u>
Governmental activities capital assets	<u>\$ 3,529,488</u>	<u>\$ (42,486)</u>	<u>\$ -</u>	<u>\$ 3,487,002</u>

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NOTES TO FINANCIAL STATEMENTS
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Note 4: CAPITAL ASSETS (continued)

Business-type activities:	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, not being depreciated:				
Land	\$ -	\$ 21,626	\$ -	\$ 21,626
Construction in progress	638,170	-	(632,442)	5,728
Total capital assets, not being depreciated:	638,170	21,626	(632,442)	27,354
Capital assets, being depreciated:				
Improvements to land	2,728,118	1,360,207	-	4,088,325
Total capital assets, being depreciated	2,728,118	1,360,207	-	4,088,325
Less accumulated depreciation for:				
Improvements to land	(393,868)	(132,614)	-	(562,482)
Total accumulated depreciation	(393,868)	(132,614)	-	(562,482)
Total capital assets, being depreciated, net	2,334,250	1,227,593	-	3,561,843
Business-type activities capital assets, net	<u>\$ 2,972,420</u>	<u>\$ 1,249,219</u>	<u>\$ (632,442)</u>	<u>\$ 3,589,197</u>

Note 5: 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 6).

Note 6: 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 5). When construction is complete, ownership will be transferred to the

CSA which will be responsible for maintaining and monitoring the basins' operations. Additionally, the Company has paid an additional \$250,000 to the CSA for the cost to operate and maintain the basins for

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Note 6: DETENTION BASIN AGREEMENT (continued)

approximately the first two years after completion. Both the \$2 million and the \$250,000 were received during Fiscal Year 2008. During Fiscal Year 2009, the \$250,000 paid by the Company was transferred from the business-type activity to the governmental activity. On April 22, 2010, the CSA took ownership of the detention basins.

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, the Special Districts Department issued preliminary acceptance, which transferred possession of the Waste Water Treatment Plant, but not ownership, to the CSA. As of June 30, 2015, 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 the 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. 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. During fiscal year 2015, the CSA recorded revenues of \$478,662 from the Company.

Note 9: RETIREMENT PLAN

Plan Description. Employees of the District participate in the County of San Bernardino's (County) cost-sharing multiple-employer defined benefit retirement plan (the Plan) administered by the San Bernardino County Employee's Retirement Association (SBCERA). The Plan is governed by the San Bernardino Board of Retirement (Board) under the California County Employees' Retirement Law of 1937 (CERL) and the California Public Employees' Pension Reform Act of 2013 (PEPRA). The Plan's authority to establish and amend the benefit terms are set by the CERL and PEPRA, and may be amended by the

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June 30, 2015**

Note 9: RETIREMENT PLAN (continued)

California state legislature and in some cases require approval by the County of San Bernardino Board of Supervisors and/or the SBCERA Board. 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.

Benefits Provided. SBCERA provides retirement, disability, death and survivor benefits. SBCERA administers the Plan which provides benefits for two membership classifications, General and Safety, and those benefits are tiered based upon date of SBCERA membership. Safety membership is extended to those involved in active law enforcement and fire suppression. All other members, including the District’s employees, are classified as General members. Generally, those who become members prior to January 1, 2013 are Tier 1 members. All other members are Tier 2. An employee who is appointed to a regular position, whose service is greater than fifty percent of the full standard of hours required are members of SBCERA, and are provided with pension benefits pursuant to Plan requirements.

The CERL and PEPRRA establish benefit terms. Retirement benefits for the General Tier 1 and General Tier 2 Plans are calculated on the basis of age, average final compensation and service credit as follows:

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

Contributions. Participating employers and active members, including the District and the District’s employees, are required by statute to contribute a percentage of covered salary to the Plan. This requirement is pursuant to Government Code sections 31453.5 and 31454, for participating employers and Government Code sections 31621.6, 31639.25 and 7522.30 for active members. The contribution requirements are established and may be amended by the SBCERA Board pursuant to Article 1 of the CERL, which is consistent with the Plan’s actuarial funding policy. The contribution rates are adopted yearly, based on an annual actuarial valuation, conducted by an independent actuary, that requires actuarial assumptions with regard to mortality, expected future service (including age at entry into the Plan, if applicable and tier), and compensation increases of the members and beneficiaries. The combined

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NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 9: RETIREMENT PLAN (continued)

active member and employer contribution rates are expected to finance the costs of benefits for employees that are allocated during the year, with an additional amount to finance any unfunded accrued liability. Participating employers may pay a portion of the active members' contributions through negotiations and bargaining agreements.

Employee contribution rates for the fiscal year ended June 30, 2015 ranged between 7.07% and 13.52% for Tier 1 General members and between 6.37% and 7.88% for Tier 2 General members.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the District's reported a liability of \$210,751 for its proportionate share of the County's net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the County's net pension liability was based on the District's FY 2014 actual contributions to the County's pension plan relative to the total contributions of the County as a whole.

At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Deferred Outflows of Resources *</u>	<u>Deferred Inflows of Resources **</u>
<u>\$ 37,393</u>	<u>\$ (124,167)</u>

* Total deferred outflows includes change in assumptions, and change in proportion and differences between share of contributions.

* Total deferred inflows includes differences in expected and actual expense, and net difference between projected and actual earnings on pension plan investments,.

The \$37,393 reported as deferred outflows of resources related to pensions, resulting from the District's contributions to the County's plan subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

See the County of San Bernardino's Comprehensive Annual Financial Report (CAFR) for details of their pension liabilities, pension expense, deferred outflows and inflows of resources related to pensions, actuarial assumptions, and discount rates, for the current year and two preceding years computed in accordance with GASB 68, *Accounting and Reporting for Pension Plans*, for the year ended June 30, 2015.

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Note 10: FEDERAL AND STATE GRANTS

From time to time the District may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

Note 11: RISK MANAGEMENT

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability, and workers' compensation claims. Public liability claims are self-insured for up to \$3.0 million per occurrence. Excess insurance coverage over the Self-Insured Retention (SIR) up to \$57 million is provided through a combination of insurance policies as recommended by Arthur J. Gallagher & Co., Broker of Record, as follows: Primary Liability coverage \$6 million excess of \$3.0 million self-insured retention with Lloyd's (Brit Syndicated 2987 – 100%) and Gemini Insurance Co.; Excess Liability coverage for \$11 million, excess of \$6 million with National Casualty Co.; and Excess Liability coverage of \$15 million, excess of \$17 million with Allied World Assurance Co. In addition, Great American Assurance Co. provides excess liability coverage of \$25 million, excess of \$32 million. No settlements related to these programs have exceeded insurance coverage in the last three years.

The Workers' Compensation program was restructured to include a cash flow SIR that applies per accident/per payment year as follows: \$2.0 million 1st year; \$1.25 million 2nd year; \$600 thousand 3rd year and each year thereafter, with coverage provided by State National Insurance Co. for up to \$3 million for employer's liability, and up to \$150 million limits for workers' compensation per occurrence. Property damage claims are insured on an occurrence basis over a \$25 thousand deductible, and insured through CSAC-EIA (California State Association of Counties – Excess Insurance Authority) and reinsured with Lexington Insurance Co. and with several insurers like AWAC, Ironshore, Partner RE, and Lloyd's of London, among others.

The County supplements its self-insurance for medical malpractice claims with a \$25 million policy (\$35 million aggregate) with BETA Risk Management Authority, which provides annual coverage on a claim made form basis with a SIR of \$1 million for each claim.

All public officials and County employees are insured under a blanket Comprehensive Disappearance, Destruction, and Dishonesty policy covering County monies and securities, with Berkley Regional Insurance Co. 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 Risk Management Department's internal service funds ("Funds"), except for unemployment insurance, and employee dental insurance, which are accounted for in the General Fund. The liabilities recorded in these Funds are based on 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 0.324% and an actuarially-determined 80% confidence level. It is the County's practice to obtain actuarial studies on an annual basis.

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June 30, 2015

Note 11: RISK MANAGEMENT (continued)

The total claims liability of \$232.10 million reported at June 30, 2015 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.

See the County of San Bernardino’s Comprehensive Annual Financial Report (CAFR) for details of their claims liability in accordance with GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, at June 30, 2015.

Note 12: CONTINGENCIES

As of June 30, 2015, in the opinion of the CSA Administration, there are no outstanding matters, which would have a significant effect on the financial position of the CSA.

Note 13: RESTATEMENT OF FINANCIAL POSITION

The following schedule summarizes the effects of the prior period adjustment to the Government-wide Statements.

Government-wide:

	<u>Business-type Activities</u>
Net position at June 30, 2014, as previously reported	\$ 5,649,907
Adjustment to record GASB 68 pension liability	<u>(322,589)</u>
Net position as July 1, 2014, as restated	<u>\$ 5,327,318</u>

Note 14: SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 2, 2015, which is the date the financial statements were available to be issued, and has determined that there are no transactions that will have a significant impact on the CSA.

REQUIRED SUPPLEMENTARY INFORMATION
COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
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Budgetary Comparison Schedule - Special Revenue Fund (Streetlighting)
For the Year Ended June 30, 2015

	Special Revenue Fund			Variances with Final Budget Positive (Negative)
	Streetlighting (RWX)			
	Original Budget	Final Budget	Actual	
<u>Revenues</u>				
Property taxes	\$ -	\$ -	\$ -	\$ -
Special assessments	35,390	35,390	60,081	24,691
Other services	-	-	4,825	4,825
Other revenues	-	-	737	737
Investment earnings	60	60	338	278
Total Revenues	<u>35,450</u>	<u>35,450</u>	<u>65,981</u>	<u>30,531</u>
<u>Expenditures</u>				
General Government				
Salaries and benefits	7,234	7,234	7,234	-
Services and supplies	69,577	69,577	58,968	10,609
Reserves and contingencies	31,993	31,993	-	31,993
Total Expenditures	<u>108,804</u>	<u>108,804</u>	<u>66,202</u>	<u>42,602</u>
Net Change in Fund Balance	<u>\$ (73,354)</u>	<u>\$ (73,354)</u>	(221)	<u>\$ (12,071)</u>
Fund Balance - beginning			<u>73,373</u>	
Fund Balance - ending			<u>\$ 73,152</u>	

REQUIRED SUPPLEMENTARY INFORMATION
COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 70
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Budgetary Comparison Schedule - Special Revenue Fund (Detention Basin)
For the Year Ended June 30, 2015

	Special Revenue Fund			
	Detention Basin (CXI)			
	Original Budget	Final Budget	Actual	Variances with Final Budget Positive (Negative)
<u>Revenues</u>				
Property taxes	\$ -	\$ -	\$ -	\$ -
Special assessments	27,710	27,710	44,023	16,313
Investment earnings	463	463	1,598	1,135
Total Revenues	<u>28,173</u>	<u>28,173</u>	<u>45,621</u>	<u>17,448</u>
<u>Expenditures</u>				
General Government				
Salaries and benefits	4,304	4,304	4,304	-
Services and supplies	26,037	26,037	9,296	(16,741)
Reserves and contingencies	357,801	357,801	-	(357,801)
Total Expenditures	<u>388,142</u>	<u>388,142</u>	<u>13,600</u>	<u>(374,542)</u>
Excess of Revenues Over (Under) Expenditures	<u>(359,969)</u>	<u>(359,969)</u>	<u>32,021</u>	<u>391,990</u>
<u>Other Financing Sources (Uses)</u>				
Transfer in	-	-	2,724	2,724
Transfer out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>2,724</u>	<u>2,724</u>
Net Change in Fund Balance	<u>\$ (359,969)</u>	<u>\$ (359,969)</u>	34,745	<u>\$ 391,990</u>
Fund Balance - beginning			<u>360,088</u>	
Fund Balance - ending			<u>\$ 394,833</u>	