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HELENDALE COMMUNITY SERVICES DISTRICT

FINANCIAL STATEMENTS

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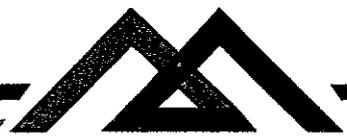
SUPPLEMENTARY INFORMATION

WITH

INDEPENDENT AUDITORS' REPORT

FOR THE PERIOD

APRIL 1, 2007 THROUGH JUNE 30, 2007



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HELENDALE COMMUNITY SERVICES DISTRICT
FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION
WITH
INDEPENDENT AUDITORS' REPORT
FOR THE PERIOD
APRIL 1, 2007 THROUGH JUNE 30, 2007

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	2
Financial Statements:	
Statement of Net Assets	9
Statement of Revenues, Expenses, and Changes in Net Assets	10
Statement of Cash Flows	11
Notes to Financial Statements	12
Supplementary Information:	
Schedule of Board of Directors	18

INDEPENDENT AUDITORS' REPORT

Board of Directors
Helendale Community Services District
Helendale, California

We have audited the accompanying statement of net assets of Helendale Community Services District (the District) as of June 30, 2007, and the related statements of revenues, expenses, and changes in net assets and cash flows for the period from direct assumption of responsibility from San Bernardino County Special Districts, April 1, 2007, to June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of Helendale Community Services District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with United States generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit 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.

The beginning balances of Helendale Community Services District have not been audited as part of our audit of the District's basic financial statements.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had the District's beginning balances been audited, the financial statements referred to above present fairly, in all material respects, the financial position of Helendale Community Services District as of June 30, 2007 and the changes in its financial position and its cash flows for the period April 1, 2007, through June 30, 2007, in conformity with United States generally accepted accounting principles.

Management's discussion and analysis on pages 2 through 7 is not a required part of the basic financial statements but is supplementary information required by United States generally accepted accounting principles. 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary information on page 18 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements as a whole.

October 13, 2008

Miers & Miers



Helendale Community Services District

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Helendale Community Services District financial report presents a narrative overview and analysis of the financial activities of the District for the fourth quarter of the fiscal year ended June 30, 2007, when the District assumed full operational responsibility for services from San Bernardino County Special Districts, CSA Zones 70 B & C. The District provides water and sewer utility services, and street lighting within the Silver Lakes community and graffiti removal, parks and recreation services, district-wide. Please read this discussion and analysis in conjunction with the accompanying District's transmittal letter, financial statements and notes to the financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to Helendale Community Services District's basic financial statements. This overview provides data only for the financial activities during the fourth quarter of fiscal year ended June 30, 2007. The District assumed full responsibility and authority on April 1, 2007 without further San Bernardino County Special Districts oversight or involvement. The District uses enterprise accounting methods similar to those used by private industry. The financial statements offer short-term information about its activities.

The *Statement of Net Assets* includes all of the District's assets and liabilities and provides information about the nature of the components and amounts of investments in resources (assets) and obligations to creditors (liabilities). It also provides the basis for evaluating the capital structure, liquidity and overall financial integrity of the District.

The *Statement of Revenues, Expenses and Changes in Net Assets* displays the revenues, expenses and changes in net assets. This statement measures the success of operations for the last quarter of the fiscal year. It can be used to determine profitability, credit worthiness and whether all costs were successfully recovered through service charges, user fees, other revenue, and taxes.

The final financial statement is the *Statement of Cash Flows*. The primary purpose of this statement is to provide information about cash receipts and cash payments. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations and investing. It accounts for the cash and cash equivalents balance available from the District start of operations and at year's end. It displays cash

HELENDALE COMMUNITY SERVICES DISTRICT
Management's Discussion and Analysis
June 30, 2007

received, cash spent, and the net change in the amount of cash and cash equivalents. The beginning balances assumed on April 1, 2007, reflect the transfer of assets, liabilities and equities from San Bernardino County Special Districts, CSA Zones 70 B & C.

HIGHLIGHTS

- The District's net assets increased by \$21,732 or .02% as a result of audited period of April 1, 2007 through June 30, 2007.
- The District's cash and cash equivalents at the end of the period, inclusive of operating and non-operating net revenue is \$4,976,829.
- Non-current capital assets at June 30, 2007, net of accumulated depreciation and amortization, are \$6,343,866. Noncurrent assets are the District plant, property and equipment transferred from San Bernardino County Special Districts, CSA Zones 70 B & C during the transition process.
- Operations resulted in a net loss of \$49,509. The loss is a result of using contract service to provide operations support, increased service calls from service line leaks due to deferred maintenance by the previous service provider.
- Non-Operating Income totaled \$71,241 resulting from Investment Income, Connection Fees and Other Income.
- The District did not invest in capital items during this period. The inclusion of property, plant and equipment resulted from the transfer from San Bernardino County Special Districts, CSA Zones 70 B & C.

FINANCIAL ANALYSIS OF HELENDALE COMMUNITY SERVICES DISTRICT

One of the most important questions asked "Is the District better off or worse off as a result of its activities?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets provide information about the District's activities to help answer this question. These two statements report the net assets of the District. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. However, other local, regional, national and global non-financial factors must also be considered.

NET ASSETS

HELENDALE COMMUNITY SERVICES DISTRICT
Management's Discussion and Analysis
June 30, 2007

A Summary of the District's Statement of Net Assets as presented in Table A-1.

Table A-1
Condensed Statement of Net Assets

<u>Assets</u>	
Current Assets	\$ 5,488,597
Capital Assets	<u>\$ 6,343,866</u>
 Total Assets	 <u><u>\$11,832,463</u></u>
 <u>Liabilities</u>	
Current Liabilities	\$ 196,412
Long-Term Liabilities	<u>\$ -</u>
 Total Liabilities	 <u><u>\$ 196,412</u></u>
 <u>Net Assets</u>	
Capital Assets - Net of related debt	\$ 6,343,866
Unrestricted	\$ 5,292,185
Restricted	<u>\$ -</u>
 Total Net Assets	 <u><u>\$11,636,051</u></u>

Table A-1 shows net assets as a result of the transfer of assets from San Bernardino County Special Districts CSA Zones 70 B & C, the assumption of accounts receivable from Utility Billing and other receivables and the results from operations for the audit period.

REVENUES, EXPENSES AND CHANGES IN NET ASSETS

While the statement of Net Assets shows the change in financial position of net assets, the statement of Revenues, Expenses and Changes in net Assets provides the answers as to the nature and source of these changes.

As shown below on Table A-2, District operations resulted in a loss of \$49,509. Non-Operating revenues from Investment Income, Connection fees and Other Income

HELENDALE COMMUNITY SERVICES DISTRICT
Management's Discussion and Analysis
June 30, 2007

totaled \$71,241. The result of Operations and Non-Operating Income for the period ending June 30, 2007 increased net assets by \$21,732.

Table A-2
Condensed Statement of Revenues, Expenses and Changes in Net Assets

Operating Revenue	\$ 973,541
Less Operating Expense	\$ (1,023,050)
Less Depreciation	\$ -
	<hr/>
Operating Income (Loss)	\$ (49,509)
	<hr/>
Non-Operating Revenue	\$ 71,241
Non-Operating Expenses	\$ -
Non-Operating Income	\$ 71,241
	<hr/>
Changes in Net Assets	\$ 21,732
	<hr/>
Assets at April 1, 2007	\$ 11,614,319
	<hr/>
Assets at June 30, 2007	\$ 11,636,051
	<hr/>

HELENDALE COMMUNITY SERVICES DISTRICT
Management's Discussion and Analysis
June 30, 2007

CAPITAL ASSETS AND DEBT ADMINISTRATION

At the June 30, 2007, the District had \$13,114,945 invested in infrastructure including land, land improvements, plant and buildings, office equipment, trucks and autos, and constructions in progress as shown in Table A-3 below. Accumulated depreciation on these assets totals \$6,771,079, resulting in a net asset investment of \$6,343,866.

Table A-3
Capital Assets

	<u>4/1/2007</u>	<u>6/30/2007</u>	<u>Dollar</u> <u>Changes</u>	<u>%</u> <u>Changes</u>
Land	\$ 160,000	\$ 160,000	\$ -	0.0%
Land Improvements	\$ 12,489,736	\$ 12,489,736	\$ -	0.0%
Plant and Buildings	\$ 40,298	\$ 51,334	\$ 11,036	27.4%
Office Equipment	\$ 17,505	\$ 49,643	\$ 32,138	183.6%
Trucks and Autos	\$ 317,743	\$ 343,143	\$ 25,400	8.0%
Construction in Progress	\$ 21,089	\$ 21,089	\$ -	0.0%
Less:				
Accumulated Depreciation	\$ (6,666,526)	\$ (6,771,079)	\$ (104,553)	1.6%
Net Property, Plant and Equipment	\$ 6,379,845	\$ 6,343,866	\$ (35,979)	-0.6%

The capital assets shown above were transferred from San Bernardino County Special Districts Zones 70 B & C during the audit period. Additions included service vehicles, computer equipment and software, and improvements to District Plant and Buildings.

DEBT

The District assumed water and sewer bond commitments on April 1, 2007, totaling \$10,000 in bonds that were not yet redeemed. Accrued interest from the bonds amounted to \$5,213. Additional details regarding the bonds are located in the notes to the attached Financial Statements.

HELENDALE COMMUNITY SERVICES DISTRICT
Management's Discussion and Analysis
June 30, 2007

CONTACTING THE DISTRICT

This financial report is designed to provide the citizens within the Helendale Community Services District and its customers with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Kimberly Cox, General Manager at:

Helendale Community Services District
26719 Vista Road, Suite 3
P.O. Box 2608
Helendale, Ca 92342

(760) 951-0006
kcox@helendalecsd.org

FINANCIAL STATEMENTS

HELENDALE COMMUNITY SERVICES DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2007

ASSETS

CURRENT ASSETS		
Cash and cash equivalents	\$ 4,976,829	
Accounts receivable	506,569	
Interest receivable	<u>5,199</u>	
TOTAL CURRENT ASSETS		\$ 5,488,597
NONCURRENT ASSETS		
Property, plant, and equipment	13,114,945	
Less accumulated depreciation and amortization	<u>(6,771,079)</u>	
TOTAL NONCURRENT ASSETS		<u>6,343,866</u>
TOTAL ASSETS		<u>\$ 11,832,463</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$ 178,199	
Deposits	3,000	
Bonds and accrued interest	<u>15,213</u>	
TOTAL CURRENT LIABILITIES		<u>\$ 196,412</u>
TOTAL LIABILITIES		196,412
NET ASSETS		
Invested in capital assets, net of related debt	6,343,866	
Unrestricted	5,292,185	
Restricted	<u>---</u>	
TOTAL NET ASSETS		<u>11,636,051</u>
TOTAL LIABILITIES AND NET ASSETS		<u>\$ 11,832,463</u>

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

HELENDALE COMMUNITY SERVICES DISTRICT
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS
FOR THE PERIOD APRIL 1, 2007 THROUGH JUNE 30, 2007

OPERATING REVENUES		
Water sales	\$ 463,364	
Sewer charges	<u>510,177</u>	
TOTAL OPERATING REVENUES		\$ 973,541
OPERATING EXPENSES		
Operations	678,990	
Administration	239,508	
Depreciation	<u>104,552</u>	
TOTAL OPERATING EXPENSES		<u>1,023,050</u>
OPERATING INCOME (LOSS)		(49,509)
NONOPERATING REVENUES (EXPENSES)		
Investment income	37,799	
Other	18,577	
Connection fees	<u>14,865</u>	
TOTAL NONOPERATING REVENUES (EXPENSES)		<u>71,241</u>
CHANGE IN NET ASSETS		21,732
NET ASSETS		
Balance, beginning of period		<u>11,614,319</u>
Balance, end of period		<u>\$ 11,636,051</u>

HELENDALE COMMUNITY SERVICES DISTRICT
STATEMENT OF CASH FLOWS
FOR THE PERIOD APRIL 1, 2007 THROUGH JUNE 30, 2007

Cash flows from operating activities		
Operating income (loss)	\$	21,732
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation		104,552
Changes in assets and liabilities		
Accounts receivable		(323,510)
Interest receivable		(5,199)
Accounts payable		107,725
Deposits		<u>3,000</u>
Net cash provided by operating activities	\$	(91,700)
Cash flows from investing activities		
Acquisition of assets		(68,574)
Cash flows from financing activities		
Net asset deposit at formation (unaudited)		<u>5,137,103</u>
Net increase (decrease) in cash and cash equivalents		4,976,829
Cash and cash equivalents at beginning of period		<u>-----</u>
Cash and cash equivalents at end of period	\$	<u>4,976,829</u>

Non-cash financing and investing activity:

Helendale Community Services District was formed through a transfer of assets and liabilities from the County of San Bernardino. The non-cash-related transactions were assumed as follows:

Accounts receivable	\$	183,058
Fixed assets net of accumulated depreciation		6,379,845
Accounts payable		(70,474)
Bonded indebtedness		<u>(15,213)</u>
Net assets acquired	\$	<u>6,477,216</u>

These amounts are representations of management and have not been audited.

HELENDALE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1: REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES

The Helendale Community Services District (the District) was formed on December 5, 2006, for the purpose of construction, operation, and maintenance of sewer collection and water services. Prior to formation, the service area was administered by the County of San Bernardino as a special district. District staff assumed full responsibility on April 1, 2007, from San Bernardino County Special Districts Zones B & C.

Basis of Accounting and Measurement Focus

As a community services district, the District is subject to accounting and reporting standards established by the Governmental Accounting Standards Board (GASB). The majority of revenues consist of user and connection fees and related services. The District as a whole, for financial reporting purposes, is classified as a proprietary entity. The District uses the accrual basis of accounting. Under this method of accounting, revenues are recognized when they are earned and become measurable, and expenses are recorded when they are incurred.

The financial activities of the District are accounted for on a flow of economic resources measurement focus, using the accrual basis of accounting. Under this method, all assets and liabilities associated with its operations are included on the statement of net assets, revenues are recorded when earned, and expenses are recorded when liabilities are incurred. Operating revenues are recognized for usage connection to the system and pretreatment permit fees. Nonoperating revenues are revenues not directly related to the operation of the District, such as investment income and septage fees.

The District does not apply financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989. The District applies all applicable GASB pronouncements, as well as statements and interpretations of the FASB, Accounting Principles Board Opinions, and Accounting Research Bulletins of the committee on Accounting Procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Cash and Cash Equivalents

Cash and cash equivalents include external investment pools and are reported at their fair values in the balance sheet. Unrealized gains and losses are included in investment income in the statement of revenues, expenses, and changes in net assets. The District's investments in external investment pools are readily convertible to cash and available for immediate withdrawal and are, therefore, considered to be cash equivalents for purposes of the statement of cash flows.

HELENDALE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1: REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, Plant, and Equipment

Property, plant, and equipment is stated at cost or estimated cost when cost records are not available. Depreciation of all exhaustible fixed assets is charged as an expense against operations. Depreciation is provided over the estimated useful lives of the assets using the straight-line method. The estimated useful lives of property, plant, and equipment are as follows:

Plant, buildings, and interceptor lines	40 to 50 years
Land improvements	15 years
Equipment and vehicles	5 to 8 years

Budgetary Accounting

The District's budgetary procedures are as follows:

For internal purposes only, the District adopts a detailed statement of estimated revenues and expenses prior to the beginning of each fiscal year. The source of financing operating costs and reserve requirements is current-year revenue and, if necessary, available equity carried forward from the preceding year.

Uncollectible Accounts

Uncollectible accounts are determined by the direct write-off method. The District's uncollectible accounts are minimal.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and disclosures made in the accompanying notes to the financial statements. While management believes these estimates are adequate, actual results could differ from those estimates.

HELENDALE COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 2: CASH AND INVESTMENTS

The Helendale Community Services District maintains a cash and investment pool. Each type of balance in the pool is reflected on the balance sheet as cash and investments.

Cash Deposits

The carrying amounts of the District's cash deposits were \$1,338,721 at June 30, 2007. Bank balances before reconciling items were \$1,524,809 at that date, the total amount of which was collateralized or insured with securities held by pledging financial institutions in the District's name as discussed below.

The California Government Code requires California banks and savings and loan associations to secure the District's cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the District's name.

The market value of the pledged securities must equal at least 110% of the District's deposits. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the District's total deposits. The District may waive collateral requirements for cash deposits, which are fully insured up to \$100,000 by the Federal Deposit Insurance Corporation.

Investments

Under the provisions of the District's investment policy, and in accordance with California Government Code, the following investments were authorized:

- Securities issued by the U.S. Treasury
- Securities issued and fully guaranteed as to payment by an agency of the U.S. Government
- Banker's Acceptances
- Non-negotiable certificates of deposit
- Repurchase Agreements
- California Local Agency Investment Fund (State Pool)
- Corporate medium-term notes
- Mortgage-backed securities
- Diversified Management Companies, as defined by Section 23701(m) of the Revenue Taxation Code

HELENDALE COMMUNITY SERVICES DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2007

NOTE 2: CASH AND INVESTMENTS (Continued)

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, investments were stated at fair value, resulting in the following investment income.

Realized gain/loss on matured investments	\$	---
Unrealized loss in changes in fair value of investments		---
Investment Income		37,799
Total investment income	\$	37,799

The District portfolio value fluctuates in an inverse relationship to any change in interest rate. Accordingly, if interest rates have risen, the portfolio value will have declined. If interest rates have fallen, the portfolio value will have risen.

In accordance with GASB Statement No. 31, the portfolio for year-end reporting purposes is treated as if it were all sold. Therefore, fund balance must reflect the portfolio's change in value. These portfolio value changes are unrealized unless sold. The District's policy is to buy and hold investments until their maturity dates.

Summary of Cash and Investments

The following is a summary of pooled cash and investments at June 30, 2007:

	Business-Type Activities	Total
Cash and investments	\$ 4,976,829	\$ 4,976,829
Restricted cash and investments	\$ 4,976,829	\$ 4,976,829

HELENDALE COMMUNITY SERVICES DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2007

NOTE 3: PROPERTY, PLANT, AND EQUIPMENT

Activities relating to property, plant, and equipment for the period April 1, 2007, through June 30, 2007, are as follows:

	<u>April 1, 2007</u>	<u>Additions</u>	<u>Disposals</u>	<u>Reclassifications</u>	<u>June 30, 2007</u>
Cost					
Land	\$ 160,000	\$ ---	\$ ---	\$ ---	\$ 160,000
Land improvements	12,489,736	---	---	---	12,489,736
Plant and buildings	40,298	11,036	---	---	51,334
Office equipment	17,505	32,138	---	---	49,643
Trucks and autos	317,743	25,400	---	---	343,143
Construction in progress	21,089	---	---	---	21,089
	<u>\$ 13,046,371</u>	<u>\$ 68,574</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ 13,114,945</u>
Accumulated depreciation					
Land improvements	\$ 6,589,420	\$ 92,415	\$ ---	\$ ---	\$ 6,681,835
Plant and buildings	7,805	1,055	---	---	8,860
Office equipment	---	1,175	---	---	1,175
Trucks and autos	69,301	9,908	---	---	79,209
	<u>\$ 6,666,526</u>	<u>\$ 104,553</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ 6,771,079</u>

NOTE 4: NET ASSETS

Net assets at June 30, 2007, is composed of the following:

Net assets:	
Invested in capital assets, net of related debt	\$ 6,343,866
Unrestricted	<u>5,292,185</u>
	<u>\$ 11,636,051</u>

NOTE 5: COMMITMENTS AND CONTINGENCIES

The County of San Bernardino was obligated for \$10,000 in bonds that were not yet redeemed. The bond commitments, with accrued interest in the amount of \$5,213, were transferred to the District when they separated from the County of San Bernardino on April 1, 2007.

SUPPLEMENTARY INFORMATION

HELENDALE COMMUNITY SERVICES DISTRICT
SCHEDULE OF BOARD OF DIRECTORS
JUNE 30, 2007

Directors, Officers, and Senior Management

The directors, officers, and senior management of the Helendale Community Services District are listed below.

	<u>Term Expires</u>
Milo Stormo, President	November 2010
Craig Schneider, Vice President	November 2009
Sandra Perea, Director	November 2009
Sandy Haas, Director	November 2010
James Keoshkerian, Director	November 2010
Kimberly Cox, General Manager	N/A