

**COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 70
ZONE W-1**

FINANCIAL STATEMENTS

JUNE 30, 2016

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 70 – ZONE W-1
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June 30, 2016

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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 –Zone W-1

Independent Auditors' Report

We have audited the accompanying financial statements of 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 –Zone W-1 (CSA), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2016, 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 business-type activities of the CSA, as of June 30, 2016, and the respective changes in financial position and cash flows, 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
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Emphasis of Matter

As described in Note 1 to the financial statements, during the year ended June 30, 2016, the CSA implemented GASB Nos. 72, 73, and 79. Our opinion is not modified with respect to this matter.

As described in Note 6 to the financial statements, on July 1, 2015, the Local Agency Formation Commission (LAFCO) issued a certificate of completion approving the dissolution of CSA 70, Zone W-1 which was reorganized and annexed to the Big Horn Desert View Water Agency to form the Improvement District of the Big Horn Desert View Water Agency.

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.

David L. Gruber and Associates, Inc.
David L. Gruber and Associates, Inc.
Newport Beach, California
November 28, 2016

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 70 - ZONE W-1
STATEMENT OF NET POSITION
June 30, 2016

	<u>Enterprise Fund</u>
<u>Assets</u>	
Current Assets:	
Cash and cash equivalents	\$ -
Accounts receivable, net	-
Interest receivable	-
Taxes receivable	-
Due from other funds	-
Special assessments receivable	-
Total Current Assets	-
Noncurrent Assets:	
Capital Assets:	
Land	-
Improvements to land	-
Structures and improvements	-
Vehicles	-
Accumulated depreciation	-
Total Noncurrent Assets	-
Total Assets	-
<u>Deferred outflows of resources</u>	
Pensions	-
<u>Liabilities</u>	
Current Liabilities:	
Accounts payable	-
Accrued interest payable	-
Due to other funds	-
Bonds payable	-
Total Current Liabilities	-
Noncurrent Liabilities:	
Bonds payable	-
Net pension liability	-
Total Noncurrent Liabilities	-
Total Liabilities	-
<u>Deferred inflows of resources</u>	
Pensions	-
<u>Net position</u>	
Invested in capital assets, net of related debt	-
Unrestricted	-
Total Net Position	\$ -

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

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
 COUNTY SERVICE AREA No. 70 - ZONE W-1
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 For the Year Ended June 30, 2016

	<u>Enterprise Fund</u>
<u>Operating Revenues</u>	
Water sales	\$ -
Connection fees	-
Other services	-
Total Operating Revenues	-
 <u>Operating Expenses</u>	
Professional services	-
Salaries and benefits	-
Services and supplies	-
Utilities	-
Other	-
Depreciation	-
Total Operating Expenses	-
Operating Income	-
 <u>Nonoperating Revenues (Expenses)</u>	
Investment Earnings	-
Interest Expense	-
Special assessments	-
Penalties	-
Other taxes	-
Property Taxes	-
Other	-
Total Nonoperating Revenue (Expenses)	-
Extraordinary (loss) (Note 6)	(1,986,434)
Change in net position	(1,986,434)
Net position at beginning of year	1,986,434
Net position at end of year	\$ -

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

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 70 - ZONE W-1
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2016

	<u>Enterprise Fund</u>
<u>Cash Flows From Operating Activities</u>	
Receipts from customers	\$ -
Payments to suppliers	-
Payments to employees	-
Net Cash Provided by Operating Activities	-
<u>Cash Flows From Noncapital Financing Activities</u>	
Property taxes	-
Special assessments	-
Penalties	-
Other taxes	-
Cash paid to other government agencies upon dissolution (Note 6)	(1,353,271)
Net Cash Provided by Noncapital Financing Activities	(1,353,271)
<u>Cash Flows From Capital and Related Financing Activities</u>	
Disposition of capital assets	-
Principal paid on bonds	-
Interest paid on bonds	-
Net Cash Used for Capital and Related Financing Activities	-
<u>Cash Flows From Investing Activities</u>	
Investment Earnings	-
Net Cash Provided by Investing Activities	-
Net Decrease in Cash and Cash Equivalents	(1,353,271)
Cash and Cash Equivalents - beginning of the year	1,353,271
Cash and Cash Equivalents - end of the year	\$ -
Reconciliation of operating income to net cash used for operating activities:	
Operating Income	\$ -
Adjustments to reconcile operating income to net cash used for operating activities:	
Depreciation expense	-
Change in assets and liabilities:	
Decrease in accounts receivable, net	41,333
Decrease in interest receivable	2,504
Decrease in taxes receivable	224
Decrease in due from other funds	360,128
Decrease in special assessment receivable	3,517
Decrease in accounts payable	(2,319)
Decrease in due to other funds	(410,821)
Decrease in interest payable	(1,396)
Decrease in net pension liability, net of deferred outflows and inflows	(43,754)
Increase in due to other government agencies upon dissolution (Note 6)	50,584
Net Cash Provided by Operating Activities	\$ -

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

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 70 – ZONE W-1
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the County of San Bernardino Special District County Service Area No.70 – Zone W-1 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 W-1, Goat Mountain, was established by an act of the Board of Supervisors of the County of San Bernardino (the County) on November 5, 1973 under Section 4700 of the State Health & Safety Code. It is located 10 miles north of Yucca Valley in the Landers area. It provides water services for 646 properties and maintains 3 wells, 2 booster stations and reservoir storage of 420,000 gallons.

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 Zone W-1 of the County of San Bernardino and are not intended to present the financial position of the County 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, 2016.

Measurement focus, basis of accounting, and financial statements presentation

The CSA's 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.

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.

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

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. Operating expenses for enterprise funds includes the cost of sales and services, administrative expenses, and depreciation on capital assets.

All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 70 – ZONE W-1
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement focus, basis of accounting, and financial statements presentation (continued)

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

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.”

No allowance for uncollectibles was recorded at June 30, 2016 based on management’s expectation that all accounts receivable will be collected through the property 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.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

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 acquisition value at the date of donation in accordance with GASB Statement No. 72.

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.

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 70 – ZONE W-1
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital assets (continued)

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

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

Assets	Years
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.

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.

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

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 70 – ZONE W-1
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Position Flow Assumption (continued)

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.”

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.

Stewardship, compliance and accountability

A. Budgetary information

Although the CSA prepares and adopts an annual budget, budgetary information is not presented because the CSA is not legally required to adopt a budget.

New Accounting Pronouncements

The District adopted Statement on Governmental Accounting Standards (GASB Statement) No. 72, *Fair Value Measurement and Application*, GASB Statement No. 73 *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB 68*, and GASB Statement No. 79 *Certain External Investment Pools and Pool Participants*.

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, 2016. 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

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 70 – ZONE W-1
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 2: CASH AND INVESTMENTS (continued)

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, and fair value hierarchy disclosures required by GASB Statement No.72.

Note 3: ACCOUNTS RECEIVABLE

At June 30, 2016, the accounts receivable balance was composed of the following:

Accounts receivable	\$ -
Less: allowance for uncollectible	-
Total accounts receivable, net	\$ -

Note 4: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 was as follows:

	Beginning Balance	Additions	Deletions (See Note 6)	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 3,500	\$ -	\$ (3,500)	\$ -
Construction in progress	-	-	-	-
Total capital assets, not being depreciated	3,500	-	(3,500)	-
Capital assets, being depreciated:				
Improvements to land	2,703,105	-	(2,703,105)	-
Structures and improvements	109,058	-	(109,058)	-
Vehicles	82,936	-	(82,936)	-
Total capital assets, being depreciated	2,895,099	-	(2,895,099)	-
Less accumulated depreciation for:				
Improvements to land	(1,669,881)	-	(1,669,881)	-
Structures and improvements	(27,524)	-	(27,524)	-
Vehicles	(76,179)	-	(76,179)	-
Total accumulated depreciation	(1,773,584)	-	(1,773,584)	-
Total capital assets, being depreciated, net	1,121,515	-	(1,121,515)	-
Total capital assets, net	\$ 1,125,015	\$ -	(1,125,015)	\$ -

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 70 – ZONE W-1
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 5: BONDS PAYABLE

County Service Area No. 70, Zone W-1 sold bonds during fiscal years 1978-79 and 1979-80 to provide construction capital. The bonds were issued at 5% interest, and all bonds are scheduled to be paid by December 1, 2019.

Change in long-term liabilities

Long-term liability activity for the year ended June 30, 2016, was as follows:

	Beginning Balance	Additions	Reductions (see Note 6)	Ending Balance	Due Within One Year
Bonds Payable	\$ 335,000	\$ -	\$(335,000)	\$ -	\$ -

Note 6: DISSOLUTION OF CSA 70, ZONE W-1

On July 1, 2015, the Local Agency Formation Commission (LAFCO) issued a certificate of completion approving the dissolution of CSA 70, Zone W-1 which was reorganized and annexed to the Big Horn Desert View Water Agency to form the Improvement District of the Big Horn Desert View Water Agency. The transfer of the assets and liabilities of CSA 70, Zone W-1 as of July 1, 2015 to the Improvement District was reported as an extraordinary loss in the statement of revenues, expenses, and changes in net position. The bonds payable obligations describe in Note 5 above were assigned to the County of San Bernardino to provide funding for future debt service payments.

Note 7: CONTINGENCIES

As of June 30, 2016, 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 8: SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 28, 2016, 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.