

**COUNTY OF SAN BERNARDINO SPECIAL DISTRICT
COUNTY SERVICE AREA No. 70 – ZONE HL HAVASU LAKE
FINANCIAL STATEMENTS
JUNE 30, 2017**

**COUNTY OF SAN BERNARDINO SPECIAL DISTRICT
COUNTY SERVICE AREA No. 70 – ZONE HL
HAVASU LAKE
TABLE OF CONTENTS
June 30, 2017**

TABLE OF CONTENTS

	<u>Page</u>
<u>FINANCIAL SECTION:</u>	
Independent Auditors' Report	1
Basic Financial Statements:	
Statement of Net Position	3
Statement of Revenues, Expenses and Changes in Net Position	4
Statement of Cash Flows	5
Notes to Financial Statements	6

Board of Supervisors
County of San Bernardino
County of San Bernardino Special
District County Service Area
No.70 – Zone HL Havasu Lake

Independent Auditors' Report

We have audited the accompanying financial statements of the County of San Bernardino Special District County Service Area No.70 – Zone HL Havasu Lake (CSA), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2017, 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the minimum audit requirements and reporting guidelines for California Special Districts required by the Office of the State Controller. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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.



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Board of Supervisors
County of San Bernardino
County of San Bernardino Special
District County Service Area
No.70 – Zone HL Havasu Lake

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the County of San Bernardino Special District County Service Area No.70 – Zone HL Havasu Lake as of June 30, 2017, and the 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.

Other Matters

Prior Year Comparative Information

Prior year data has been included with the basic financial statements for comparative purposes only. The financial statements of the County of San Bernardino Special District County Service Area No.70 – Zone HL Havasu Lake as of June 30, 2016, were audited by other auditors whose report dated November 28, 2016 expressed unmodified opinions on those statements.

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.



November 22, 2017
Riverside, California

COUNTY OF SAN BERNARDINO SPECIAL DISTRICT
 COUNTY SERVICE AREA No. 70 - ZONE HL
 HAVASU LAKE
 Statement of Net Position
 June 30, 2017

	2017	For Comparative Purposes Only
	<u>Enterprise Fund</u>	<u>2016</u>
	Refuse	Enterprise Fund
	<u>(EJA)</u>	Refuse
		<u>(EJA)</u>
Assets		
Cash and investments	\$ 46,311	\$ 48,172
Interest receivable	157	82
Special assessments receivable	3,396	3,402
Capital assets, net of depreciation	<u>111,394</u>	<u>117,663</u>
Total Assets	<u>161,258</u>	<u>169,319</u>
Liabilities		
Accounts payable	1,575	3,060
Due to other funds	-	<u>10,352</u>
Total Liabilities	<u>1,575</u>	<u>13,412</u>
Net position		
Net investment in capital assets	111,394	117,663
Unrestricted	<u>48,289</u>	<u>38,244</u>
Total Net Position	<u>\$ 159,683</u>	<u>\$ 155,907</u>

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

COUNTY OF SAN BERNARDINO SPECIAL DISTRICT
 COUNTY SERVICE AREA No. 70 - ZONE HL
 HAVASU LAKE
 Statement of Revenues, Expenses and Changes in Net Position
 For the Year Ended June 30, 2017

	2017	For Comparative Purposes Only
	<u>Enterprise Fund</u>	<u>2016</u>
	Refuse	Enterprise Fund
	<u>(EJA)</u>	Refuse
		<u>(EJA)</u>
Operating Revenues		
Special assessments	\$ 72,606	\$ 72,758
Total Operating Revenues	<u>72,606</u>	<u>72,758</u>
Operating Expenses		
Salaries and benefits	8,245	8,342
Services and supplies	50,966	55,030
Depreciation	6,269	6,269
Rents and leases	6,300	6,060
Total Operating Expenses	<u>71,780</u>	<u>75,701</u>
Operating Income (Loss)	<u>826</u>	<u>(2,943)</u>
Nonoperating Revenues (Expenses)		
Penalties and interest	2,721	1,566
Investment earnings	229	291
Total Non operating Revenues (Expenses)	<u>2,950</u>	<u>1,857</u>
Change in Net Position	<u>3,776</u>	<u>(1,086)</u>
Net position at beginning of year	<u>155,907</u>	<u>156,993</u>
Net position at end of year	<u>\$ 159,683</u>	<u>\$ 155,907</u>

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

COUNTY OF SAN BERNARDINO SPECIAL DISTRICT
 COUNTY SERVICE AREA No. 70 - ZONE HL
 HAVASU LAKE
 Statement of Cash Flows
 Proprietary Fund
 For the Year Ended June 30, 2017

	2017 Enterprise Fund	For Comparative Purposes Only 2016 Enterprise Fund
	<u>Refuse (EJA)</u>	<u>Refuse (EJA)</u>
Cash Flows from Operating Activities		
Receipts from customers	\$ 72,612	\$ 72,758
Payments to suppliers	(69,103)	(52,830)
Payments to employees	<u>(8,245)</u>	<u>(8,342)</u>
Net cash provided by operating activities	<u>(4,736)</u>	<u>11,586</u>
Cash Flows from Noncapital Financing Activities		
Property taxes	<u>2,721</u>	<u>1,566</u>
Net cash provided by noncapital financing activities	<u>2,721</u>	<u>1,566</u>
Cash Flows from Investing Activities		
Investment earnings	<u>154</u>	<u>241</u>
Net cash provided by investing activities	<u>154</u>	<u>241</u>
Net increase in cash and cash equivalents	(1,861)	13,393
Cash and investments - beginning	<u>48,172</u>	<u>34,779</u>
Cash and investments - ending	<u>\$ 46,311</u>	<u>\$ 48,172</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating Income (Loss)	\$ 826	\$ (2,943)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation expense	6,269	6,269
Change in assets and liabilities:		
Increase (decrease) in accounts payable	(1,485)	3,060
Increase (decrease) in due to other funds	(10,352)	6,747
Increase (decrease) in special assessments receivables	<u>6</u>	<u>(1,547)</u>
Net cash provided by operating activities	<u>\$ (4,736)</u>	<u>\$ 11,586</u>

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

COUNTY OF SAN BERNARDINO SPECIAL DISTRICT
COUNTY SERVICE AREA No. 70 – ZONE HL
HAVASU LAKE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the County of San Bernardino Special District County Service Area No.70 – Zone HL Havasu Lake 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 - Zone HL was established by an act of the Board of Supervisors of the County of San Bernardino (the County) on April 9, 1990 to provide refuse services to the community of Havasu Lake.

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 HL 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, 2017.

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.

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 County has established a materiality level for recording year-end accruals. For Special Districts with appropriations of less than \$500,000, individual items of less than \$1,000 are not accrued at year end. For Special Districts with appropriations over \$500,000, individual items of less than \$5,000 are not accrued at year end.

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

COUNTY OF SAN BERNARDINO SPECIAL DISTRICT
COUNTY SERVICE AREA No. 70 – ZONE HL
HAVASU LAKE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 investments 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." Currently, the CSA does not have any business-type activities.

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.

**COUNTY OF SAN BERNARDINO SPECIAL DISTRICT
COUNTY SERVICE AREA No. 70 – ZONE HL
HAVASU LAKE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital assets (continued)

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.

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

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.

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.”

COUNTY OF SAN BERNARDINO SPECIAL DISTRICT
COUNTY SERVICE AREA No. 70 – ZONE HL
HAVASU LAKE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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.

Note 2: CASH AND INVESTMENTS

Cash 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 and investments are shown at the fair value as of June 30, 2017. 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, and fair value hierarchy disclosures required by GASB Statement No. 72. The County of San Bernardino's CAFR may be obtained from their website <http://sbcounty.gov/ATC>.

COUNTY OF SAN BERNARDINO SPECIAL DISTRICT
COUNTY SERVICE AREA No. 70 – ZONE HL
HAVASU LAKE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 3: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017 was as follows:

Governmental activities:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, being depreciated:				
Structures and improvements	\$ 233,197	\$ -	\$ -	\$ 233,197
Total capital assets, being depreciated	<u>233,197</u>	<u>-</u>	<u>-</u>	<u>233,197</u>
Less accumulated depreciation for:				
Structures and improvements	(115,534)	(6,269)	-	(121,803)
Total accumulated depreciation	<u>(115,534)</u>	<u>(6,269)</u>	<u>-</u>	<u>(121,803)</u>
Total capital assets, being depreciated, net	<u>\$ 117,663</u>	<u>\$ (6,269)</u>	<u>\$ -</u>	<u>\$ 111,394</u>

Note 4: 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 \$54 million is provided through a combination of insurance policies as recommended by Alliant Insurance Services Inc., Insurance Broker as follows: Primary Liability coverage \$10 million excess of \$3.0 million self-insured retention with Security National Insurance Company (AM TRUST); Excess Liability coverage for \$4 million, excess of \$13 million with Evanston Insurance Company (Markel); and Excess Liability coverage of \$15 million, excess of \$17 million with National Casualty. Allied World Assurance Co. (AWAC) 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 by joining CSAC-EIA (California State Association of Counties – Excess Insurance Authority) Excess Workers' Compensation Program and purchasing a policy with a \$2 million SIR and statutory limits with National Union Fire Insurance Company of Pittsburgh, PA. Property damage claims are insured on an occurrence basis over a \$25 thousand deductible, and insured through CSAC-EIA 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.

COUNTY OF SAN BERNARDINO SPECIAL DISTRICT
COUNTY SERVICE AREA No. 70 – ZONE HL
HAVASU LAKE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 4: RISK MANAGEMENT (continued)

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 0.615% and an actuarially-determined 80% confidence level. It is the County's practice to obtain actuarial studies on an annual basis.

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, 2017.

Note 5: CONTINGENCIES

As of June 30, 2017 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 6: SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 22, 2017, 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.