

**COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 70 - ZONE R-39
HIGHLAND ESTATES (PHELAN)**

FINANCIAL STATEMENTS

JUNE 30, 2016

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 70 - ZONE R-39
HIGHLAND ESTATES (PHELAN)
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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 R-39
Highland Estates (Phelan)

Independent Auditors' Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the County of San Bernardino Special District County Service Area No. 70 - Zone R-39 Highland Estates (Phelan) (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 governmental activities, each major fund, and the aggregate remaining fund information of the CSA, as of June 30, 2016, 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
District County Service Area
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Highland Estates (Phelan)
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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.

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.

Newport Beach, California
November 28, 2016

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
 COUNTY SERVICE AREA No. 70 - ZONE R-39
 HIGHLAND ESTATES (PHELAN)
 Statement of Net Position

June 30, 2016

	Governmental Activities
<u>Assets</u>	
Cash and cash equivalents	\$ 109,697
Interest receivable	222
Special assessments receivable	811
Capital assets, net of depreciation	410,899
Total Assets	521,629
<u>Liabilities</u>	
Loan Payable	105,000
Total Liabilities	105,000
<u>Net position</u>	
Invested in capital assets, net of related debt	305,899
Restricted for:	
Public works	110,730
Total Net Position	\$ 416,629

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 R-39
HIGHLAND ESTATES (PHELAN)
Statement of Activities

For the Year Ended June 30, 2016

	<u>Governmental Activities</u>
<u>Expenses</u>	
Salaries and benefits	\$ 6,701
Services and supplies	12,853
Depreciation	20,092
Interest on debt	807
Total Program Expenses	<u>40,453</u>
 <u>Program revenues</u>	
Charges for services	<u>66,217</u>
Net Program Revenue	<u>25,764</u>
 <u>General revenues</u>	
Property taxes	29
Investment earnings	866
Total General Revenues	<u>895</u>
Change in net position	26,659
Net position at beginning of year	<u>389,970</u>
Net position at end of year	<u><u>\$ 416,629</u></u>

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 R-39
HIGHLAND ESTATES (PHELAN)

Balance Sheet
Governmental Fund
June 30, 2016

	Special Revenue Fund	Nonmajor Capital Projects Fund	Total Governmental Funds
	General (RCK)	Asphalt & Berm (CWF)	
<u>Assets</u>			
Cash and cash equivalents	\$ 109,697	\$ -	\$ 109,697
Interest receivable	222	-	222
Special assessments receivable	811	-	811
Total Assets	\$ 110,730	\$ -	\$ 110,730
<u>Liabilities and Fund Balances</u>			
<u>Liabilities</u>			
Accounts payable	\$ -	\$ -	\$ -
Total Liabilities	-	-	-
<u>Fund balance:</u>			
Restricted for:			
Road maintenance	110,730	-	110,730
Total Fund Balance	110,730	-	110,730
Total Liabilities and Fund Balance	\$ 110,730	\$ -	\$ 110,730
Total Fund Balance - Governmental Fund			\$ 110,730
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.			410,899
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:			
Loan payable			(105,000)
Net Position of Governmental Activities			\$ 416,629

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 R-39
 HIGHLAND ESTATES (PHELAN)
 Statement of Revenues, Expenditures and Changes in Fund Balance
 Governmental Fund
 For the Year Ended June 30, 2016

	Special Revenue Fund	Nonmajor Capital Projects Fund	Total Governmental Funds
	General (RCK)	Asphalt & Berm (CWF)	
<u>Revenues</u>			
Property taxes	\$ 29	\$ -	\$ 29
Special assessments	66,217	-	66,217
Investment earnings	773	93	866
Total Revenues	67,019	93	67,112
<u>Expenditures</u>			
General Government			
Salaries and benefits	6,701	-	6,701
Services and supplies	12,853	-	12,853
Debt service:			
Principal	35,000	-	35,000
Interest	807	-	807
Total Expenditures	55,361	-	55,361
Excess of Revenues Over (Under) Expenditures	11,658	93	11,751
Other Financing Sources (Uses)			
Transfers in	70,507	-	70,507
Transfers out	-	(70,507)	(70,507)
Total Other Financing Sources (Uses)	70,507	(70,507)	-
Net Change in Fund Balance	82,165	(70,414)	11,751
Fund Balance - beginning	28,565	70,414	98,979
Fund Balance - ending	\$ 110,730	\$ -	\$ 110,730

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 R-39
 HIGHLAND ESTATES (PHELAN)
 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, 2016

Net Change in Fund Balance - Total Government Fund	\$ 11,751
<p>Amounts reported for <i>governmental activities</i> in the statement of activities are different because:</p>	
<p>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 (\$20,092) exceeded capital outlay (\$-0-) in the current year.</p>	(20,092)
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds:</p>	
Principal payment on note	<u>35,000</u>
Change in Net Position of Governmental Activities	<u><u>\$ 26,659</u></u>

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 R-39
HIGHLAND ESTATES (PHELAN)
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 R-39 Highland Estates (Phelan) 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 No.70 – Zone R-39 (CSA) was established by an act of the Board of Supervisors of the County of San Bernardino (the County) on January 3, 2001 under Section 4700 of the State Health & Safety Code to maintain 4.5 miles of paved road.

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 R-39 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.

Government-wide and fund financial statements

The government-wide financial statements (e.g., the statement of net assets and the statement of changes in net assets) 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 a proprietary or 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 - ZONE R-39
HIGHLAND ESTATES (PHELAN)
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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.

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.

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.

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 70 - ZONE R-39
HIGHLAND ESTATES (PHELAN)
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Interfund 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 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.

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:

<u>Assets</u>	<u>Years</u>
Infrastructure	40-60
Structure and improvements	5-40
Equipment and vehicles	4-15

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 70 - ZONE R-39
HIGHLAND ESTATES (PHELAN)
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund equity

The CSA follow the provisions of GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which the resources can be used:

- *Nonspendable Fund Balance*: Amounts cannot be spent because they are: (a) not in spendable form or (b) legally or contractually required to be maintained intact. Due to the nature or form of the resources, they generally cannot be expected to be converted into cash or a spendable form.
- *Restricted Fund Balance*: Amounts are restricted by external parties, i.e., creditors, grantors, contributors, or laws/regulations of other governments or restricted by law through constitutional provisions or enabling legislation. *Committed Fund Balance*: Amounts can only be used for a specific purpose pursuant to constraints imposed by formal action of the government's highest level of decision making authority (the Board of Supervisors). The formal action must occur prior to the end of the reporting period, however, the amount may be determined in the subsequent period. These are self-imposed limitations on available resources. These committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same level of action it employed to previously commit those amounts. These committed amounts would be approved and adopted by formal action of the Board.
- *Assigned Fund Balance*: Amounts are constrained by the government's intent to be used for specific purposes that are neither restricted nor committed. The intent will be expressed by the body or official to which the governing body has delegated the authority, i.e. the County Administrative Office. The County Administrative Office will assign fund balance for specific departmental projects through the use of the respective department's general fund savings. Such projects would not normally be feasible for the department without reserving funding over a multiple year period.
- *Unassigned Fund Balance*: The General Fund, as the principal operating fund, often has net resources in excess of what can properly be classified in one of the four categories already described. Therefore, in order to calculate unassigned fund balance, total fund balance less nonspendable, restricted, committed, or assigned equals unassigned fund balance. This amount is available for any purpose and will be placed in either the General Purpose Reserve, General Fund – Mandatory Contingencies or the General Fund - Uncertainties Contingencies until allocated for a specific purpose by the Board, by a four-fifths vote.

When both restricted and unrestricted resources are available for use when an expenditure is incurred, it is the County's policy to use restricted resources first, then unrestricted resources as they are needed. It is the County's policy to consider committed amounts as being reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 70 - ZONE R-39
HIGHLAND ESTATES (PHELAN)
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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 DISTRICTS
COUNTY SERVICE AREA No. 70 - ZONE R-39
HIGHLAND ESTATES (PHELAN)
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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

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. 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*.

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 70 - ZONE R-39
HIGHLAND ESTATES (PHELAN)
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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

Note 3: CAPITAL ASSETS

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

Governmental activities:	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, being depreciated:				
Improvements to land	\$ 565,875	\$ -	\$ -	\$ 565,875
Structures and improvements	49,169	-	-	49,169
Total capital assets, being Depreciated	615,044	-	-	615,044
Less accumulated depreciation for:				
Improvements to land	(169,762)	(18,863)	-	(188,625)
Structures and improvements	(14,291)	(1,229)	-	(15,520)
Total accumulated depreciation	(184,053)	(20,092)	-	(204,145)
Governmental activities, capital assets, net	\$ 430,991	\$ (20,092)	\$ -	\$ 410,899

Note 4: LOAN PAYABLE

During the year ended June 30, 2014, the CSA received \$175,000 of loan proceeds from the County's Revolving Fund which was established under Government Code Section 25210.9c. The loan was made to fund a road paving project and has a ten-year terms as established by the Board of Supervisors. The loan balance reported on the Statement of Net Position at June 30, 2016 was as follows:

	Principal Balance 07/01/15	Additions	Retirements	Principal Balance 06/30/16	Amounts Due Within One Year
CSA Revolving	\$ 140,000	-	(35,000)	105,000	-

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 70 - ZONE R-39
HIGHLAND ESTATES (PHELAN)
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Future debt service payments for the County’s revolving loan are not disclosed because there are no fixed payment dates.

Note 5: RETIREMENT PLAN

Plan Description. Employees of the CSA 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 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 CSA’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 PEPRA 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 36 consecutive 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	At age 67, 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

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
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HIGHLAND ESTATES (PHELAN)
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 5: RETIREMENT PLAN (continued)

Contributions. Participating employers and active members, including the CSA and the CSA'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 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, 2016 ranged between 7.81% and 14.21% for Tier 1 General members and between 7.70% and 8.40% for Tier 2 General members.

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, 2016.

Note 6: 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 7: 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.

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June 30, 2016

Note 7: RISK MANAGEMENT (continued)

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.

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, 2016.

Note 8: TRANSFERS IN/OUT

Interfund transfers are transactions used to close out a fund, reimburse an operating fund, and transfer cash between operating funds and capital projects funds. At June 30, 2016 the CSA made the following interfund transfer in and out:

	Transfer In:
	General
Transfer out:	(RCK)
Asphalt & Berm (CWF)	\$ 70,507

Note 9: 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.

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June 30, 2016

Note 10: 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.

REQUIRED SUPPLEMENTARY INFORMATION
 COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
 COUNTY SERVICE AREA No. 70 - ZONE R-39
 HIGHLAND ESTATES (PHELAN)
 Budgetary Comparison Schedule - Special Revenue Fund (General)
 For the Year Ended June 30, 2016

	Special Revenue Fund			
	General (RCK)			
	Original Budget	Final Budget	Actual	Variances with Final Budget Positive (Negative)
<u>Revenues</u>				
Property taxes	\$ 326	\$ 326	\$ 29	\$ (297)
Special assessments	71,482	71,482	66,217	(5,265)
Investment earnings	36	36	773	737
Total Revenues	<u>71,844</u>	<u>71,844</u>	<u>67,019</u>	<u>(4,825)</u>
<u>Expenditures</u>				
General Government				
Salaries and benefits	6,701	6,701	6,701	-
Services and supplies	14,866	14,866	12,853	2,013
Debt service:				
Principal	36,243	36,243	35,000	1,243
Interest	807	807	807	-
Total Expenditures	<u>58,617</u>	<u>58,617</u>	<u>55,361</u>	<u>3,256</u>
Excess of Revenues Over (Under) Expenditures	<u>13,227</u>	<u>13,227</u>	<u>11,658</u>	<u>(1,569)</u>
Other Financing Sources (Uses)				
Transfers in	72,879	72,879	70,507	(2,372)
Total Other Financing Sources (Uses)	<u>72,879</u>	<u>72,879</u>	<u>70,507</u>	<u>(2,372)</u>
Net Change in Fund Balance	<u>\$ 86,106</u>	<u>\$ 86,106</u>	82,165	<u>\$ (3,941)</u>
Fund Balance - beginning			<u>28,565</u>	
Fund Balance - ending			<u>\$ 110,730</u>	