

**COUNTY OF SAN BERNARDINO SPECIAL DISTRICT
COUNTY SERVICE AREA NO. 70 ZONE R – 40 – UPPER NORTH BAY LAKE ARROWHEAD
FINANCIAL STATEMENTS
JUNE 30, 2017**

**COUNTY OF SAN BERNARDINO SPECIAL DISTRICT
COUNTY SERVICE AREA NO. 70 ZONE R – 40 – UPPER NORTH BAY LAKE ARROWHEAD
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June 30, 2017**

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Board of Supervisors
County of San Bernardino
County of San Bernardino Special
District County Service Area No. 70 Zone R – 40
– Upper North Bay Lake Arrowhead

Independent Auditors' Report

We have audited the accompanying financial statements of the governmental activities and governmental fund of the County of San Bernardino Special District County Service Area No. 70 Zone R – 40 – Upper North Bay Lake Arrowhead (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 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.



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Board of Supervisors
County of San Bernardino
County of San Bernardino Special
District County Service Area No. 70 Zone R – 40
– Upper North Bay Lake Arrowhead

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and governmental fund of the County of San Bernardino Special District County Service Area No. 70 Zone R – 40– Upper North Bay Lake Arrowhead as of June 30, 2017 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.

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 R – 40 – Upper North Bay Lake Arrowhead 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.

Eadie and Payne, LLP

November 22, 2017
Riverside, California

COUNTY OF SAN BERNARDINO SPECIAL DISTRICT
 County Service Area No. 70 - Zone R-40 - Upper North Bay Lake Arrowhead
 Statement of Net Position
 June 30, 2017

| | 2017 | For Comparative Purposes Only 2016 |
|-------------------------------------|------------------------------------|--|
| | <u>Govnenmental Activities</u> | <u>Govnenmental Activities</u> |
| ASSETS | | |
| Cash and investments | \$ 74,980 | \$ 63,815 |
| Interest receivable | 219 | 113 |
| Special assessments receivable | 750 | - |
| Capital assets, net of depreciation | <u>125,154</u> | <u>132,659</u> |
| Total Assets | <u>201,103</u> | <u>196,587</u> |
| LIABILITES | | |
| Due to other governments | <u>-</u> | <u>-</u> |
| Total Liabilities | <u>-</u> | <u>-</u> |
| NET POSITION | | |
| Net investment in capital assets | 125,154 | 132,659 |
| Restricted for road maintenance | <u>75,949</u> | <u>63,928</u> |
| Total Net Position | <u>\$ 201,103</u> | <u>\$ 196,587</u> |

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

COUNTY OF SAN BERNARDINO SPECIAL DISTRICT
 County Service Area No. 70 - Zone R-40 - Upper North Bay Lake Arrowhead
 Statement of Activities
 For the Year Ended June 30, 2017

| | 2017 | For Comparative Purposes Only 2016 |
|--|-----------------------------------|--|
| | <u>Govenmental Activities</u> | <u>Govenmental Activities</u> |
| Expenses | | |
| Salaries and benefits | \$ 3,192 | \$ 2,728 |
| Services and supplies | 2,662 | 29,680 |
| Depreciation | 7,505 | 7,505 |
| Total Expenses | <u>13,359</u> | <u>39,913</u> |
| Program Revenues | | |
| Charges for services | <u>17,500</u> | <u>17,250</u> |
| Net Program Revenue (Expense) | <u>4,141</u> | <u>(22,663)</u> |
| General Revenues | | |
| Other revenues | 58 | 36 |
| Investment earnings | <u>317</u> | <u>558</u> |
| Total general revenues | <u>375</u> | <u>594</u> |
| Change in net position | 4,516 | (22,069) |
| Net position at beginning of year | <u>196,587</u> | <u>218,656</u> |
| Net position at end of year | <u>\$ 201,103</u> | <u>\$ 196,587</u> |

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

COUNTY OF SAN BERNARDINO SPECIAL DISTRICT
 County Service Area No. 70 - Zone R-40 - Upper North Bay Lake Arrowhead
 Balance Sheet
 Governmental Fund
 June 30, 2017

| | 2017 | For Comparative Purposes Only 2016 |
|--|----------------------------|--|
| | SPECIAL REVENUE FUND | SPECIAL REVENUE FUND |
| | General | General |
| | (RGW) | (RGW) |
| Assets | | |
| Cash and investments | \$ 74,980 | \$ 63,815 |
| Interest receivable | 219 | 113 |
| Special assessments receivable | 750 | - |
| Total assets | <u>\$ 75,949</u> | <u>\$ 63,928</u> |
| Liabilities and Fund Balances | | |
| Due to other governments | \$ - | \$ - |
| Total Liabilities | <u>-</u> | <u>-</u> |
| Fund Balance: | | |
| Restricted for: | | |
| Road Maintenance | 75,949 | 63,928 |
| Total Fund Balance | <u>75,949</u> | <u>63,928</u> |
| Total Liabilities and Fund Balance | <u>\$ 75,949</u> | <u>\$ 63,928</u> |
| Reconciliation of balance sheet of governmental funds to statement of net position: | | |
| Total Fund Balance - Governmental Fund | \$ 75,949 | \$ 63,928 |
| Amounts reported for governmental activities in the statement of net position are different because: | | |
| Capital assets used in government activities are not financial resources and, therefore, are not reported in the fund. | | |
| Net capital assets | <u>125,154</u> | <u>132,659</u> |
| Net Position of Government Activities | <u>\$ 201,103</u> | <u>\$ 196,587</u> |

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

COUNTY OF SAN BERNARDINO SPECIAL DISTRICT
 County Service Area No. 70 - Zone R-40 - Upper North Bay Lake Arrowhead
 Statement of Revenues, Expenditures and Changes in Fund Balance
 Governmental Fund
 For the Year Ended June 30, 2017

| | 2017 | For Comparative Purposes Only 2016 |
|---------------------------------|----------------------------|--|
| | SPECIAL REVENUE FUND | SPECIAL REVENUE FUND |
| | General (RGW) | General (RGW) |
| Revenues | | |
| Special assessments | \$ 17,500 | \$ 17,250 |
| Other revenue | 58 | 36 |
| Investment earnings | 317 | 558 |
| Total Revenues | <u>17,875</u> | <u>17,844</u> |
| Expenditures | | |
| Salaries and benefits | 3,192 | 2,728 |
| Services and supplies | <u>2,662</u> | <u>29,680</u> |
| Total Expenditures | <u>5,854</u> | <u>32,408</u> |
| Net Change in Fund Balance | 12,021 | (14,564) |
| Fund Balance - beginning | <u>63,928</u> | <u>78,492</u> |
| Fund Balances - ending | <u><u>\$ 75,949</u></u> | <u><u>\$ 63,928</u></u> |

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

COUNTY OF SAN BERNARDINO SPECIAL DISTRICT
 County Service Area No. 70 - Zone R-40 - Upper North Bay Lake Arrowhead
 Reconciliation of the Statement of Revenues, Expenditures and Changes in
 Fund Balance of Governmental Funds to the Statement of Activities
 For the Year Ended June 30, 2017

| | 2017 | For Comparative Purposes Only 2016 |
|--|-----------|--|
| Net change in fund balances - total governmental funds | \$ 12,021 | \$ (14,564) |
| <p>Amounts reported for governmental activities in the Statement of Activities are different because:</p> <p style="margin-left: 40px;">Governmental funds report capital outlays as expenditures.</p> <p style="margin-left: 40px;">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 (\$7,505) exceeded capital outlay (-0-) in the current period.</p> | | |
| | (7,505) | (7,505) |
| Changes in net position of governmental activities | \$ 4,516 | \$ (22,069) |

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

COUNTY OF SAN BERNARDINO SPECIAL DISTRICT
COUNTY SERVICE AREA NO. 70 ZONE R – 40 – UPPER NORTH BAY LAKE ARROWHEAD
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of County Service Area No. 70, Improvement Zone R-40 – Upper North Bay Lake Arrowhead (CSA) 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, Improvement Zone R-40 was approved by the Board of Supervisors of the County of San Bernardino (the County) on March 20, 2001 to maintain approximately 0.5 miles of the paved upper north bay access road for residents in the Blue Jay area of Lake Arrowhead.

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-40 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, 2017.

Government-wide and fund financial statements

The government-wide financial statements (e.g., the statement of net position and the statement of activities) report information on all of the nonfiduciary 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 any proprietary or fiduciary fund types. Major individual governmental funds are reported as separate columns in the fund financial statements.

COUNTY OF SAN BERNARDINO SPECIAL DISTRICT
COUNTY SERVICE AREA NO. 70 ZONE R – 40 – UPPER NORTH BAY LAKE ARROWHEAD
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement focus, basis of accounting, and financial statement presentation

The government-wide 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.

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 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.

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

COUNTY OF SAN BERNARDINO SPECIAL DISTRICT
COUNTY SERVICE AREA NO. 70 ZONE R – 40 – UPPER NORTH BAY LAKE ARROWHEAD
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and investments

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

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 asset or materially extend assets' lives are not capitalized.

**COUNTY OF SAN BERNARDINO SPECIAL DISTRICT
COUNTY SERVICE AREA NO. 70 ZONE R – 40 – UPPER NORTH BAY LAKE ARROWHEAD
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital assets (continued)

Major outlays for capital assets and improvements are capitalized as projects are constructed. Property, plant and equipment of the government is depreciated using the straight-line method over the following estimated useful lives:

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

Fund equity

The CSA implemented 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.

COUNTY OF SAN BERNARDINO SPECIAL DISTRICT
COUNTY SERVICE AREA NO. 70 ZONE R – 40 – UPPER NORTH BAY LAKE ARROWHEAD
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund equity (continued)

- *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.

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.

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 capital 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.

**COUNTY OF SAN BERNARDINO SPECIAL DISTRICT
COUNTY SERVICE AREA NO. 70 ZONE R – 40 – UPPER NORTH BAY LAKE ARROWHEAD
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Stewardship, compliance and accountability (continued)

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 reappropriated and honored during the subsequent year.

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.

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 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.

COUNTY OF SAN BERNARDINO SPECIAL DISTRICT
COUNTY SERVICE AREA NO. 70 ZONE R – 40 – UPPER NORTH BAY LAKE ARROWHEAD
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Position Flow Assumption

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

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

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

NOTE 2: CASH AND INVESTMENTS

Cash and investments includes 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 R – 40 – UPPER NORTH BAY LAKE ARROWHEAD
NOTES TO THE 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: | | | | |
| Improvements to land | \$ 240,095 | \$ - | \$ - | \$ 240,095 |
| Total capital assets, being depreciated | <u>240,095</u> | <u>-</u> | <u>-</u> | <u>240,095</u> |
| Less accumulated depreciation for: | | | | |
| Improvements to land | (107,436) | (7,505) | - | (114,941) |
| Total accumulated depreciation | <u>(107,436)</u> | <u>(7,505)</u> | <u>-</u> | <u>(114,941)</u> |
| Total capital assets, being depreciated, net | <u>\$ 132,659</u> | <u>\$ (7,505)</u> | <u>\$ -</u> | <u>\$ 125,154</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 R – 40 – UPPER NORTH BAY LAKE ARROWHEAD
NOTES TO THE 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.

Required Supplementary Information
COUNTY OF SAN BERNARDINO SPECIAL DISTRICT
COUNTY SERVICE AREA NO. 70 - Zone R-40 - Upper North Bay Lake Arrowhead
Budgetary Comparison Schedule - Special Revenue Fund (General)
For the Year Ended June 30, 2017

| | SPECIAL REVENUE FUND | | | |
|----------------------------------|----------------------|-----------------|-----------|--|
| | General (RGW) | | | variance with |
| | Original Budget | Final Budget | Actual | Final Budget Positive (Negative) |
| Revenues | | | | |
| Special Assessments | \$ 17,750 | \$ 17,750 | \$ 17,500 | (250) |
| Other revenue | 220 | 220 | 58 | (162) |
| Investment earnings | 283 | 283 | 317 | 34 |
| Total revenues | 18,253 | 18,253 | 17,875 | (378) |
| Expenditures | | | | |
| Salaries and benefits | 3,192 | 3,192 | 3,192 | - |
| Services and supplies | 78,537 | 78,537 | 2,662 | 75,875 |
| Total Expenditures | 81,729 | 81,729 | 5,854 | 75,875 |
| Net Change in Fund Balance | \$ (63,476) | \$ (63,476) | 12,021 | \$ 75,497 |
| Fund balances - beginning | | | 63,928 | |
| Fund balances - ending | | | \$ 75,949 | |