

**COUNTY OF SAN BERNARDINO
SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 70
ZONE R-40 - UPPER NORTH BAY
LAKE ARROWHEAD**

FINANCIAL STATEMENTS

JUNE 30, 2011

**County of San Bernardino Special Districts
County Service Area No. 70
Zone R-40 - Upper North Bay Lake Arrowhead
Table of Contents**

	Exhibit	Page
INDEPENDENT ACCOUNTANT’S REVIEW REPORT		1 – 2
BASIC FINANCIAL STATEMENTS		
Government-Wide Financial Statements		
Statement of Net Assets	A	3
Statement of Activities	B	4
Fund Financial Statements		
Balance Sheet – Governmental Fund	C	5
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Fund	D	6
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Fund to the Statement of Activities	E	7
Notes to Financial Statements		8 – 18
Required Supplementary Information	Schedule	
Budgetary Comparison Schedule - Special Revenue Fund (General)	One	19



ROGERS, ANDERSON, MALODY & SCOTT, LLP
CERTIFIED PUBLIC ACCOUNTANTS, SINCE 1948

735 E. Carnegie Dr. Suite 100
San Bernardino, CA 92408
909 889 0871 T
909 889 5361 F
ramscpa.net

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

PARTNERS

Phillip H. Waller, CPA
Brenda L. Odle, CPA, MST
Terry P. Shea, CPA
Kirk A. Franks, CPA
Matthew B. Wilson, CPA, MSA
Scott W. Manno, CPA
Leena Shanbhag, CPA, MST
Jay H. Zercher, CPA (Retired)

MANAGERS / STAFF

Nancy O'Rafferty, CPA, MBA
Bradferd A. Welebir, CPA, MBA
Jenny Liu, CPA, MST
Katie L. Millsom, CPA
Papa Matar Thiaw, CPA, MBA
Maya S. Ivanova, CPA, MBA
Danielle E. Odgers, CPA
William C. Clayton, CPA
Scott Millsom, CPA
Peter E. Murray, CPA
Genivive Schwarzkopf, CPA
Megan Hackney, CPA

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

We have reviewed the accompanying financial statements of the governmental activities and the major fund of the County of San Bernardino Special District County Service Area No. 70 - Zone R-40 – Upper North Bay Lake Arrowhead (CSA) as of and for the year ended June 30, 2011, which collectively comprise the CSA's basic financial statements as listed in the table of contents. A review includes primarily applying analytical procedures to management's financial data and making inquiries of the management of the CSA. A review is substantially less in scope than an audit, the objective of which is the expression of opinions regarding the financial statements as a whole. Accordingly, we do not express such opinions.

The management of the CSA is responsible for the preparation and fair presentation of the financial statements, in accordance with the accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct a review in accordance with Statements of Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

During the year under review, the CSA adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

MEMBERS

American Institute of
Certified Public Accountants

*PCPS The AICPA Alliance
for CPA Firms*

*Governmental Audit
Quality Center*

California Society of
Certified Public Accountants

Our review was made primarily for the purpose of expressing a conclusion that there are no material modifications that should be made to the financial statements for them to be in conformity with accounting principles generally accepted in the United States of America. The budgetary comparison information on page 19 is presented for purposes of additional analysis. Such information, although not a required 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 and for placing the basic financial statements in an appropriate operational, economic, or historical context. The supplementary information has not been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, but was compiled from information that is the representation of management. We have not audited or reviewed the supplementary information and accordingly, we do not express opinions or provide any assurance on such supplementary information.

Management has omitted the management's discussion and analysis information that is required to be presented for purposes of additional analysis. 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.

Rogers Anderson Malody & Scott, LLP

November 30, 2011

County of San Bernardino Special Districts
County Service Area No. 70 - Zone R-40 - Upper North Bay Lake Arrowhead
Statement of Net Assets
June 30, 2011

ASSETS

Cash and cash equivalents	\$ 31,852
Interest receivable	70
Special assessment receivable	250
Capital assets, net of depreciation	<u>170,182</u>

Total Assets	<u>202,354</u>
--------------	----------------

LIABILITIES

	<u>-</u>
--	----------

NET ASSETS

Invested in capital assets	170,182
Unrestricted	<u>32,172</u>

Total Net Assets	<u><u>\$ 202,354</u></u>
------------------	--------------------------

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

County of San Bernardino Special Districts
County Service Area No. 70 - Zone R-40 - Upper North Bay Lake Arrowhead
Statement of Activities
For the Year Ended June 30, 2011

EXPENSES

Salaries and benefits	\$ 5,860
Services and supplies	8,630
Depreciation	7,505
Total Program Expenses	<u>21,995</u>

PROGRAM REVENUES

Charges for services	<u>16,499</u>
Net Program Expense	<u>(5,496)</u>

GENERAL REVENUES

Property taxes	140
Investment earnings	293
Total General Revenues	<u>433</u>

Change in Net Assets (5,063)

Net Assets - beginning 207,417

Net Assets - ending \$ 202,354

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

County of San Bernardino Special Districts
County Service Area No. 70 - Zone R-40 - Upper North Bay Lake Arrowhead
Balance Sheet
Governmental Fund
June 30, 2011

	SPECIAL REVENUE FUND <hr/> General (RGW) <hr/>
ASSETS	
Cash and cash equivalents	\$ 31,852
Interest receivable	70
Special assessments receivable	250
Total Assets	<u>\$ 32,172</u>
LIABILITIES AND FUND BALANCE	
Liabilities	<u>\$ -</u>
Fund Balance:	
Restricted for:	
Road maintenance	<u>32,172</u>
Total Fund Balance	<u>32,172</u>
Total Liabilities and Fund Balance	<u>\$ 32,172</u>
Total Fund Balance - Governmental Fund	\$ 32,172
Amounts reported for <i>governmental activities</i> in the statement of net assets (Exhibit "A") are different because:	
Capital assets used in <i>governmental activities</i> are not financial resources and, therefore, are not reported in the fund.	<u>170,182</u>
Net Assets of Governmental Activities	<u>\$ 202,354</u>

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

County of San Bernardino Special Districts
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, 2011

	SPECIAL REVENUE FUND
	General (RGW)
REVENUES	
Property taxes	\$ 140
Special assessments	16,499
Investment earnings	293
	16,932
EXPENDITURES	
Salaries and benefits	5,860
Services and supplies	8,630
	14,490
Net Change in Fund Balance	2,442
Fund Balance - beginning	29,730
Fund Balance - ending	\$ 32,172

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

County of San Bernardino Special Districts
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 Fund to the
Statement of Activities
For the Year Ended June 30, 2011

Net Change in Fund Balance - Total Governmental Fund	\$	2,442
--	----	-------

Amounts reported for *governmental activities* in the statement of activities are different because:

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 (\$7,505) exceeded capital outlay (\$-0-) in the current period.

		<u>(7,505)</u>
Change in Net Assets of Governmental Activities	\$	<u><u>(5,063)</u></u>

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

County of San Bernardino Special Districts
County Service Area No. 70 - Zone R-40 - Upper North Bay Lake Arrowhead
Notes to Financial Statements
June 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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, 2011.

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 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 Districts
County Service Area No. 70 - Zone R-40 - Upper North Bay Lake Arrowhead
Notes to Financial Statements
June 30, 2011

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 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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone R-40 - Upper North Bay Lake Arrowhead
Notes to Financial Statements
June 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Deposits 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.

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.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone R-40 - Upper North Bay Lake Arrowhead
Notes to Financial Statements
June 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

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
Structures and improvements	5 - 40
Equipment and vehicles	4 - 15

Fund equity

Beginning with the current fiscal year, 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.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone R-40 - Upper North Bay Lake Arrowhead
Notes to Financial Statements
June 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- *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.

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.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone R-40 - Upper North Bay Lake Arrowhead
Notes to Financial Statements
June 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 reappropriated and honored during the subsequent year.

NOTE 2: CASH AND DEPOSITS

Cash and cash equivalents includes the cash balance 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 cash equivalents are shown at the fair value as of June 30, 2011.

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.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone R-40 - Upper North Bay Lake Arrowhead
Notes to Financial Statements
June 30, 2011

NOTE 3: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011 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	240,095	-	-	240,095
Less accumulated depreciation for:				
Improvements to land	(62,408)	(7,505)	-	(69,913)
Total accumulated depreciation	(62,408)	(7,505)	-	(69,913)
Total capital assets, being depreciated, net	<u>\$ 177,687</u>	<u>\$ (7,505)</u>	<u>\$ -</u>	<u>\$ 170,182</u>

NOTE 4: RETIREMENT PLAN

Plan description

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the Plan) operating under the California County Employees' Retirement Act of 1937 (1937 Act). It provides retirement, death and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, California State Association of Counties, South Coast Air Quality Management District (SCAQMD), San Bernardino Associated Governments (SANBAG), Local Agency Formation Commission (LAFCO), San Bernardino County Law Library, Barstow Fire Protection District, Hesperia Recreation and Park District, SBCERA, City of Chino Hills, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (MDAQMD), California Electronic Recording Transaction Network Authority (CERTNA), Inland Valley Development Agency (IVDA), San Bernardino International Airport Authority (SBIAA), the San Bernardino County Superior Court, Inland Library System (ILS), Rim of the World Recreation and Park District (RIM-REC) and Crestline Sanitation District were later included, along with the County, and are collectively referred to as the "Participating Members." The Plan is governed by the SBCERA Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years of service credit. 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.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone R-40 - Upper North Bay Lake Arrowhead
Notes to Financial Statements
June 30, 2011

NOTE 4: RETIREMENT PLAN (continued)

Fiduciary responsibility

SBCERA is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. SBCERA publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. SBCERA is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes SBCERA pension trust fund as of June 30, 2011.

Funding policy

Participating members are required by statute (Sections 31621.6 and 31639.25 of the California Government Code) to contribute a percentage of covered salary based on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). General members are required to contribute 7.42% - 12.96% and safety members 9.54% - 15.32% of their annual covered salaries, of which the County pays approximately 7%. County of San Bernardino employer contribution rates are as follows: County General 12.32%, County Safety 26.82%. All employers combined are required to contribute 15.4% of the current year covered payroll. For 2011, the County's annual pension cost of \$213,311,000 was equal to the County's required and actual contributions. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 and 31454 of the 1937 Act.

The County's annual pension cost and prepaid asset, computed in accordance with GASB Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, for the year ended June 30, 2011, were as follows (in thousands):

Annual Required Contribution (County fiscal year basis)	\$ 213,311
Interest on Pension Assets	(2,331)
Adjustment to the Annual Required Contribution	<u>24,585</u>
Annual Pension Cost	235,565
Annual Contributions Made	<u>213,311</u>
Increase/(Decrease) in Pension Assets	(22,254)
Pension Assets, Beginning of Year	741,388
Pension Assets, End of Year	<u><u>\$ 719,134</u></u>

County of San Bernardino Special Districts
County Service Area No. 70 - Zone R-40 - Upper North Bay Lake Arrowhead
Notes to Financial Statements
June 30, 2011

NOTE 4: RETIREMENT PLAN (continued)

The following table shows the County's required contributions and percentage contributed for the current year and two preceding years:

Year Ended June 30,	Annual Contributions Made (in thousands)		Percentage Contributed
	SBCERA	County	
2009	\$ 246,232	\$ 200,300	100%
2010	243,773	197,097	100%
2011	258,128	213,311	100%

The County, along with the SCAQMD, issued Pension Refunding Bonds (the Bonds) in November 1995 with an aggregate amount of \$420,527,000. These Bonds were issued to allow the County and the SCAQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266,000. The outstanding liability at June 30, 2011 is \$414,041,000.

On June 24, 2004, the County issued its County of San Bernardino Pension Obligation Bonds, Series 2004 A (Fixed Rate Bonds), its County of San Bernardino Pension Obligation Bonds, Series 2004 B (Auction Rate Bonds), and its County of San Bernardino Pension Obligation Bonds, Series 2004 C (Index Bonds) in respective aggregate principal amounts of \$189,070,000, \$149,825,000, and \$125,000,000. The Bonds were issued to finance the County's share of the unfunded accrued actuarial liability of the SBCERA. In April 2008, the County refunded all of the 2004 Series B. The outstanding liability at June 30, 2011 is \$285,270,000.

In April 2008, the County of San Bernardino issued its \$160,900,000 in Pension Obligation Refunding Bonds (POB), Series 2008 (the Series 2008 Bonds). The outstanding liability at June 30, 2011 is \$157,735,000.

NOTE 5: FEDERAL AND STATE GRANTS

From time to time, the CSA 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.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone R-40 - Upper North Bay Lake Arrowhead
Notes to Financial Statements
June 30, 2011

NOTE 6: 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 \$2.5 million per occurrence. Excess insurance coverage over the Self-Insured Retention (SIR) up to \$100 million is provided through a combination of insurance policies as recommended by AON Risk Services, Broker of Record, as follows: Primary Liability coverage of \$25 million excess of \$2.5 million SIR with CV Starr/Everest; Excess Liability coverage of \$10 million, excess of \$25 million with Allied World Assurance Company (AWAC); and Excess Liability coverage of \$15 million, excess of \$35 million with Great American Insurance Company of New York. In addition, Ironshore Specialty Ins. Co. provides excess liability coverage of \$10 million, excess of \$50 million; Allied World National Ins. Co. provides \$15 million, excess of \$60 million; and Arch Insurance Co. provides \$25 million in excess of \$75 million. Workers' compensation claims are self-insured up to \$5 million per occurrence, and covered by Arch Ins. Co. for up to \$3 million for employer's liability, and up to statutory limits for workers' compensation per occurrence. Property damage claims are insured on an occurrence basis over a \$25 thousand deductible, and insured with several insurers like Lexington Ins. Co., Affiliated FM, and Lloyd's of London, among others.

The County supplements its self-insurance for medical malpractice claims with a \$10 million policy with Illinois Union Ins. Co., which provides annual coverage on a per claim basis with an SIR of \$2 million for each claim. Additional coverage of \$15 million, excess of \$10 million is provided by Steadfast Ins. Co. All public officials and County employees are insured under a blanket Comprehensive Disappearance, Destruction, and Dishonesty policy covering County monies and securities, with National Union Fire Ins. Co. of Pittsburgh with a \$100 thousand deductible, and excess limits up to \$10 million per occurrence.

The activities related to such programs are accounted for in Risk Management except for unemployment insurance, and employee dental insurance, which are accounted for in the General Fund. The IBNR (Incurred But Not Reported) and IBNS (Incurred But Not Settled) liabilities stated on Risk Management's balance sheet are based upon 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 1.17%. It is Risk Management's practice to obtain actuarial studies on an annual basis.

The total claims liability of \$151 million reported at June 30, 2011 is based on the requirements of GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements, and the amount of the loss can be reasonably estimated.

County of San Bernardino Special Districts
County Service Area No. 70 - Zone R-40 - Upper North Bay Lake Arrowhead
Notes to Financial Statements
June 30, 2011

NOTE 6: RISK MANAGEMENT (continued)

Changes in the claims liability amount in fiscal years 2010 and 2011 were:

Fiscal Year	Beginning of Fiscal Year Liability (in thousands)	Current Year Claims and Changes in Estimates (in thousands)	Claims Payments (in thousands)	End of Fiscal Year Liability (in thousands)
2009-10	\$ 149,941	\$ 40,453	\$ (45,000)	\$ 145,394
2010-11	\$ 145,394	\$ 48,900	\$ (43,343)	\$ 150,951

NOTE 7: CONTINGENCIES

As of June 30, 2011, in the opinion of the CSA Administration, there are no outstanding matters, which would have a significant effect on the financial position of the CSA.

NOTE 8: PROPOSITION 111 APPROPRIATION LIMITS

Proposition 111, which added Article XIIB to the State Constitution, established limited on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the CSA during the 2010-2011 fiscal year, and have found the revenue to be within the guidelines established by proposition 111.

NOTE 9: SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 30, 2011, 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-40 - Upper North Bay Lake Arrowhead
Budgetary Comparison Schedule - Special Revenue Fund (General)
For the Year Ended June 30, 2011

	Special Revenue Fund			Variance with Final Budget Positive (Negative)
	General (RGW)			
	Original Budget	Final Budget	Actual	
REVENUES				
Property taxes	\$ 73	\$ 140	\$ 140	\$ -
Special assessments	15,999	16,510	16,499	(11)
Investment earnings	400	242	293	51
Total Revenues	<u>16,472</u>	<u>16,892</u>	<u>16,932</u>	<u>40</u>
EXPENDITURES				
Salaries and benefits	5,860	5,860	5,860	-
Services and supplies	23,788	8,630	8,630	-
Reserves and contingencies	16,554	32,132	-	32,132
Total Expenditures	<u>46,202</u>	<u>46,622</u>	<u>14,490</u>	<u>32,132</u>
Net Change in Fund Balance	<u>\$ (29,730)</u>	<u>\$ (29,730)</u>	2,442	<u>\$ 32,172</u>
Fund Balance - beginning			<u>29,730</u>	
Fund Balance - ending			<u>\$ 32,172</u>	