

**COUNTY OF SAN BERNARDINO  
SPECIAL DISTRICTS  
COUNTY SERVICE AREA No. 70  
IMPROVEMENT ZONE GH**

**REPORT ON AUDIT**

**JUNE 30, 2011**

**County of San Bernardino Special Districts  
County Service Area No. 70  
Improvement Zone GH  
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District County Service Area  
No. 70 - Improvement Zone GH

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the County of San Bernardino Special District County Service Area No. 70 - Improvement Zone GH (CSA), a component unit of the County of San Bernardino, 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. These financial statements are the responsibility of the CSA's management. 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 State Controller's Minimum Audit Requirement for California Special Districts. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the County of San Bernardino Special District County Service Area No. 70 - Improvement Zone GH, as of June 30, 2011 and the respective changes in financial position, and cash flows thereof for the year then ended in conformity 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.

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

Management has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires 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 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.

*Rogers Anderson Maloney & Scott, LLP*

November 30, 2011

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Improvement Zone GH**  
**Statement of Net Assets**  
**June 30, 2011**

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents	\$ 327,783	\$ 1,235,322	\$ 1,563,105
Accounts receivable, net	-	28,326	28,326
Interest receivable	639	2,872	3,511
Special assessments receivable	484	240	724
Other receivables	-	604,078	604,078
Due from other governments	-	23,402	23,402
Capital assets, net of depreciation	3,656,945	2,731,339	6,388,284
Total Assets	<u>3,985,851</u>	<u>4,625,579</u>	<u>8,611,430</u>
<b>LIABILITIES</b>			
Accounts payable	6,829	6,680	13,509
Due to other governments	-	95	95
Customer deposits	-	1,500	1,500
Total Liabilities	<u>6,829</u>	<u>8,275</u>	<u>15,104</u>
<b>NET ASSETS</b>			
Invested in capital assets	3,656,945	2,731,339	6,388,284
Unrestricted	322,077	1,885,965	2,208,042
Total Net Assets	<u>\$ 3,979,022</u>	<u>\$ 4,617,304</u>	<u>\$ 8,596,326</u>

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

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Improvement Zone GH**  
**Statement of Activities**  
**For the Year Ended June 30, 2011**

	Governmental Activities	Business-type Activities	Total
<b>PROGRAM EXPENSES</b>			
Professional fees	\$ -	\$ 17,116	\$ 17,116
Salaries and benefits	3,236	320,538	323,774
Services and supplies	68,610	171,083	239,693
Utilities	-	95,477	95,477
Depreciation	42,486	18,773	61,259
Total Program Expenses	<u>114,332</u>	<u>622,987</u>	<u>737,319</u>
<b>PROGRAM REVENUES</b>			
Charges for services	<u>56,380</u>	<u>217,720</u>	<u>274,100</u>
Net Program Expense	<u>(57,952)</u>	<u>(405,267)</u>	<u>(463,219)</u>
<b>GENERAL REVENUES</b>			
Property taxes	53	-	53
Special assessments	-	3,407	3,407
Investment earnings	2,810	13,405	16,215
Penalties	-	2,789	2,789
Contributions from private sources	299,431	604,078	903,509
Other	-	5,365	5,365
Total General Revenues	<u>302,294</u>	<u>629,044</u>	<u>931,338</u>
Change in Net Assets	244,342	223,777	468,119
<b>Net Assets - beginning</b>	<u>3,734,680</u>	<u>4,393,527</u>	<u>8,128,207</u>
<b>Net Assets - ending</b>	<u>\$ 3,979,022</u>	<u>\$ 4,617,304</u>	<u>\$ 8,596,326</u>

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

**County of San Bernardino Special Districts  
County Service Area No. 70 - Improvement Zone GH  
Balance Sheet  
Governmental Funds  
June 30, 2011**

	SPECIAL REVENUE FUNDS		Total Governmental Funds
	Streetlighting (RWX)	Detention Basin (CXI)	
<b>ASSETS</b>			
Cash and cash equivalents	\$ 13,688	\$ 314,095	\$ 327,783
Interest receivable	-	639	639
Special assessments receivable	304	180	484
Total Assets	<u>\$ 13,992</u>	<u>\$ 314,914</u>	<u>\$ 328,906</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	<u>\$ 6,829</u>	<u>\$ -</u>	<u>\$ 6,829</u>
Total Liabilities	<u>6,829</u>	<u>-</u>	<u>6,829</u>
Fund Balances:			
Restricted for:			
Streetlighting	7,163	-	7,163
Detention Basin	-	314,914	314,914
Total Fund Balances	<u>7,163</u>	<u>314,914</u>	<u>322,077</u>
Total Liabilities and Fund Balances	<u>\$ 13,992</u>	<u>\$ 314,914</u>	

Amounts reported for *governmental activities* in the statement of net assets (Exhibit "A") are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

3,656,945

Net Assets of Governmental Activities

\$ 3,979,022

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

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Improvement Zone GH**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2011**

	SPECIAL REVENUE FUNDS		Total Governmental Funds
	Streetlighting (RWX)	Detention Basin (CXI)	
<b>REVENUES</b>			
Property taxes	\$ 29	\$ 24	\$ 53
Special assessments	29,108	27,272	56,380
Investment earnings	66	2,744	2,810
Total Revenues	<u>29,203</u>	<u>30,040</u>	<u>59,243</u>
<b>EXPENDITURES</b>			
Salaries and benefits	1,425	1,811	3,236
Services and supplies	50,565	18,045	68,610
Total Expenditures	<u>51,990</u>	<u>19,856</u>	<u>71,846</u>
Net Change in Fund Balances	(22,787)	10,184	(12,603)
<b>Fund Balances - beginning</b>	<u>29,950</u>	<u>304,730</u>	<u>334,680</u>
<b>Fund Balances - ending</b>	<u><u>\$ 7,163</u></u>	<u><u>\$ 314,914</u></u>	<u><u>\$ 322,077</u></u>

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



**County of San Bernardino Special Districts  
County Service Area No. 70 - Improvement Zone GH  
Reconciliation of Statement of Revenues, Expenditures, and  
Changes in Fund Balances of Governmental Funds to the  
Statement of Activities  
For the Year Ended June 30, 2011**

Net Change in Fund Balances - Total Governmental Funds	\$	(12,603)
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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 (\$42,486) exceeded capital outlay (\$-0-) in the current period.		(42,486)
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Capital assets transferred to and from other private sources are not financial resources and, therefore, are not reported in the governmental funds.		<u>299,431</u>
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Change in Net Assets of Governmental Activities	\$	<u><u>244,342</u></u>
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The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Improvement Zone GH**  
**Statement of Net Assets**  
**Proprietary Fund**  
**June 30, 2011**

	<u>Business-type Activities</u>
<b>ASSETS</b>	
Current Assets:	
Cash and cash equivalents	\$ 1,235,322
Accounts receivable, net	28,326
Interest receivable	2,872
Special assessment receivable	240
Other receivables	604,078
Due from other governments	23,402
Total Current Assets	<u>1,894,240</u>
Noncurrent Assets:	
Capital assets:	
Improvements to land	448,841
Construction in progress	2,346,534
Accumulated depreciation	<u>(64,036)</u>
Total Noncurrent Assets	<u>2,731,339</u>
Total Assets	<u>4,625,579</u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	6,680
Due to other governments	95
Customer deposits	<u>1,500</u>
Total Current Liabilities	<u>8,275</u>
Total Liabilities	<u>8,275</u>
<b>NET ASSETS</b>	
Invested in capital assets	2,731,339
Unrestricted	<u>1,885,965</u>
Total Net Assets	<u><u>\$ 4,617,304</u></u>

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

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Improvement Zone GH**  
**Statement of Revenues, Expenses, and Change in Net Assets**  
**Proprietary Fund**  
**For the Year Ended June 30, 2011**

	<u>Business-type Activities</u>
<b>OPERATING REVENUES</b>	
Service fees	\$ 145,065
Other services	72,655
Total Operating Revenues	<u>217,720</u>
<b>OPERATING EXPENSES</b>	
Professional services	17,116
Salaries and benefits	320,538
Services and supplies	171,083
Utilities	95,477
Depreciation	18,773
Total Operating Expenses	<u>622,987</u>
Operating Loss	<u>(405,267)</u>
<b>NONOPERATING REVENUES</b>	
Investment earnings	13,405
Special assessments	3,407
Penalties	2,789
Contributions from private sources	604,078
Other	5,365
Total Nonoperating Revenues	<u>629,044</u>
Change in Net Assets	223,777
<b>Net Assets - beginning</b>	<u>4,393,527</u>
<b>Net Assets - ending</b>	<u><u>\$ 4,617,304</u></u>

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

**County of San Bernardino Special Districts  
County Service Area No. 70 - Improvement Zone GH  
Statement of Cash Flows  
For the Year Ended June 30, 2011**

	<u>Business-type Activities</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers	\$ 195,616
Payments to suppliers	(280,357)
Payments to employees	(320,538)
Net Cash Used for Operating Activities	<u>(405,279)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Special assessments	3,167
Penalties	2,789
Other nonoperating revenues	5,365
Net Cash Provided by Noncapital Financing Activities	<u>11,321</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Acquisition of capital asset	(144,776)
Net Cash Used for Capital and Related Financing Activities	<u>(144,776)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Investment earnings	16,041
Net Cash Provided by Investing Activities	<u>16,041</u>
Net Decrease in Cash and Cash Equivalents	(522,693)
<b>Cash and Cash Equivalents - beginning of the year</b>	<u>1,758,015</u>
<b>Cash and Cash Equivalents - end of the year</b>	<u><u>\$ 1,235,322</u></u>

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

**County of San Bernardino Special Districts  
County Service Area No. 70 - Improvement Zone GH  
Statement of Cash Flows  
For the Year Ended June 30, 2011**

	Business-type Activities
<b>Reconciliation of operating loss to net cash used for operating activities:</b>	
Operating loss	\$ (405,267)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation expense	18,773
Change in assets and liabilities:	
Increase in receivables, net	(8,055)
Increase in due from other governments	(14,049)
Increase in accounts payable	6,680
Decrease in due to other governments	(3,361)
<b>Net Cash Used for Operating Activities</b>	<b>\$ (405,279)</b>

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

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Improvement Zone GH**  
**Notes to Financial Statements**  
**June 30, 2011**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Reporting entity**

The County Service Area (CSA) No. 70 - Improvement Zone GH was established by an act of the Board of Supervisors of the County of San Bernardino (the County) on July 12, 2005 to provide park and recreation, sanitation, and streetlight services to the Glen Helen area. The CSA provides sanitation services to the San Bernardino Sheriff's Department Detention facility as well as a Master Planned community currently in development. The CSA provides sewer service to 217 Equivalent Dwelling Units (EDUs).

The CSA is a component unit of the County of San Bernardino and is governed by the actions of the County Board of Supervisors.

The accompanying financial statements reflect only the accounts of the County Service Area No. 70 Improvement Zone GH 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 Activities) report information on all of the nonfiduciary activities of the reporting entity. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. *Governmental activities* normally are supported by taxes and intergovernmental revenues.

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. 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.

**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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Improvement Zone GH**  
**Notes to Financial Statements**  
**June 30, 2011**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. However, for revenue derived from voluntary non-exchange transactions, such as federal and state grants, the County expanded its definition of "available" to 9 months. 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 CSA reports the following major governmental funds:

The *special revenue fund* labeled "Streetlighting" accounts for all financial resources of the general government related to streetlight services.

The *special revenue fund* labeled "Detention Basin" accounts for all financial resources of the general government related to detention basin services.

The government reports the following major proprietary fund:

The *enterprise fund* accounts for sewer activities of the CSA.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

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.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Improvement Zone GH**  
**Notes to Financial Statements**  
**June 30, 2011**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

**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.

**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.

**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 and business-type activities are reported in the government-wide financial statements as "internal balances."

No allowance for uncollectibles was recorded at June 30, 2011. This is based on management's expectation that all accounts receivable will be collected through the property tax roll.

**Inventories and prepaid items**

Inventories, if any, are valued at cost using the first-in/first-out method.

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



**County of San Bernardino Special Districts  
County Service Area No. 70 - Improvement Zone GH  
Notes to Financial Statements  
June 30, 2011**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Capital assets**

Capital assets, which include property, plant, and equipment are reported in the 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
Structures and improvements	5 - 40
Equipment and vehicles	4 - 15

**Long-term obligations**

Long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. 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 reported as deferred charges and amortized over the term of the related debt.

**Net assets**

Net assets comprise the various net earnings from operating and nonoperating revenues, expenses and contribution of capital. Net assets are classified in the following three components:

*Invested in capital assets, net of related debt* -This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Improvement Zone GH**  
**Notes to Financial Statements**  
**June 30, 2011**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*Restricted* -This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors, grantors, contributors, or laws or regulations, of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

*Unrestricted* -This component of net assets consist of net assets of the CSA that are not restricted for any project or other purpose.

**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.
- *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 Districts**  
**County Service Area No. 70 - Improvement Zone GH**  
**Notes to Financial Statements**  
**June 30, 2011**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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 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.

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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.

NOTE 3: RECEIVABLES

At June 30, 2011, the accounts receivable was composed of the following:

	Enterprise Fund
Accounts receivable	\$ 28,326
Less: allowance for uncollectibles	-
Total accounts receivable, net	\$ 28,326

At June 30, 2011, the other receivable was composed of the following:

	Enterprise Fund
Fair-share contribution agreement receivable	\$ 604,078

**County of San Bernardino Special Districts  
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NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Easements	\$ 2,000,000	\$ -	\$ -	\$ 2,000,000
Total capital assets, not being depreciated	<u>2,000,000</u>	<u>-</u>	<u>-</u>	<u>2,000,000</u>
Capital assets, being depreciated:				
Structures and improvements	1,400,000	-	(1,400,000)	-
Infrastructure	-	1,699,431		1,699,431
Total capital assets, being depreciated	<u>1,400,000</u>	<u>1,699,431</u>	<u>(1,400,000)</u>	<u>1,699,431</u>
Less accumulated depreciation for:				
Infrastructure	-	(42,486)		(42,486)
Total accumulated depreciation	<u>-</u>	<u>(42,486)</u>	<u>-</u>	<u>(42,486)</u>
Total capital assets, being depreciated, net	<u>1,400,000</u>	<u>1,656,945</u>	<u>(1,400,000)</u>	<u>1,656,945</u>
Governmental activities capital assets	<u>\$ 3,400,000</u>	<u>\$ 1,656,945</u>	<u>\$ (1,400,000)</u>	<u>\$ 3,656,945</u>

**County of San Bernardino Special Districts  
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Notes to Financial Statements  
June 30, 2011**

NOTE 4: CAPITAL ASSETS (continued)

	Beginning Balance	Additions	Deletions	Ending Balance
<b>Business-type activities:</b>				
Capital assets, not being depreciated:				
Construction in progress	\$ 2,201,758	\$ 144,776	\$ -	\$ 2,346,534
Total capital assets, not being depreciated	<u>2,201,758</u>	<u>144,776</u>	<u>-</u>	<u>2,346,534</u>
Capital assets, being depreciated:				
Improvements to land	448,841	-	-	448,841
Total capital assets, being depreciated	<u>448,841</u>	<u>-</u>	<u>-</u>	<u>448,841</u>
Less accumulated depreciation for:				
Improvements to land	(45,263)	(18,773)	-	(64,036)
Total accumulated depreciation	<u>(45,263)</u>	<u>(18,773)</u>	<u>-</u>	<u>(64,036)</u>
Total capital assets, being depreciated, net	<u>403,578</u>	<u>(18,773)</u>	<u>-</u>	<u>384,805</u>
Business-type activities capital assets, net	<u>\$ 2,605,336</u>	<u>\$ 126,003</u>	<u>\$ -</u>	<u>\$ 2,731,339</u>

NOTE 5: LAND EASEMENT SALE CONTRACT

On January 8, 2008, the CSA and the County of San Bernardino entered into a Land Easement Sale Contract. The contract conveyed an easement over 10.2 acres of County-owned property to the CSA for the construction, operation, and maintenance of detention basins. The contract required the CSA to purchase the easement by making a one-time lump sum payment of \$2 million to the County. If the detention basins are constructed but the easement ceases to be used for the detention basins for a period of one year or more, the County shall have the power to terminate this Agreement and the Deed given under this Agreement. A private development company agreed to contribute the \$2 million needed by the CSA for the purchase of the easement (See Note 6).

**County of San Bernardino Special Districts**  
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**Notes to Financial Statements**  
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**NOTE 6:        DETENTION BASIN AGREEMENT**

On January 8, 2008, the CSA and a private development company (Company) entered into a Detention Basin Agreement. The Company is responsible for the construction of detention basins for the purpose of collecting storm runoff in the Lytle Creek North Planned Development Project. The agreement requires the Company to pay the CSA \$2 million for the right to construct and use the basins on the CSA's Easement Property (See Note 5). When construction is complete, ownership will be transferred to the CSA which will be responsible for maintaining and monitoring the basins' operations. Additionally, the Company has paid an additional \$250,000 to the CSA for the cost to operate and maintain the basins for approximately the first two years after completion. Both the \$2 million and the \$250,000 were received during Fiscal Year 2008. During Fiscal Year 2009, the \$250,000 paid by the Company was transferred from the business-type activity to the governmental activity. On April 22, 2010, the CSA took ownership of the detention basins.

**NOTE 7:        WASTEWATER SYSTEM AGREEMENT**

On August 24, 2004, the CSA and a private development company (Company) entered into a Wastewater System Agreement. The Company is responsible for the construction of a Waste Water Treatment Plant to serve the Lytle Creek North Planned Development Project, the San Bernardino County Sheriff's detention facility, and future expansion within the CSA. When construction is complete and final acceptance is granted by Special Districts Department on behalf of the CSA, ownership will be transferred to the CSA which will be responsible for maintaining and monitoring the Waste Water Treatment Plant. On July 25, 2006, the Special Districts Department issued preliminary acceptance, which transferred possession of the Waste Water Treatment Plant, but not ownership, to the CSA. As of June 30, 2011, final acceptance has not been granted; thus ownership has not transferred to the CSA.

**County of San Bernardino Special Districts  
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Notes to Financial Statements  
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**NOTE 8: FAIR-SHARE CONTRIBUTION AGREEMENT**

On April 19, 2005, the CSA and a private development company (Company) entered into a Fair-Share Contribution Agreement. The Company is required to pay an annual fair-share contribution to mitigate operating cost deficits in connection with the operation and maintenance of the Waste Water Treatment Plant and all related appurtenances and facilities including the trunk sewer and effluent treatment ponds, and the Lytle North Sewer Collection Systems commencing upon 'Final Acceptance' of the Waste Water Treatment Plant by the Special Districts Department and continues until either the certificates of occupancy have been issued for residences and other buildings constituting at least 2,093 equivalent dwelling units or until such time as there has been no operating cost deficit for two consecutive fiscal years. The Company is required to make this contribution annually for each fiscal year and shall be in an amount equal to the amount, if any, by which the sum of 88% of the Waste Water Treatment Costs plus 100% of the Lytle North Sewer Collection System Costs exceeds user fee revenues. During fiscal year 2011, the CSA recorded revenues of \$604,078 from the Company, which were still receivable as of June 30, 2011. In addition, the San Bernardino County Sheriff's Department is required to pay 12% of the Waste Water Treatment Plant Costs and 100% of the pretreatment costs in consideration of the sewer services provided for the County Sheriff's facilities serviced by the Waste Water Treatment Plant.

**NOTE 9: 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  
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Notes to Financial Statements  
June 30, 2011**

NOTE 9: 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	<u>741,388</u>
Pension Assets, End of Year	<u><u>\$ 719,134</u></u>

**County of San Bernardino Special Districts  
County Service Area No. 70 - Improvement Zone GH  
Notes to Financial Statements  
June 30, 2011**

NOTE 9: 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 10: 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 - Improvement Zone GH**  
**Notes to Financial Statements**  
**June 30, 2011**

NOTE 11: 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 - Improvement Zone GH  
Notes to Financial Statements  
June 30, 2011**

NOTE 11: RISK MANAGEMENT (continued)

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

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

NOTE 12: 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 13: 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.

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**County of San Bernardino Special Districts  
County Service Area No. 70 - Improvement Zone GH  
Budgetary Comparison Schedule  
Special Revenue (Streetlighting and Detention Basin)  
For the Year Ended June 30, 2011**

	Special Revenue Fund			Variance with Final Budget Positive (Negative)
	Streetlighting (RWX)			
	Original Budget	Final Budget	Actual	
<b>REVENUES</b>				
Property taxes	\$ 286	\$ 18	\$ 29	\$ 11
Special assessments	24,177	24,177	29,108	4,931
Investment earnings	850	150	66	(84)
Other services	-	4,943	-	(4,943)
Contributions/donations	25,000	-	-	-
<b>Total Revenues</b>	<u>50,313</u>	<u>29,288</u>	<u>29,203</u>	<u>(85)</u>
<b>EXPENDITURES</b>				
Salaries and benefits	1,925	925	1,425	(500)
Services and supplies	68,436	51,065	50,565	500
Reserves and contingencies	9,901	7,247	-	7,247
<b>Total Expenditures</b>	<u>80,262</u>	<u>59,237</u>	<u>51,990</u>	<u>7,247</u>
<b>Net Change in Fund Balances</b>	<u>\$ (29,949)</u>	<u>\$ (29,949)</u>	(22,787)	<u>\$ 7,162</u>
<b>Fund Balances - beginning</b>			<u>29,950</u>	
<b>Fund Balances - ending</b>			<u>\$ 7,163</u>	

Special Revenue Fund			
Detention Basin (CXI)			
Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
\$ -	\$ -	\$ 24	\$ 24
26,000	26,000	27,272	1,272
4,250	4,250	2,744	(1,506)
-	180	-	(180)
-	-	-	-
<u>30,250</u>	<u>30,430</u>	<u>30,040</u>	<u>(390)</u>
1,811	1,811	1,811	-
61,241	104,437	18,045	86,392
<u>271,927</u>	<u>228,911</u>	-	<u>228,911</u>
<u>334,979</u>	<u>335,159</u>	<u>19,856</u>	<u>315,303</u>
<u>\$ (304,729)</u>	<u>\$ (304,729)</u>	10,184	<u>\$ 314,913</u>
		<u>304,730</u>	
		<u>\$ 314,914</u>	