

**COUNTY OF SAN BERNARDINO**

**CALIFORNIA**

**AUDIT REPORT**

**ANIMAL CARE JOINT POWERS AUTHORITY**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**Prepared by:**

**Internal Audits Section**  
**Office of the Auditor-Controller/Treasurer/Tax Collector**  
**June 27, 2012**

**County of San Bernardino  
Animal Care Joint Powers Authority**

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# AUDITOR-CONTROLLER/ TREASURER/TAX COLLECTOR



COUNTY OF SAN BERNARDINO

- 222 West Hospitality Lane, Fourth Floor  
San Bernardino, CA 92415-0018 • (909) 387-8322 • Fax (909) 386-8830
- 172 West Third Street, First Floor  
San Bernardino, CA 92415-0360 • (909) 387-8308 • Fax (909) 387-6716

**LARRY WALKER**  
Auditor-Controller/  
Treasurer/Tax Collector

## Independent Auditors' Report

**June 27, 2012**

**Brian Cronin, Secretary**  
Animal Care Joint Powers Authority  
351 N Mt. View Avenue, 3<sup>rd</sup> Floor  
San Bernardino, CA 92415

**SUBJECT: AUDIT OF THE ANIMAL CARE JOINT POWERS AUTHORITY FOR THE  
FISCAL YEAR ENDED JUNE 30, 2011**

### Introductory Remarks

In compliance with Section 6505 of the California Government Code, we have completed an audit of the Animal Care Joint Powers Authority, (Animal Care JPA), for the fiscal year ended June 30, 2011.

### Auditor's Report

We have audited the accompanying financial statements of the governmental activities and the major fund of the Animal Care JPA, as of and for the year ended June 30, 2011, which collectively comprise the Animal Care JPA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Animal Care JPA'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 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 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.

Audrpt/Brian Cronin, Secretary  
Animal Care Joint Powers Authority  
June 27, 2012  
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In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Animal Care JPA, as of June 30, 2011, and the respective changes in financial position 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 the state regulations governing Special Districts.

As described in Notes 1 and 8 to the financial statements, the Animal Care JPA has adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as of July 1, 2010.

The Animal Care JPA has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

**Larry Walker**  
Auditor-Controller/Treasurer/Tax Collector  
San Bernardino County

By:

**Mary Ethel Barber, CPA**  
Internal Audits Manager

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**County of San Bernardino  
Animal Care Joint Powers Authority  
Statement of Net Assets  
June 30, 2011**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents (Note 2)	\$ 3,487,670
Interest receivable	4,908
Prepaid insurance (Note 4)	<u>2,702</u>
Total current assets	<u>3,495,280</u>
Noncurrent assets:	
Capital assets (Note 5):	
Construction in progress	<u>42,366</u>
Total noncurrent assets	<u>42,366</u>
<b>Total assets</b>	<u><u>\$ 3,537,646</u></u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	<u>\$ 42,366</u>
<b>Total liabilities</b>	<u>42,366</u>
<b>NET ASSETS</b>	
Invested in capital assets	42,366
Restricted for animal shelter	3,455,450
Unrestricted	<u>(2,536)</u>
<b>Total net assets</b>	<u>3,495,280</u>
<b>Total liabilities and net assets</b>	<u><u>\$ 3,537,646</u></u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino  
Animal Care Joint Powers Authority  
Statement of Activities  
For the Fiscal Year Ended June 30, 2011**

	<b>Governmental Activities</b>
<b>EXPENSES</b>	
Insurance	\$ 4,529
Professional fees	7,760
Total program expenses	12,289
<b>PROGRAM REVENUES</b>	
Contributions from members (Note 3)	3,060,316
Total program revenues	3,060,316
Net program revenue (expense)	3,048,027
<b>GENERAL REVENUES</b>	
Investment earnings	8,359
Total general revenues	8,359
Change in net assets	3,056,386
<b>Net assets - beginning</b>	438,894
<b>Net assets - ending</b>	\$ 3,495,280

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino  
Animal Care Joint Powers Authority  
Balance Sheet  
Governmental Fund  
June 30, 2011**

	<b>General (MSF)</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents (Note 2)	\$ 3,487,670	\$ 3,487,670
Interest receivable	4,908	4,908
Prepaid insurance (Note 4)	2,702	2,702
Total current assets	3,495,280	3,495,280
<b>Total assets</b>	<b>\$ 3,495,280</b>	<b>\$ 3,495,280</b>
<b>LIABILITIES AND FUND BALANCES</b>		
Current liabilities:		
Accounts payable	\$ 42,366	\$ 42,366
Total current liabilities	42,366	42,366
Fund Balance (Notes 1 and 8):		
Nonspendable	2,702	2,702
Restricted	3,455,450	3,455,450
Unassigned	(5,238)	(5,238)
<b>Total fund balance</b>	3,452,914	3,452,914
<b>Total liabilities and fund balance</b>	<b>\$ 3,495,280</b>	
Amounts to reconcile to net assets reported in the statement of net assets:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		42,366
Net assets of governmental activities		<b>\$ 3,495,280</b>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino  
Animal Care Joint Powers Authority  
Statement of Revenues, Expenditures, and Changes in Fund Balance  
Governmental Fund  
For the Fiscal Year Ended June 30, 2011**

	<b>General (MSF)</b>	<b>Total Governmental Funds</b>
<b>REVENUES</b>		
Contributions from members (Note 3)	\$ 3,060,316	\$ 3,060,316
Investment earnings	8,359	8,359
Total revenues	3,068,675	3,068,675
<b>EXPENDITURES</b>		
Insurance	4,529	4,529
Professional services	7,760	7,760
Capital outlay:		
Construction in progress	42,366	42,366
Total expenditures	54,655	54,655
Excess of revenues over expenditures	3,014,020	3,014,020
<b>OTHER FINANCING SOURCES (USES)</b>		
	-	-
Change in fund balance	3,014,020	3,014,020
<b>Fund balance, July 1, 2010</b>	438,894	438,894
<b>Fund balance, June 30, 2011</b>	<b>\$ 3,452,914</b>	<b>\$ 3,452,914</b>

The notes to the financial statements are an integral part of this statement.



**County of San Bernardino  
Animal Care Joint Powers Authority  
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund  
Balance of Governmental Fund to the Statement of Activities  
For the Fiscal Year Ended June 30, 2011**

Change in Fund Balance - Governmental fund	\$ 3,014,020
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlay as expenditures.	42,366
Change in net assets of governmental activities	<u>\$ 3,056,386</u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino  
Animal Care Joint Powers Authority  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2011**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

The Animal Care Joint Powers Authority, (Animal Care JPA), was established under a Joint Powers Agreement between the County of San Bernardino (County) and the Town (Town) of Yucca Valley on November 18, 2008. It was established for the construction, design, financing, maintenance and operation of animal shelter(s) in the unincorporated County areas in the Morongo Basin region of the County and Town of Yucca Valley areas. The anticipated site of the animal shelter is on Town property. It was originally named City-County Animal Services Joint Powers Authority and was subsequently renamed the Animal Care Joint Powers Authority on July 13, 2010.

The Animal Care JPA is self-governed by a Board of Directors, which is comprised of four Directors designated as follows:

San Bernardino County shall be represented by its Third District Supervisor and a second Director recommended for appointment by the Third District Supervisor and appointed by action of the San Bernardino County Board of Supervisors who must be an elected or appointed official of San Bernardino County.

The Town of Yucca Valley (Town) shall be represented by one of its Councilpersons and a second Director appointed by action of the Town Council of the Town of Yucca Valley who must be an elected official of the Town of Yucca Valley.

**Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the reporting entity. *Governmental activities* normally are supported by taxes and intergovernmental revenues.

The Statement of Activities demonstrates the degree to which the program expenses of a given function or segment are offset by program revenues. *Program 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.

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. Major individual governmental funds are

**County of San Bernardino  
Animal Care Joint Powers Authority  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2011**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued***

reported as separate columns in the fund financial statements.

**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. However, for revenue derived from voluntary non-exchange transactions, such as federal and state grants, the definition of "available" is expanded 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.

Animal Care JPA reports the following major governmental fund:

The *general fund MSF* accounts for the contributions received in accordance with the JPA agreement and the subsequent use of this revenue to finance the construction of the animal shelter.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed 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.

**County of San Bernardino  
Animal Care Joint Powers Authority  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2011**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued***

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.

**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 activities columns 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 one year. 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 costs of building and acquiring capital assets (land, buildings, vehicles and equipment) financed from the governmental funds are reported as expenditures in the year they are incurred, and the assets do not appear on the balance sheet. However, the statement of net assets includes those capital assets among the assets of the JPA as a whole, and their original costs are expensed annually over their useful lives.

The cost of normal maintenance and repairs that does not add to the value of the asset or materially extend asset life is not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	10-100
Structures and Improvements	up to 45
Equipment	5-15

**County of San Bernardino  
Animal Care Joint Powers Authority  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2011**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued***

**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— This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation.
- 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 Animal Services JPA that are not restricted for any project or other purpose.

**Fund Balance**

The Animal Care JPA has adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as of July 1, 2010. In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned, or unassigned. These components of fund balance are reported primarily to indicate the extent to which the JPA is bound to honor constraint on the specific purposes for which amounts in the fund can be spent.

- 1) **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.
- 2) **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.
- 3) **Committed Fund Balance:** Amounts can only be used for a specific purpose pursuant to constraints imposed by formal action (resolution) of the government's highest level of decision making authority (the JPA Board of Directors). 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

**County of San Bernardino  
Animal Care Joint Powers Authority  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2011**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued***

previously commit those amounts. These committed amounts would be approved and adopted by formal action of the Board.

- 4) **Assigned Fund Balance:** Amounts are constrained by the government's intent to be used for specific purposes that are neither restricted nor committed. This intent must be expressed by the Board of Directors.
- 5) **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.

When both restricted and unrestricted resources are available for use, it is the JPA's policy to use restricted resources first, then followed by unrestricted resources; committed, assigned, and unassigned, as they are needed.

**NOTE 2: CASH AND CASH EQUIVALENTS**

Cash and investments include the cash 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 Animal Care JPA's account based upon the Animal Care JPA's average daily deposit balance during the allocation period. As of June 30, 2011, Cash and Investments are reported in Animal Services JPA's financial statement as cash and cash equivalents in the amount of \$3,487,670.

See the County of San Bernardino's Comprehensive Annual Financial Report (CAFR) for details of the County's investment policy and disclosures related to the investment credit risk, concentration of credit risk, interest rate risk and custodial credit risk, as required by GASB Statement No. 40.

**NOTE 3: CONTRIBUTIONS FROM MEMBERS**

Contributions from members to date consist of:

	<u>Town of Yucca Valley</u>	<u>County of San Bernardino</u>
Fiscal Year 09-10	\$437,500	
Fiscal Year 10-11		\$3,060,316

**County of San Bernardino  
Animal Care Joint Powers Authority  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2011**

**NOTE 3: CONTRIBUTIONS FROM MEMBERS - *Continued***

The proposed funding arrangements in Attachment B of the JPA agreement state, "The Town and the County have agreed to provide equal, matching funds for the capital costs of constructing an animal shelter". Attachment B indicates the cost of the facility shall not exceed \$3,500,000. Section 2.01 of the JPA agreement states the details of the proposed funding plan were to be determined by the Board of the Authority during the first 12 months following the creation of the Authority. As of June 30, 2011 the Town and County have made combined contributions of \$3,497,816. The County's \$1,310,316 contribution in excess of the JPA agreement was made at the sole discretion of the County.

**NOTE 4: PREPAID INSURANCE**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. The Animal Care JPA entered into an agreement for the period of February 11, 2011 through February 11, 2012 for annual insurance coverage. General Liability Insurance for the Animal Services JPA was obtained from Penn-Starr Insurance Company. Directors and Officers Insurance was obtained through RSUI Indemnity Company. The prepayment balance for the Animal Care JPA insurance agreements is \$2,702 as of June 30, 2011.

**NOTE 5: CAPITAL ASSETS**

Capital asset activity for governmental activities for the year ended June 30, 2011 follows:

	Beginning Balance				Ending Balance
	July 1, 2010	Additions	Deletions	Transfers	June 30, 2011
<b>Governmental activities:</b>					
Capital assets, not being depreciated:					
Construction in progress	\$ -	\$ 42,366	\$ -	\$ -	\$ 42,366
Total capital assets, not being depreciated	-	42,366	-	-	42,366
Capital assets, being depreciated:	-	-	-	-	-
Total capital assets, being depreciated	-	-	-	-	-
Less accumulated depreciation for:	-	-	-	-	-
Total accumulated depreciation	-	-	-	-	-
Net capital assets, being depreciated, net	-	-	-	-	-
<b>Capital assets, net</b>	<b>\$ -</b>	<b>\$ 42,366</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 42,366</b>

**County of San Bernardino  
Animal Care Joint Powers Authority  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2011**

**NOTE 5: CAPITAL ASSETS – Continued**

**Construction in Progress**

At June 30, 2011 construction in progress represents the following projects:

<u>Project Title</u>	<u>Budget</u>	<u>YTD Expenses</u>	<u>Projected Fiscal Year of Completion</u>
Development of Animal Shelter	\$ 3,500,000	\$ 42,366	2015

The construction in progress encompasses architectural work.

**NOTE 6: RELATED PARTY TRANSACTIONS**

The County of San Bernardino and the Town of Yucca Valley are related parties to the Animal Care JPA. The 3<sup>rd</sup> District County Supervisor serves on both the County and the JPA's Boards. Two Yucca Valley Town Councilmembers serve on both the Town Council and the JPA Board. The JPA board member appointed by the 3<sup>rd</sup> District County Supervisor is the Chief Executive Officer of the JPA and a Division Chief for the County of San Bernardino Public Health Department. The County contributed \$3,060,316 to the JPA during fiscal year 2011.

**NOTE 7: COMMITMENTS**

The Animal Care JPA entered into a contract with an architect for services relative to the development, design, and construction administration of the proposed new Animal Shelter. The JPA agrees to pay the architect a total fixed fee of \$251,561 for all services described in the contract. Services include pre-design services, schematic design services, design development services, and construction document services. As of 6/30/11, total fees incurred for Architect's services were \$42,366.

**NOTE 8: GASB 54 IMPLEMENTATION**

GASB 54, "Fund Balance Reporting and Governmental Fund Type Definitions," addresses clearer fund balance classifications. GASB 54 was implemented for the fiscal year ending June 30, 2011. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The initial distinction that is made in reporting fund balance information is identifying amounts that are considered nonspendable, restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent.



**County of San Bernardino  
Animal Care Joint Powers Authority  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2011**

**NOTE 8: GASB 54 IMPLEMENTATION - *Continued***

At June 30, 2011, fund balances of the District's governmental funds are classified as follows:

	<b>General (MSF)</b>	<b>Total Governmental Funds</b>
<b>Nonspendable:</b>		
Prepaid insurance	\$ 2,702	\$ 2,702
Total Nonspendable	2,702	2,702
<b>Restricted:</b>		
Contributions for animal shelter	3,455,450	3,455,450
Total Restricted	3,455,450	3,455,450
<b>Unassigned:</b>		
Unassigned balances	(5,238)	(5,238)
Total Unassigned	(5,238)	(5,238)
Total	\$ 3,452,914	\$ 3,452,914