

**COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 70 – ZONE HL
HAVASU LAKE**

FINANCIAL STATEMENTS

JUNE 30, 2012

**COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 70 – ZONE HL
HAVASU LAKE
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June 30, 2012**

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An Independent CPA Firm

Board of Supervisors
County of San Bernardino
County of San Bernardino Special
District Havasu Lake

Independent Auditors' Report

We have audited the accompanying financial statements of the business-type activities, and the major fund of the County of San Bernardino Special District County Service Area No.70 – Zone HL Havasu Lake (CSA), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2012, 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 an opinion 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 States 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 of 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the major fund of the County of San Bernardino Special District County Service Area No.70 – Zone HL Havasu Lake as of June 30, 2012, 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 state regulations governing special districts.

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.

David L. Gruber and Associates, Inc.

David L. Gruber and Associates, Inc.

Huntington Beach, California
December 5, 2012

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
 COUNTY SERVICE AREA No. 70 - ZONE HL
 HAVASU LAKE
 Statement of Net Assets

June 30, 2012

| | Enterprise Fund |
|-------------------------------------|-----------------|
| | Refuse (EJA) |
| <u>Assets</u> | |
| Cash and cash equivalents | \$ 4,172 |
| Special assessments receivable | 1,310 |
| Capital assets, net of depreciation | 142,739 |
| Total Assets | 148,221 |
| <u>Liabilities</u> | |
| Accounts payable | 1,200 |
| Total liabilities | 1,200 |
| <u>Net assets</u> | |
| Invested in capital assets | 142,739 |
| Unrestricted | 4,282 |
| Total net assets | \$ 147,021 |

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

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 70 - ZONE HL
HAVASU LAKE
Statement of Revenues, Expenses and Changes in Net Assets

For the Year Ended June 30, 2012

| | Enterprise Fund Refuse (EJA) |
|---|------------------------------------|
| Operating Revenues | |
| Special assessments | \$ 63,046 |
| Total Operating Revenues | 63,046 |
| Operating Expenses | |
| Salaries and benefits | 4,328 |
| Services and supplies | 51,741 |
| Rents and leases | 4,800 |
| Total Operating Expenses | 60,869 |
| Operating Income | 2,177 |
| Nonoperating Revenues (Expenses) | |
| Property taxes | 1,242 |
| Investment earnings | 39 |
| Intergovernmental | 2,000 |
| Total Nonoperating Revenues (Expenses) | 3,281 |
| Income before transfers | 5,458 |
| Transfers in from County | 106,219 |
| Total Transfers | 106,219 |
| Net Change in Net Assets | 111,677 |
| Net assets at beginning of year | 35,344 |
| Net assets at end of year | \$ 147,021 |

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

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
 COUNTY SERVICE AREA No. 70 - ZONE HL
 HAVASU LAKE
 Statement of Cash Flows
 Proprietary Fund
 For the Year Ended June 30, 2012

| | Enterprise Fund |
|--|-----------------|
| | Refuse |
| | (EJA) |
| | |
| Cash Flows from Operating Activities | |
| Receipts from customers | \$ 63,046 |
| Payments to suppliers | (57,851) |
| Payments to employees | (4,328) |
| | 867 |
| Cash Flows from Noncapital Financing Activities | |
| Property taxes | 1,242 |
| Intergovernmental | 2,000 |
| | 3,242 |
| Cash Flows from Investing Activities | |
| Investment earnings | 39 |
| | 39 |
| Net cash provided by investing activities | 4,148 |
| | 24 |
| Cash and Cash Equivalents - beginning | 24 |
| Cash and Cash Equivalents - ending | \$ 4,172 |
| Reconciliation of operating loss to net cash used for operating activities: | |
| Operating income | \$ 2,177 |
| Adjustments to reconcile operating loss to net cash used for operating activities: | |
| Change in assets and liabilities: | |
| Increase in special assessments receivables | (1,310) |
| | 867 |
| Net cash used for operating activities | \$ 867 |
| Non-cash Capital and Related Financing Activities | |
| Transfer in of capital asset | \$ 106,219 |

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

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 70 – ZONE HL
HAVASU LAKE
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the County of San Bernardino Special District County Service Area No.70 – Zone HL Havasu Lake conform to generally accepted accounting principles as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Reporting Entity

The County Service Area (CSA) No. 70 - Zone HL was established by an act of the Board of Supervisors of the County of San Bernardino (the County) in April 1990 to provide fire protection, ambulance transport, and refuse services to the community of Havasu Lake.

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 HL of the County of San Bernardino and are not intended to present the financial position of the Count 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, 2012.

Measurement focus, basis of accounting, and financial statements presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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.

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.

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 70 – ZONE HL
HAVASU LAKE
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

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 includes 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 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.

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

**COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 70 – ZONE HL
HAVASU LAKE
NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital assets (continued)

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 assets or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvement are capitalized as projects are constructed.

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

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

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

Although the CSA prepares and adopts an annual budget, budgetary information is not presented because the CSA is not legally required to adopt a budget.

Note 2: CASH AND DEPOSITS

Cash and cash equivalents includes 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, 2012.

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 HL
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NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 3: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012 was as follows:

| | Beginning Balance | Additions/ Transfers | Deletions | Ending Balance |
|---|----------------------|-------------------------|-----------|-------------------|
| Capital assets, being depreciated: | | | | |
| Structures and improvements | \$ 39,129 | \$ 194,068 * | \$ - | \$ 233,197 |
| Total capital assets, being depreciated | 39,129 | 194,068 | - | 233,197 |
| Less accumulated depreciation for: | | | | |
| Structures and improvements | (2,609) | (87,849) | - | (90,458) |
| Total accumulated depreciation | (2,609) | (87,849) | - | (90,458) |
| Business-type activities capital assets, net | \$ 36,520 | \$ 106,219 | \$ - | \$ 142,739 |

**Transferred in from a non-profit organization*

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 Law of 1937 (the 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), Department of Water and Power for the City of Big Bear Lake and Crestline Sanitation District were later included, along with the County, and are collectively referred to as the "Plan Sponsors" or "employers". 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 HL
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NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 4: RETIREMENT PLAN (continued)

Fiduciary Responsibility

SBCERA is controlled by its own board, the Board of Retirement, which acts as a fiduciary agent for the accounting and control of employer 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.

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). Members are required to contribute 7.42% - 12.95% for general members and 9.54% - 15.32% for safety members (refundable rates), of their annual covered salary of which the County pays approximately 7% (for certain employee units). County of San Bernardino employer contribution rates are as follows: County General 14.50%, County Safety 30.89%. All employers combined are required to contribute an average 17.85% of the current year covered payroll. 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 27, *Accounting for Pensions by State and Local Governmental Employers*, for the year ended June 30, 2012, were as follows (in thousands):

| | |
|---|-------------------|
| Annual Required Contribution (County fiscal year basis) | \$ 229,169 |
| Interest on Pension Assets | (55,733) |
| Adjustment to the Annual Required Contribution | <u>73,086</u> |
| Annual Pension Cost | 246,522 |
| Annual Contributions Made | <u>229,169</u> |
| Increase/(Decrease) in Pension Assets | (17,353) |
| Pension Assets, Beginning of Year | <u>719,134</u> |
| Pension Assets, End of Year | <u>\$ 701,781</u> |

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

| Year Ended <u>June 30,</u> | Annual Contributions Made (in thousands) | | Percentage <u>Contributed</u> |
|-------------------------------|---|---------------|----------------------------------|
| | <u>SBCERA</u> | <u>County</u> | |
| 2010 | \$ 243,773 | \$ 197,097 | 100% |
| 2011 | 258,128 | 213,311 | 100% |
| 2012 | 278,091 | 229,169 | 100% |

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 70 – ZONE HL
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NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 4: RETIREMENT PLAN (continued)

The County, along with the SCAQMD, issued Pension Refunding Bonds (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.

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 a 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.

In April 2008, the County of San Bernardino issued its \$160,900,000 in Pension Obligation Refunding Bonds (POB), Series 2008 (Series 2008 Bonds).

Note 5: FEDERAL AND STATE GRANTS

From time to time the District may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

Note 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 Arthur J. Gallagher & Co., Broker of Record, as follows: Primary Liability coverage \$25 million excess of \$2.5 million self-insured retention with Starr Indemnity & Liability Co.; Excess Liability coverage of \$10 million, excess of \$25 million with Allied World Assurance Co.; and

Excess Liability coverage \$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 Assurance 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 \$10 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.

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 70 – ZONE HL
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NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 6: RISK MANAGEMENT (continued)

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 claim made form basis with a 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 0.493%. It is Risk Management's practice to obtain actuarial studies on an annual basis.

The total claims liability of \$167 million reported at June 30, 2012 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.

Changes in the claims liability amount in fiscal years 2011 and 2012 were:

| Fiscal Year | Beginning of Fiscal Year Liability (in thousands) | Current Year Claims and Changes in Estimates (in thousands) | Current Year Claim Payments (in thousands) | End of Fiscal Year Liability (in thousands) |
|--------------------|--|--|---|--|
| 2010-11 | \$ 145,394 | \$ 40,832 | \$ (35,275) | \$ 150,951 |
| 2011-12 | \$ 150,591 | \$ 58,008 | \$ (42,010) | \$ 166,589 |

Note 7: CONTINGENCIES

As of June 30, 2012, 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: SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 5, 2012, 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.