

**COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
COUNTY SERVICE AREA NO. 42 ORO GRANDE
FINANCIAL STATEMENTS
JUNE 30, 2016**

**COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
COUNTY SERVICE AREA NO. 42 ORO GRANDE
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June 30, 2016**

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An Independent CPA Firm

Board of Supervisors
County of San Bernardino
County of San Bernardino Special
District County Service Area
No. 42 Oro Grande

Independent Auditors' Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the County of San Bernardino Special District County Service Area No. 42 Oro Grande (CSA), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise CSA's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the minimum audit requirements and reporting guidelines for California Special Districts required by the Office of the State Controller. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, each major fund, and the aggregate remaining fund information of the County CSA, as of June 30, 2016, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

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Emphasis of Matter

As described in Note 1 to the financial statements, during the year ended June 30, 2016, the CSA implemented GASB Nos. 72, 73, and 79. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted Management's Discussion and Analysis and the Schedules of Pension Plan Contribution and Proportionate Share of Net Pension Liability that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

David L. Gruber and Associates, Inc.

David L. Gruber and Associates, Inc.
Newport Beach, California
November 28, 2016

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
COUNTY SERVICE AREA NO. 42 - ORO GRANDE
Statement of Net Position
June 30, 2016

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 14,478	\$ 992,783	\$ 1,007,261
Accounts receivable, net	-	37,990	37,990
Interest receivable	-	20,255	20,255
Taxes receivable	786	-	786
Special assessments receivable	-	4,589	4,589
Due from other governments	-	388	388
Capital assets, net of depreciation	140,573	457,417	597,990
Total assets	<u>155,837</u>	<u>1,513,422</u>	<u>1,669,259</u>
Deferred outflows of resources			
Pension	-	10,542	10,542
Liabilities			
Current:			
Due to other governments	-	14,244	14,244
Deposits and deferred	-	1,903	1,903
Long-term: Net pension liability	-	83,874	83,874
Total liabilities	<u>-</u>	<u>100,021</u>	<u>100,021</u>
Deferred inflows of resources			
Pension	-	29,348	29,348
Net position			
Invested in capital assets	140,573	457,417	597,990
Restricted for park and recreation	15,264	-	15,264
Unrestricted	-	937,178	937,178
Total net position	<u>\$ 155,837</u>	<u>\$ 1,394,595</u>	<u>\$ 1,550,432</u>

See accompanying notes to basic financial statements.

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
 COUNTY SERVICE AREA NO. 42 - ORO GRANDE
 Statement of Activities
 Year ended June 30, 2016

	Governmental Activities	Business-type Activities	Total
Expenses			
Professional fees	\$ -	\$ 104,262	\$ 104,262
Salaries and benefits	16,017	142,981	158,998
Services and supplies	18,788	123,825	142,613
Utilities	-	4,133	4,133
Depreciation	15,861	17,567	33,428
 Total expenses	 <u>50,666</u>	 <u>392,768</u>	 <u>443,434</u>
Program revenues			
Charges for services	-	306,684	306,684
Operating grants and contributions-State assistance	299	-	299
 Total program revenues	 <u>299</u>	 <u>306,684</u>	 <u>306,983</u>
 Net Program Revenue (Expense)	 <u>(50,367)</u>	 <u>(86,084)</u>	 <u>(136,451)</u>
General revenues			
Property taxes	29,749	-	29,749
Special assessments	-	11,910	11,910
Other taxes	246	-	246
Investment earnings	-	8,505	8,505
Penalties	-	6,210	6,210
 Total general revenues	 <u>29,995</u>	 <u>26,625</u>	 <u>56,620</u>
 Change in net position	 (20,372)	 (59,459)	 (79,831)
 Net position at beginning of year	 <u>176,209</u>	 <u>1,454,054</u>	 <u>1,630,263</u>
 Net position at end of year	 <u>\$ 155,837</u>	 <u>\$ 1,394,595</u>	 <u>\$ 1,550,432</u>

See accompanying notes to basic financial statements.

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
 COUNTY SERVICE AREA NO. 42 - ORO GRANDE
 Governmental Funds
 Balance Sheet
 Year ended June 30, 2016

	SPECIAL REVENUE FUND
	Park (SIV)
Assets	
Cash and cash equivalents	\$ 14,478
Taxes Receivable	786
Total assets	\$ 15,264
 Liabilities and Fund Balances	
Liabilities:	
Due to other governments	\$ -
Total liabilities	-
Fund balances:	
Restricted for park services	15,264
Total fund balances	15,264
Total liabilities and fund balances	\$ 15,264
 Total Fund Balance - Governmental Fund	 15,264

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

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

Capital assets	424,860
Accumulated depreciation	(284,287)
Net Position of Governmental Activities	\$ 155,837

See accompanying notes to basic financial statements.

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
 COUNTY SERVICE AREA NO. 42 - ORO GRANDE
 Statement of Revenues, Expenditures and Changes in Fund Balance
 Governmental Funds
 Year ended June 30, 2016

	SPECIAL REVENUE FUND
	Park (SIV)
Revenues	
Property taxes	\$ 29,749
Other taxes	246
Intergovernmental-State Assistance	299
Total Revenues	30,294
Expenditures	
Current - parks and recreation:	
Salaries and benefits	16,017
Services and supplies	18,788
Total Expenditures	34,805
Net Changes in Fund Balances	(4,511)
Fund Balance - beginning	19,775
Fund Balances - ending	\$ 15,264

See accompanying notes to basic financial statements.

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
COUNTY SERVICE AREA NO. 42 - ORO GRANDE

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Funds to the Statement of Activities

Year ended June 30, 2016

Net Change in Fund Balances - Total Governmental Funds \$ (4,511)

Amounts reported for governmental activities in
the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures in the year an asset is purchased. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as a depreciation expense. This is the amount by which capital outlay (\$0) exceeded by depreciation expense (\$15,861) in the current period.

(15,861)

Some expenses reported in the statement of activities do not require the use of current financial resources, and, therefore, are not reported as expenditures in governmental funds.

Change in Net Position of Governmental Activities

\$ (20,372)

See accompanying notes to basic financial statements.

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS

COUNTY SERVICE AREA NO. 42 - ORO GRANDE

Statement of Net Assets

Proprietary Fund

June 30, 2016

	ENTERPRISE FUND
	Refuse, Water, Sewer
Assets	
Current Assets:	
Cash and cash equivalents	\$ 992,783
Accounts receivable	37,990
Interest receivable	20,255
Special assessments receivable	4,589
Due from other governments	388
Total Current Assets	<u>1,056,005</u>
Noncurrent Assets:	
Capital Assets:	
Land	44,800
Improvements to land	727,673
Structures and improvements	51,800
Construction in progress	45,475
Accumulated depreciation	<u>(412,331)</u>
Total Noncurrent Assets	<u>457,417</u>
Total Assets	<u>1,513,422</u>
Deferred outflows of resources	
Pension	<u>10,542</u>
Liabilities and Fund Balances	
Current Liabilities:	
Due to other governments	14,244
Deposits and deferred revenue	1,903
Long-term - Net pension liability	<u>83,874</u>
Total liabilities	<u>100,021</u>
Deferred inflows of resources	
Pension	29,348
Net Position	
Invested in capital assets	457,417
Unrestricted	<u>937,178</u>
Total Net Position	<u>\$ 1,394,595</u>

See accompanying notes to basic financial statements.

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
 COUNTY SERVICE AREA NO. 42 - ORO GRANDE
 Statement of Revenues, Expenditures and Changes in Fund Balance
 Proprietary Fund
 Year ended June 30, 2016

	ENTERPRISE FUND
	Refuse, Water, Sewer
Operating Revenues	
Sanitation services	\$ 179,059
Connection fees	1,000
Water sales	123,638
Charges for services	2,987
Total Operating Revenues	306,684
Operating Expenses	
Professional fees	104,262
Salaries and benefits	142,981
Services and supplies	123,825
Utilities	4,133
Depreciation	17,567
Total Expenditures	392,768
Operating Income (loss)	(86,084)
Nonoperating Revenues	
Special Assessments	11,910
Investment earnings	8,505
Penalties	6,210
Total Nonoperating Revenues	26,625
Change in Net Position	(59,459)
Fund Balance - beginning	1,454,054
Fund Balances - ending	\$ 1,394,595

See accompanying notes to basic financial statements.

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
COUNTY SERVICE AREA NO. 42 - ORO GRANDE

Statement of Cash Flows
Proprietary Fund
Year ended June 30, 2016

	ENTERPRISE FUND
	Refuse, Water, Sewer
Cash Flows from operating activities	
Receipts from customers	\$ 316,169
Payments to suppliers	(173,838)
Payments to employees	(136,475)
Payments to other services	(108,395)
	(102,539)
Net Cash Provided by Operating Activities	
Cash Flows from noncapital financing activities	
Special assessments	11,910
Penalties	6,210
	18,120
Net Cash Provided by noncapital financing activities	
Cash Flows from capital and related financing activities	
Purchase and construction of capital assets	(118,210)
	(118,210)
Net Cash Used for capital and related financing activities	
Cash Flows from investing activities	
Investment earnings	8,120
	8,120
Net Cash provided by investing activities	
Net Increase in Cash and Cash Equivalents	(194,509)
Cash and cash equivalents - beginning of the year	1,187,292
Cash and cash equivalents - end of the year	\$ 992,783
Reconciliation of operating income to net cash used for operating activities	
Operating income (loss)	\$ (86,084)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	17,567
Change in assets and liabilities:	
(Increase) Decrease in accounts receivable, net	13,650
(Increase) Decrease in special assessments	(4,468)
Increase (Decrease) in due to other governments	(50,013)
Increase (Decrease) in deposit and deferred revenue	303
Increase (Decrease) in net pension liability (deferred inflows and outflows of resources)	6,506
	(102,539)
Net Cash provided by operating activities	(102,539)

See accompanying notes to basic financial statements.

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
COUNTY SERVICE AREA NO. 42 – ORO GRANDE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the County Service Area (CSA) No. 42 - Oro Grande 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. 42 - Oro Grande is a special district located within the County of San Bernardino. The CSA has governmental powers as established by the San Bernardino County Government Charter. The County of San Bernardino (County) was established in 1852 as a legal subdivision of the State of California. The CSA was established by an act of the Board of Supervisors of the County (Board) on December 27, 1965 to provide sewer, water, park, refuse collection and street lighting services to the community of Oro Grande. The CSA provides services to 154 households for sewer, 135 households for water, 123 households for park, and 39 streetlights. The CSA is a component unit of the County of San Bernardino and is governed by the action of the County Board of Supervisors. The accompanying financial statements reflect only the accounts of the County Service Area No. 42 – Oro Grande 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, 2016.

Government-wide and fund financial statements

The government-wide financial statements (e.g., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the reporting entity. 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, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. 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.

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 reported as separate columns in the fund financial statements.

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
COUNTY SERVICE AREA NO. 42 – ORO GRANDE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* 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.

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 taxes and 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 District reports the following major governmental funds:

The *special revenue fund* labeled “Park” is the government’s primary operating fund for park services provided to the community of Oro Grande. It accounts for all financial resources of the general government related to park services, except those required to be accounted for in another fund.

The government reports the following major proprietary fund:

The *enterprise fund* labeled “Refuse, Water, Sewer” accounts for the refuse, water and sewer activities of the CSA.

Financial reporting is based upon all GASB pronouncements including the Codification of Accounting and Financial Reporting Guidelines.

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
COUNTY SERVICE AREA NO. 42 – ORO GRANDE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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. The principal operating revenue of the CSA's enterprise fund is charges to customers for sanitation services. Operating expenses for enterprise funds include the cost of salaries and benefits, services and supplies, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions 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.

Cash and investments

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

Interfund receivables and payables

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is 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."

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.

Accounts receivable

No allowance for uncollectibles was recorded at June 30, 2016, based on management's expectation that all accounts receivable will be collected through the property tax roll.

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
COUNTY SERVICE AREA NO. 42 – ORO GRANDE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Fund equity

The CSA implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which the resources can be used:

- *Nonspendable Fund Balance:* Amounts cannot be spent because they are: (a) not in spendable form or (b) legally or contractually required to be maintained intact. Due to the nature or form of the resources, they generally cannot be expected to be converted into cash or a spendable form.
- *Restricted Fund Balance:* Amounts are restricted by external parties, i.e., creditors, grantors, contributors, or laws/regulations of other governments or restricted by law through constitutional provisions or enabling legislation.
- *Committed Fund Balance:* Amounts can only be used for a specific purpose pursuant to constraints imposed by formal action of the government's highest level of decision making authority (the Board of Supervisors). The formal action must occur prior to the end of the reporting period, however, the amount may be determined in the subsequent period. These are self-imposed limitations on available resources. These committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same level of action it employed to previously commit those amounts. These committed amounts would be approved and adopted by formal action of the Board.
- *Assigned Fund Balance:* Amounts are constrained by the government's intent to be used for specific purposes that are neither restricted nor committed. The intent will be expressed by the body or official to which the governing body has delegated the authority, i.e. the County Administrative Office. The County Administrative Office will assign fund balance for specific departmental projects through the use of the respective department's general fund savings. Such projects would not normally be feasible for the department without reserving funding over a multiple year period.
- *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

**COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
COUNTY SERVICE AREA NO. 42 – ORO GRANDE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Capital assets

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type 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 (1) 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 acquisition value at the date of donation in accordance with GASB Statement No. 72.

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:

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

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the CSA prepares and adopts a budget on or before August 30 for each fiscal year. Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for capital assets within

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
COUNTY SERVICE AREA NO. 42 – ORO GRANDE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 commitments will be reappropriated and honored during the subsequent year.

New Accounting Pronouncements

The District adopted Statement on Governmental Accounting Standards (GASB Statement) No. 72, *Fair Value Measurement and Application*, GASB Statement No. 73 *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB 68*, and GASB Statement No. 79 *Certain External Investment Pools and Pool Participants*.

Deferred Outflows/ Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow or resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds of the balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Long-Term Debt and Interest Payable

In the Government-Wide Financial Statements, long-term debt and other long-term obligations are reported as liabilities in the appropriate activities. Bond premiums and discounts, 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 immediately expensed in the Government-Wide Financial Statements in addition to the Proprietary and Fiduciary Fund Statements in accordance with GASB No. 65. In the Fund Financial Statements, with the exception of advances from other funds, long-term liabilities are not presented. Consequently, long term debt is shown as a reconciling item in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position.

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
COUNTY SERVICE AREA NO. 42 – ORO GRANDE
NOTES TO THE FINANCIAL STATEMENTS
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NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In the Government-Wide Financial Statements, interest payable on long-term debt is recognized as the liability is incurred for governmental activities and business-type activities. In the Fund Financial Statements, only propriety fund types recognize the interest payable when the liability is incurred.

Net Position Flow Assumption

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

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

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

Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the CSA’s San Bernardino County Employee’s Retirement Association (SBCERA) plan (Plan) and additions to/deductions from the Plans’ fiduciary net position have been determined on the same basis as they are reported by SBCERA. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTE 2: CASH AND INVESTMENTS

Cash, cash equivalents, and investments includes balances of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the CSA’s account based upon the CSA’s average daily deposit balance during the allocation period. Cash, cash equivalents, and investments are shown at the fair value as of June 30, 2016. Changes in fair value that occur during a fiscal year are recognized as *investment earnings* reported for that fiscal year. *Investment earnings* reports interest earnings, changes in fair value, and any gains or losses realized upon the liquidation, maturity, or sale of investments. The County’s practice is to hold investments until maturity.

See the County of San Bernardino’s Comprehensive Annual Financial Report (CAFR) for details of their investment policy and disclosures related to investment credit risk, concentration of credit risk, interest rate risk and custodial credit risk, as required by GASB Statement No. 40, and fair value hierarchy disclosures required by GASB Statement No.72.

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
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NOTE 3: ACCOUNTS RECEIVABLE

At June 30, 2016, the accounts receivable were composed of the following:

	<u>Sewer</u>
Accounts Receivable	\$37,990
Less: allowance for uncollectibles	-
Net Total Accounts Receivable	<u>\$37,990</u>

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 9,930	\$ -	\$ -	\$ 9,930
Total capital assets, not being depreciated:	9,930	-	-	9,930
Capital assets, being depreciated:				
Improvements to land	392,292	-	-	392,292
Structures and improvements	16,145	-	-	16,145
Equipment	6,493	-	-	6,493
Total capital assets, being depreciated:	414,930	-	-	414,930
Less accumulated depreciation for:				
Improvements to land	(255,345)	(14,982)	-	(270,327)
Structures and improvements	(6,660)	(807)	-	(7,467)
Equipment	(6,421)	(72)	-	(6,493)
Total accumulated depreciation	(268,426)	(15,861)	-	(284,287)
Total capital assets, being depreciated, net	146,504	(15,861)	-	130,643
Governmental activities capital assets, net	\$ 156,434	\$ (15,861)	\$ -	\$ 140,573
	Beginning Balance	Additions	Deletions	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 44,800	\$ -	\$ -	\$ 44,800
Construction in progress	41,598	4,255	(378)	45,475
Total capital assets, not being depreciated:	86,398	4,255	(378)	90,275
Capital assets, being depreciated:				
Improvements to land	613,340	114,333	-	727,673
Structures and improvements	51,800	-	-	51,800
Total capital assets, being depreciated:	665,140	114,333	-	779,473
Less accumulated depreciation for:				
Improvements to land	(371,238)	(14,977)	-	(386,215)
Structures and improvements	(23,526)	(2,590)	-	(26,116)
Total accumulated depreciation	(394,764)	(17,567)	-	(412,331)
Total capital assets, being depreciated, net	270,376	96,766	-	367,142
Governmental activities capital assets, net	\$ 356,774	\$ 101,021	\$ (378)	\$ 457,417

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NOTE 5: LONG-TERM LEASE AGREEMENT

On March 13, 2007, the Board of Supervisors approved an agreement with Oro Grande School District to lease Rainbow Park, an unused 2.92 acre parcel located on property contiguous to Oro Grande School, to the school for a period of 43 years at a total cost of \$43. The purpose of the lease is to construct additional charter school facilities on the site at the cost of the school district. Oro Grande School District must relocate the existing park equipment to the Community Center Park at the expense of the school district. The lease will be for the period February 1, 2007 to January 31, 2050.

NOTE 6: RETIREMENT PLAN

Plan Description. Employees of the CSA participate in the County of San Bernardino's (County) cost-sharing multiple-employer defined benefit retirement plan (the Plan) administered by the San Bernardino County Employee's Retirement Association (SBCERA). The Plan is governed by the San Bernardino Board of Retirement (Board) under the California County Employees' Retirement Law of 1937 (CERL) and the California Public Employees' Pension Reform Act of 2013 (PEPRA). The Plan's authority to establish and amend the benefit terms are set by the CERL and PEPRA, and may be amended by the California state legislature and in some cases require approval by the County of San Bernardino Board of Supervisors and/or the SBCERA Board. 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.

Benefits Provided. SBCERA provides retirement, disability, death and survivor benefits. SBCERA administers the Plan which provides benefits for two membership classifications, General and Safety, and those benefits are tiered based upon date of SBCERA membership. Safety membership is extended to those involved in active law enforcement and fire suppression. All other members, including the CSA's employees, are classified as General members. Generally, those who become members prior to January 1, 2013 are Tier 1 members. All other members are Tier 2. An employee who is appointed to a regular position, whose service is greater than fifty percent of the full standard of hours required are members of SBCERA, and are provided with pension benefits pursuant to Plan requirements.

The CERL and PEPRA establish benefit terms. Retirement benefits for the General Tier 1 and General Tier 2 Plans are calculated on the basis of age, average final compensation and service credit as follows:

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NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

NOTE 6: RETIREMENT PLAN (continued)

	General – Tier 1	General – Tier 2
Final Average Compensation	Highest 12 months	Highest 36 consecutive months
Normal Retirement Age	Age 55	Age 55
Early Retirement: Years of service required and/or eligible for	Age 70 any years	Age 70 any years
	10 years age 50	5 years age 52
	30 years any age	N/A
Benefit percent per year of service for normal retirement age	2% per year of final average compensation for every year of service credit	At age 67, 2.5% per year of final average compensation for every year of service credit
Benefit Adjustments	Reduced before age 55, increased after 55 up to age 65	Reduced before age 67
Final Average Compensation Limitation	Internal Revenue Code section 401(a)(17)	Government Code section 7522.10

Contributions. Participating employers and active members, including the CSA and the CSA’s employees, are required by statute to contribute a percentage of covered salary to the Plan. This requirement is pursuant to Government Code sections 31453.5 and 31454, for participating employers and Government Code sections 31621.6, 31639.25 and 7522.30 for active members. The contribution requirements are established and may be amended by the SBCERA Board pursuant to Article 1 of the CERL, which is consistent with the Plan’s actuarial funding policy. The contribution rates are adopted yearly, based on an annual actuarial valuation, conducted by an independent actuary, that requires actuarial assumptions with regard to mortality, expected future service (including age at entry into the Plan, if applicable and tier), and compensation increases of the members and beneficiaries. The combined active member and employer contribution rates are expected to finance the costs of benefits for employees that are allocated during the year, with an additional amount to finance any unfunded accrued liability. Participating employers may pay a portion of the active members’ contributions through negotiations and bargaining agreements.

Employee contribution rates for the fiscal year ended June 30, 2016 ranged between 7.81% and 14.21% for Tier 1 General members and between 7.70% and 8.40% for Tier 2 General members.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the CSA’s reported a liability of \$83,874 for its proportionate share of the County’s net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District’s proportion of the County’s net pension liability was based on the District’s FY 2015 actual contributions to the County’s pension plan relative to the total contributions of the County as a whole.

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
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NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

NOTE 6: RETIREMENT PLAN (continued)

At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Deferred Outflows of Resources*	Deferred Inflows of Resources**
\$ 10,542	\$ (29,348)

* Total deferred outflows includes change in assumptions, and change in proportion and differences between share of contributions.

* Total deferred inflows includes differences in expected and actual expense, and net difference between projected and actual earnings on pension plan investments,.

The \$10,542 reported as deferred outflows of resources related to pensions, resulting from the District’s contributions to the County’s plan subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

See the County of San Bernardino’s Comprehensive Annual Financial Report (CAFR) for details of their pension liabilities, pension expense, deferred outflows and inflows of resources related to pensions, actuarial assumptions, and discount rates, for the current year and two preceding years computed in accordance with GASB 68, *Accounting and Reporting for Pension Plans*, for the year ended June 30, 2016.

NOTE 7: RISK MANAGEMENT

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability, and workers' compensation claims. Public liability claims are self-insured for up to \$3.0 million per occurrence. Excess insurance coverage over the Self-Insured Retention (SIR) up to \$54 million is provided through a combination of insurance policies as recommended by Alliant Insurance Services Inc., Insurance Broker as follows: Primary Liability coverage \$10 million excess of \$3.0 million self-insured retention with Security National Insurance Company (AM TRUST); Excess Liability coverage for \$4 million, excess of \$13 million with Evanston Insurance Company (Markel); and Excess Liability coverage of \$15 million, excess of \$17 million with National Casualty. Allied World Assurance Co. (AWAC) provides excess liability coverage of \$25 million, excess of \$32 million. No settlements related to these programs have exceeded insurance coverage in the last three years.

The Workers' Compensation program was restructured by joining CSAC-EIA (California State Association of Counties – Excess Insurance Authority) Excess Workers’ Compensation Program and purchasing a policy with a \$2 million SIR and statutory limits with National Union Fire Insurance Company of Pittsburgh, PA. Property damage claims are insured on an occurrence basis over a \$25 thousand deductible, and insured through CSAC-EIA and reinsured with Lexington Insurance Co. and with several insurers like AWAC, Ironshore, Partner RE, and Lloyd’s of London, among others.

The County supplements its self-insurance for medical malpractice claims with a \$25 million policy (\$35 million aggregate) with BETA Risk Management Authority, which provides annual coverage on a claim made form basis with a SIR of \$1 million for each claim.

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
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June 30, 2016

NOTE 7: RISK MANAGEMENT (continued)

All public officials and County employees are insured under a blanket Comprehensive Disappearance, Destruction, and Dishonesty policy covering County monies and securities, with Berkley Regional Insurance Co. with a \$100 thousand deductible, and excess limits up to \$10 million per occurrence.

The activities related to such programs are accounted for in the Risk Management Department's internal service funds ("Funds"), except for unemployment insurance, and employee dental insurance, which are accounted for in the General Fund. The liabilities recorded in these Funds are based on the results of actuarial studies and include amounts for allocated and unallocated loss adjustment expenses. The liabilities for these claims are reported using a discounted rate of 0.615% and an actuarially-determined 80% confidence level. It is the County's practice to obtain actuarial studies on an annual basis.

See the County of San Bernardino's Comprehensive Annual Financial Report (CAFR) for details of their claims liability in accordance with GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, at June 30, 2016.

NOTE 8: 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.

NOTE 9: PROPOSITION 111 APPROPRIATION LIMITS

Proposition 111, which added Article XIII B to the State Constitution, established limits on budget appropriations in order to restrict government spending. Management has reviewed the proceeds of taxes received by the CSA during the 2015-2016 fiscal year, and believe the revenue to be within the guidelines established by Proposition 111.

NOTE 10: CONTINGENCIES

As of June 30, 2016, 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 11: SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 28, 2016, 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.

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
COUNTY SERVICE AREA NO. 42 - ORO GRANDE

General Fund

Budgetary Comparison Schedule

Special Revenue Fund

Year ended June 30, 2016

SPECIAL REVENUE FUND				
PARK (SIV)				
	Budgeted Amounts		Actual	Variances with
	Original	Final		Positive (Negative)
Revenues				
Property Taxes	\$ 29,236	\$ 29,236	\$ 29,749	\$ 513
Other Taxes	211	211	246	35
Intergovernmental-State assistance	345	345	299	(46)
Total revenues	29,792	29,792	30,294	502
Expenditures				
Current - parks and recreation:				
Salaries and benefits	19,063	19,063	16,017	3,046
Services and supplies	22,403	22,403	18,788	3,615
Total expenditures	41,466	41,466	34,805	6,661
Excess of revenues over (under) expenditures	(11,674)	(11,674)	(4,511)	7,163
Other financing sources (uses):				
Transfers in from County	9,967	9,967	-	(9,967)
Total other financing sources (uses)	9,967	9,967	-	(9,967)
Net change in fund balance	\$ (1,707)	(1,707)	(4,511)	\$ (2,804)
Fund balance - beginning			19,775	
Fund balance - ending			\$ 15,264	