COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 70 - ZONE W-3
HACIENDA HEIGHTS

FINANCIAL STATEMENTS

JUNE 30, 2016

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 70 – ZONE W-3
HACIENDA HEIGHTS
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GRUBER and associates

An Independent CPA Firm

Board of Supervisors
County of San Bernardino
County of San Bernardino Special
District County Service Area
No. 70 - Zone W-3 - Hacienda Heights

Independent Auditors' Report

We have audited the accompanying financial statements of 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. 70 - Zone W-3 - Hacienda Heights (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 business-type activities of the CSA, as of June 30, 2016, and the respective changes in financial position and cash flows, 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.

David L. Gruber and Associates, Inc.

David L. Gruber and Associates, Inc.

Newport Beach, California
November 28, 2016

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COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 70 - ZONE W-3 - HACIENDA HEIGHTS
STATEMENT OF NET POSITION
PROPRIETARY FUND
June 30, 2016

	Enterprise Fund
Assets	
Current Assets:	
Cash and cash equivalents	$ 199,116
Accounts receivable, net	28,621
Interest receivable	327
Taxes receivable	549
Special assessment receivable	361
Total Current Assets	228,974
Noncurrent Assets:	
Capital Assets:	
Land	34,551
Improvements to land	483,644
Structures and improvements	254,244
Construction in progress	78,545
Accumulated depreciation	(331,565)
Total Noncurrent Assets	519,419
Total Assets	748,393
Deferred outflows of resources	
Pension	4,909
Liabilities	
Current:	
Due to other funds	6,501
Long-term:	
Net pension liability	39,055
Total Liabilities	45,556
Deferred inflows of resources	
Pension	13,665
Net position	
Invested in capital assets	519,419
Unrestricted	174,662
Total Net Position	$ 694,081

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

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 70 - ZONE W-3 - HACIENDA HEIGHTS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUND
For the Year Ended June 30, 2016

	Enterprise Fund
Operating Revenues	
Water sales	$ 132,352
Total Operating Revenues	132,352
Operating Expenses	
Salaries and benefits	65,502
Services and supplies	100,951
Utilities	30,520
Other	5,155
Depreciation	21,432
Total Operating Expenses	223,560
Operating Loss	(91,208)
Nonoperating Revenues	
Investment Earnings	1,845
Special assessments	6,411
Penalties	1,766
Other taxes	209
Property Taxes	20,896
Other	2,711
Total Nonoperating Revenue	33,838
Change in net position	(57,370)
Net position at beginning of year	751,451
Net position at end of year	$ 694,081

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

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 70 - ZONE W-3 - HACIENDA HEIGHTS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended June 30, 2016

	Enterprise Fund
Cash Flows From Operating Activities	
Receipts from customers	$ 163,592
Payments to suppliers	(212,362)
Payments to employees	(62,814)
Net Cash Used for Operating Activities	(111,584)
Cash Flows From Noncapital Financing Activities	
Property taxes	20,831
Special assessments	6,215
Penalties	1,766
Other taxes	209
Other nonoperating revenue	2,711
Net Cash Provided by Noncapital Financing Activities	31,732
Cash Flows From Investing Activities	
Investment Earnings	1,942
Net Cash Provided by Investing Activities	1,942
Net Decrease in Cash and Cash Equivalents	(156,455)
Cash and Cash Equivalents - beginning of the year	355,571
Cash and Cash Equivalents - end of the year	$ 199,116
Reconciliation of operating loss to net cash used for operating activities:	
Operating Loss	$ (91,208)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation expense	21,432
Change in assets and liabilities:	
Decrease in accounts receivable, net	31,240
Decrease in accounts payable	(62,476)
Decrease in due to other funds	(13,260)
Increase in net pension liability, net of deferred outflows and inflows	2,688
Net Cash Used for Operating Activities	$ (111,584)

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

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the County of San Bernardino Special District County Service Area No.70 – Zone W-3 - Hacienda Heights 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 W-3 - Hacienda Heights, was established by an act of the Board of Supervisors of the County of San Bernardino (the County) on December 6, 1976 under Section 4700 of the State Health & Safety Code. It is located 10 miles north of Yucca Valley. It provides water services for 172 properties and maintains two wells, four booster stations and a 110,000 gallon reservoir.

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

The accompanying financial statements reflect only the accounts of the County Service Area No. 70 Zone W-3 - Hacienda Heights 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.

Measurement focus, basis of accounting, and financial statements presentation

The CSA's 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.

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.

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

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.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement focus, basis of accounting, and financial statements presentation (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.

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 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."

No allowance for uncollectibles was recorded at June 30, 2014 based on management's expectation that all accounts receivable will be collected through the property tax roll.

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 fist-in/first-out method.

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

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than $5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of two years. Structures with an initial cost of $100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation in accordance with GASB Statement No. 72.

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.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital assets (continued)

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
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.

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.

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.

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.*

Note 2: CASH AND INVESTMENTS

Cash, cash equivalents, and investments include 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

Note 2: CASH AND INVESTMENTS (continued)

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.

Note 3: ACCOUNTS RECEIVABLE

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

Accounts receivable	$ 28,621
Less: allowance for uncollectible	-
Total accounts receivable, net	$ 28,621

Note 4: CAPITAL ASSETS

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

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, not being depreciated:				
Land	$ 34,551	$ -	$ -	$ 34,551
Construction in progress	-	78,545	-	78,545
Total capital assets, not being depreciated	34,551	78,545	-	113,096
Capital assets, being depreciated:				
Improvements to land	483,644	-	-	483,644
Structures and improvements	254,244	-	-	254,244
Total capital assets, being depreciated:	737,888	-	-	737,888
Less accumulated depreciation for:				
Improvements to land	(224,679)	(15,782)	-	(240,461)
Structures and improvements	(85,454)	(5,650)	-	(91,104)
Total accumulated depreciation	(310,133)	(21,432)	-	(331,565)
Total capital assets, being depreciated, net	427,755	(21,432)	-	406,323
Total capital assets, net	$ 462,306	$ 57,113	$ -	$ 519,419

Note 5: 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:

	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

Note 5: RETIREMENT PLAN (continued)

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 District's reported a liability of $39,055 for its proportionate share of the County's net pension liability. The net pension liability was measured as of June 30, 2015, 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.

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 **
$ 4,909	$ (13,665)

* 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 $4,909 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, 2016.

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 6: 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 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.

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: 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 9: PROPOSITION 111 APPROPRIATION LIMITS

Proposition 111, which added Article XIIIB 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 2015-16 fiscal year, and believe the revenue to be in accordance with the guidelines established by Proposition 111.

Note 10: 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.