

COUNTY OF SAN BERNARDINO
SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 70
ZONE W-1

REPORT ON AUDIT

JUNE 30, 2007



ROGERS, ANDERSON, MALODY & SCOTT, LLP

CERTIFIED PUBLIC ACCOUNTANTS

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Board of Supervisors
County of San Bernardino
County of San Bernardino Special
District County Service Area
No. 70 - Zone W-1

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying basic financial statements of the County of San Bernardino Special District County Service Area No. 70 - Zone W-1 (CSA), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2007, 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 State Controller's Minimum Audit Requirement for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the County of San Bernardino Special District County Service Area No. 70 - Zone W-1, as of June 30, 2007, and the changes in its financial position and its cash flows 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.

The County of San Bernardino Special District County Service Area No. 70 - Zone W-1 has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Rogers, Anderson, Malody & Scott, LLP

September 26, 2007

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County of San Bernardino Special Districts
County Service Area No. 70 - Zone W-1
Statement of Net Assets
June 30, 2007

ASSETS

Current Assets:

Cash and cash equivalents	\$ 926,035
Accounts receivable, net	14,995
Taxes receivable	9,317
Interest receivable	10,813
Total Current Assets	<u>961,160</u>

Noncurrent Assets:

Capital Assets:

Land	3,500
Improvements to land	2,627,381
Structures and improvements	109,058
Vehicles	64,761
Accumulated depreciation	<u>(1,268,615)</u>
Total Noncurrent Assets	<u>1,536,085</u>

Total Assets	<u>2,497,245</u>
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LIABILITIES

Current Liabilities:

Accrued interest payable	3,438
Bonds payable	50,000
Total Current Liabilities	<u>53,438</u>

Noncurrent Liabilities:

Bonds payable	<u>775,000</u>
Total Noncurrent Liabilities	<u>775,000</u>

Total Liabilities	<u>828,438</u>
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NET ASSETS

Invested in capital assets, net of related debt	711,085
Unrestricted	<u>957,722</u>

Total Net Assets	<u>\$ 1,668,807</u>
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The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
County Service Area No. 70 - Zone W-1
Statement of Cash Flows
For the Year Ended June 30, 2007**

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 454,959
Payments to suppliers	(141,861)
Payments to employees	(296,892)
Net Cash Provided by Operating Activities	<u>16,206</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Property taxes	105,799
Special assessments	99,962
State assistance	2,380
Penalties	6,455
Other taxes	13,687
Other nonoperating revenues	9,736
Net Cash Provided by Noncapital Financing Activities	<u>238,019</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal paid on bonds	(50,000)
Interest paid on bonds	(43,750)
Net Cash (Used for) Capital and Related Financing Activities	<u>(93,750)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment earnings	41,652
Net Cash Provided by Investing Activities	<u>41,652</u>
Net Increase in Cash and Cash Equivalents	202,127
Cash and Cash Equivalents- beginning of the year	<u>723,908</u>
Cash and Cash Equivalents - end of the year	<u>\$ 926,035</u>

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

County of San Bernardino Special Districts
County Service Area No. 70 - Zone W-1
Notes to Financial Statements
June 30, 2007

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The County Service Area (CSA) No. 70, Improvement Zone W-1, *Goat Mountain*, was established by an act of the Board of Supervisors of the County of San Bernardino (the County) on January 21, 1946 under Section 4700 of the State Health & Safety Code. It is located 10 miles north of Yucca Valley in the Landers area. It provides water services for 437 properties and maintains 3 wells, 2 booster stations and reservoir storage of 420,000 gallons.

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-1 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, 2007.

Measurement focus, basis of accounting, and financial statement 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.

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.

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

County of San Bernardino Special Districts
County Service Area No. 70 - Zone W-1
Notes to Financial Statements
June 30, 2007

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Long-term obligations

Long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

NOTE 2: CASH AND DEPOSITS

Cash and cash equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and cash equivalents are shown at the fair value as of June 30, 2007.

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

NOTE 3: ACCOUNTS RECEIVABLE

At June 30, 2007, the accounts receivable was composed of the following:

Accounts receivable	\$ 90,259
Less: allowance for uncollectibles	<u>75,264</u>
Total accounts receivable, net	<u>\$ 14,995</u>

**County of San Bernardino Special Districts
County Service Area No. 70 - Zone W-1
Notes to Financial Statements
June 30, 2007**

NOTE 5: BONDS PAYABLE (continued)

Changes in long-term liabilities

Long-term liability activity for the year ended June 30, 2007, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable	<u>\$ 875,000</u>	<u>\$ -</u>	<u>\$ (50,000)</u>	<u>\$ 825,000</u>	<u>\$ 50,000</u>

NOTE 6: MOJAVE WATER AGENCY OPERATING LEASE

On March 11, 1991, CSA 70, Zone W-1 entered into a noncancelable operating lease agreement 91-166. Zone W-1 agreed to pay lease payments to Mojave Water Agency as a 4% participant in the Morongo Basin Pipeline. The lease payments are comprised of a fixed portion to cover debt on the water project and a variable portion for Operating and Maintenance costs. On March 7, 1995, Amendment A-1 was added to agreement 91-166. Amendment A-1 reduced the participation rate on Zone W-1 to 1% from 4%. The total lease payment made for the year ended June 30, 2007 was \$11,594. The lease payments are reflected as operating expenses in the Statement of Revenues, Expenses and Change in Net Assets (Exhibit B). The future minimum lease payments for the lease are as follows:

<u>Year Ending June 30,</u>	<u>Zone W-1</u>
2008	\$ 23,139
2009	23,158
2010	23,166
2011	23,159
2012	23,147
2013 - 2017	115,821
2018 - 2022	110,194
Total	<u>\$ 341,784</u>

**County of San Bernardino Special Districts
County Service Area No. 70 - Zone W-1
Notes to Financial Statements
June 30, 2007**

NOTE 7: RETIREMENT PLAN (continued)

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, 2007, were as follows (in thousands):

Annual Required Contribution (County fiscal year basis)	\$ 194,130
Interest on Pension Assets	(33,738)
Adjustment to the Annual Required Contribution	44,069
Annual Pension Cost	<u>204,461</u>
Annual Contributions Made	<u>194,130</u>
Increase/(Decrease) in Pension Assets	(10,331)
Pension Assets, Beginning of Year	<u>838,933</u>
Pension Assets, End of Year	<u><u>\$ 828,602</u></u>

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

Year Ended June 30,	Annual Contributions Made (in thousands)		Percentage Contributed
	SBCERA	County	
2005	\$ 161,906	\$ 141,450	100%
2006	\$ 197,343	\$ 166,614	100%
2007	\$ 239,857	\$ 194,130	100%

The County, along with the AQMD, issued Pension Refunding Bonds (the "Bonds") in November 1995 with an aggregate amount of \$420,527,000. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266,000. The current amount outstanding at June 30, 2007 is \$438,668,000.

On June 24, 2004, the County issued its County of San Bernardino Pension Obligation Bonds, Series 2004 A (Fixed Rate Bonds), its County of San Bernardino Pension Obligation Bonds, Series 2004 B (Auction Rate Bonds), and its County of San Bernardino Pension Obligation Bonds, Series 2004 C (Index Bonds) in respective aggregate principal amounts of \$189,070,070, \$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 S.B.C.E.R.A. The current amount outstanding at June 30, 2007 is \$459,930,000.

**County of San Bernardino Special Districts
County Service Area No. 70 - Zone W-1
Notes to Financial Statements
June 30, 2007**

NOTE 9: RISK MANAGEMENT (continued)

Changes in the claims liability amount in fiscal years 2006 and 2007 were:

<u>Fiscal Year</u>	<u>Beginning of Fiscal Year Liability (in thousands)</u>	<u>Current Year Claims and Changes in Estimates (in thousands)</u>	<u>Claims Payments (in thousands)</u>	<u>End of Fiscal Year Liability (in thousands)</u>
2005-06	\$ 115,714	\$ 46,926	\$ (35,407)	\$ 127,233
2006-07	\$ 127,233	\$ 34,312	\$ (31,862)	\$ 129,683

NOTE 10: CONTINGENCIES

As of June 30, 2007, 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.