COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
COUNTY SERVICE AREA NO. 70 ZONE R – 40 – UPPER NORTH BAY LAKE ARROWHEAD
FINANCIAL STATEMENTS
June 30, 2012

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
COUNTY SERVICE AREA NO. 70 ZONE R – 40 – UPPER NOTH BAY LAKE ARROWHEAD
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June 30, 2012

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An Independent CPA Firm

Board of Supervisors
County of San Bernardino
County of San Bernardino Special
District CSA No. 70 Zone R - 40
Upper North Bay Lake Arrowhead

Independent Auditors' Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the County of San Bernardino Special District CSA No. 70 Zone R – 40 – Upper North Bay Lake Arrowhead, a component unit of the County of San Bernardino, as of and for the year ended June 30, 2012, which collectively comprise the Districts basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the States Controller's Minimum Audit Requirement for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the County of San Bernardino Special District CSA No. 70 Zone R – 40 – Upper North Bay Lake Arrowhead as of June 30, 2012, and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

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

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Accounting principles generally accepted in the United States of America require that the budgetary comparison information 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.

Huntington Beach, California
December 5, 2012

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
County Service Area No. 70 - Zone R-40 - Upper North Bay Lake Arrowhead
Statement of Net Assets
June 30, 2012

ASSETS		
Cash and cash equivalents	$	42,418
Interest receivable		52
Special assessment receivable		250
Capital assets, net of depreciation		162,678
Total Assets		205,398
LIABILITES		
		-
NET ASSETS		
Invested in capital assets		162,678
Restricted for public works		42,720
Total Net Assets	$	205,398

See accompanying notes to basic financial statements.

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
County Service Area No. 70 - Zone R-40 - Upper North Bay Lake Arrowhead
Statement of Activities
For the Year Ended June 30, 2012

Expenses		
Salaries and benefits	$	5,422
Services and supplies		4,480
Depreciation		7,504
Total Expenses		17,406
Program Revenues		
Charges for services		19,751
Net Program Revenue (Expense)		2,345
General Revenues		
Property taxes		544
Investment earnings		155
Total general revenues		699
Change in net assets		3,044
Net assets at beginning of year		202,354
Net assets at end of year	$	205,398

See accompanying notes to basic financial statements.

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
County Service Area No. 70 - Zone R-40 - Upper North Bay Lake Arrowhead
Balance Sheet
Government Fund
June 30, 2012

	SPECIAL REVENUE FUND General (RGW)
Assets	
Cash and cash equivalents	$ 42,418
Interest receivable	52
Special assessments receivable	250
Total assets	$ 42,720
Liabilities and Fund Balances	
Liabilities	$ -
Fund Balance:	
Restricted for:	
Road Maintenance	42,720
Total Fund Balance	42,720
Total Liabilities and Fund Balance	$ 42,720
Total Fund Balance - Government Fund	$ 42,720
Amounts reported for govermental activities in the statement of net assets are different because:	
Capital assets used in government activities are not financial resources and, therefore, are not reported in the fund.	162,678
Net Assets of Government Activities	$ 205,398

See accompanying notes to basic financial statements.

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
County Service Area No. 70 - Zone R-40 - Upper North Bay Lake Arrowhead
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Fund
For the Year Ended June 30, 2012

	SPECIAL REVENUE FUND General (RGW)
Revenues	
Property taxes	$ 544
Special assessments	19,751
Investment earnings	155
Total Revenues	20,450
Expenditures	
Salaries and benefits	5,422
Services and supplies	4,480
Total Expenditures	9,902
Net Change in Fund Balance	10,548
Fund Balance - beginning	32,172
Fund Balances - ending	$ 42,720

See accompanying notes to basic financial statements.

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
County Service Area No. 70 - Zone R-40 - Upper North Bay Lake Arrowhead
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balance of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2012

Net change in fund balances - total governmental funds	$	10,548
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures.		
However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense ($7,505) exceeded capital outlay (&-0-) in the current period.		(7,504)
Changes in net assets of governmental activities	$	3,044

See accompanying notes to basic financial statements.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of County Service Area No. 70, Improvement Zone R-40 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 No. 70, Improvement Zone R-40 was approved by the Board of Supervisors of the County of San Bernardino (the County) on March 20, 2001 to maintain approximately 0.5 miles of the paved upper north bay access road for residents in the Blue Jay area of Lake Arrowhead.

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 R-40 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, 2012.

Government-wide and fund financial statements

The government-wide financial statements (e.g., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the reporting entity. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which 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. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general 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. Currently, the CSA does not have any proprietary or fiduciary fund types. Major individual governmental funds are reported as separate columns in the fund financial statements.

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*. 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. 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 government reports the following major governmental fund:

> The *special revenue fund* labeled "General" is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

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.

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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deposits and investments

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

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (e.g., the current portion of interfund loans) or "advances to/from other funds" (e.g., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Currently, the CSA does not have any business-type activities.

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on March 1 and become delinquent with penalties on August 31.

Inventories and prepaid items

Inventories, if any, are valued at cost using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than $5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of two years. Structures with an initial cost of $100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Property, plant and equipment of the government is depreciated using the straight-line method over the following estimated useful lives:

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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 – Mandatory Contingencies or the General Fund - Uncertainties Contingencies until allocated for a specific purpose by the Board, by a four-fifths vote.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 fixed assets within 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 commitment will be reappropriated and honored during the subsequent year.

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 CSA's account based upon the CSA's average daily deposit balance during the allocation period. Cash and cash equivalents are shown at the fair value as of June 30, 2012.

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

NOTE 3: CAPITAL ASSETS

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

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental activities:				
Capital assets being depreciated:				
Improvements to Land	$ 240,095	$ -	$ -	$ 240,095
Total capital assets being depreciated	240,095	-	-	240,095
Less accumulated depreciation for:				
Improvements to Land	(69,913)	(7,504)	-	(77,417)
Total accumulated depreciation	(69,913)	(7,504)	-	(77,417)
Total capital assets being depreciated, net	$ 170,182	$ (7,504)	$ -	$ 162,678

NOTE 4: RETIREMENT PLAN

Plan description

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the Plan) operating under the California County Employees Retirement Law of 1937 (the 1937 Act). It provides retirement, death and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, California State Association of Counties, South Coast Air Quality Management District (SCAQMD), San Bernardino Associated Governments (SANBAG), Local Agency Formation Commission (LAFCO), San Bernardino County Law Library, Barstow Fire Protection District, Hesperia Recreation and Park District, SBCERA, City of Chino Hills, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (MDAQMD), California Electronic Recording Transaction Network Authority (CERTNA), Inland Valley Development Agency (IVDA), San Bernardino International Airport Authority (SBIAA), the San Bernardino County Superior Court, Inland Library system (ILS), Rim of the World Recreation and Park District (RIM-REC), Department of Water and Power for the City of Big Bear Lake and Crestline Sanitation District were later included, along with the County, and are collectively referred to as the "Plan Sponsors" or "employers". The plan is governed by the SBCERA Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years of service credit.

SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3rd Floor, San Bernardino, California 92415-0014.

Fiduciary responsibility

SBCERA is controlled by its own board, the Board of Retirement, which acts as a fiduciary agent for the accounting and control of employer and employee contributions and investment income. SBCERA publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. SBCERA is also a legally separate entity from the County and not a component unit.

NOTE 4: RETIREMENT PLAN (continued)

Funding policy

Participating members are required by statute (Sections 31621.6 and 31639.25 of the California Government Code) to contribute a percentage of covered salary based on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 7.42% - 12.95% for general members and 9.54% - 15.32% for safety members (refundable rates), of their annual covered salary of which the County pays approximately 7% (for certain employee units). County of San Bernardino employer contribution rates are as follows: County General 14.50%, County Safety 30.89%. All employers combined are required to contribute an average 17.85% of the current year covered payroll. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 and 31454 of the 1937 Act.

The County's annual pension cost and prepaid asset, computed in accordance with GASB 27, Accounting for Pensions by State and Local Governmental Employers, for the year ended June 30, 2012, were as follows (in thousands):

Annual Required Contribution (County fiscal year basis)	$	229,169
Interest On Pension Assets		(55,733)
Adjustment To The Annual Required Contribution		73,086
Annual Pension Cost		246,522
Annual Contributions Made		229,169
Increase/(Decrease) in Net Pension Assets		(17,353)
Net Pension Asset, Beginning of Year		719,134
Net Pension Asset, End of Year	$	701,781

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

	Annual Required Contribution		
Year Ended June 30	SBCERA	County	Percentage Contributed
2010	$ 243,773	$ 197,097	100%
2011	258,128	213,311	100%
2012	278,091	229,169	100%

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

NOTE 4: RETIREMENT PLAN (continued)

On June 24, 2004, the County issued its County of San Bernardino Pension Obligation Bonds, Series 2004 A (Fixed Rate Bonds), its County of San Bernardino Pension Obligation Bonds, Series 2004 B (Auction Rate Bonds), and its County of San Bernardino Pension Obligation Bonds, Series 2004 C (Index Bonds) in a respective aggregate principal amounts of $189,070, $149,825, and $125,000. The Bonds were issued to finance the County's share of the unfunded accrued actuarial liability of the SBCERA. In April 2008, the County refunded all of the 2004 Series B.

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

NOTE 5: 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 6: RISK MANAGEMENT

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability, and workers' compensation claims. Public liability claims are self-insured for up to $2.5 million per occurrence. Excess insurance coverage over the Self-Insured Retention (SIR) up to $100 million is provided through a combination of insurance policies as recommended by Arthur J. Gallagher & Co., Broker of Record, as follows: Primary Liability coverage $25 million excess of $2.5 million self-insured retention with Starr Indemnity & Liability Co.; Excess Liability coverage of $10 million, excess of $25 million with Allied World Assurance Co.; and Excess Liability coverage $15 million, excess of $35 million with Great American Insurance Company of New York. In addition, Ironshore Specialty Ins. Co. provides excess liability coverage of $10 million, excess of $50 million; Allied World Assurance Co. provides $15 million, excess of $60 million; and Arch Insurance Co. provides $25 million in excess of $75 million. Workers' compensation claims are self-insured up to $10 million per occurrence, and covered by Arch Ins. Co. for up to $3 million for employer's liability, and up to statutory limits for workers' compensation per occurrence. Property damage claims are insured on an occurrence basis over a $25 thousand deductible, and insured with several insurers like Lexington Ins. Co., Affiliated FM, and Lloyd's of London, among others.

The County supplements its self-insurance for medical malpractice claims with a $10 million policy with Illinois Union Ins. Co., which provides annual coverage on a claim made form basis with a SIR of $2 million for each claim. Additional coverage of $15 million, excess of $10 million is provided by Steadfast Ins. Co. All public officials and County employees are insured under a blanket Comprehensive Disappearance, Destruction, and Dishonesty policy covering County monies and securities, with National Union Fire Ins. Co. of Pittsburgh with a $100 thousand deductible, and excess limits up to $10 million per occurrence.

NOTE 6: RISK MANAGEMENT (continued)

The activities related to such programs are accounted for in Risk Management except for unemployment insurance, and employee dental insurance, which are accounted for in the General Fund. The IBNR (Incurred But Not Reported) and IBNS (Incurred But Not Settled) liabilities stated on Risk Management's balance sheet are based upon the results of actuarial studies, and include amounts for allocated and unallocated loss adjustment expenses. The liabilities for these claims are reported using a discounted rate of 0.493%. It is Risk Management's practice to obtain actuarial studies on an annual basis.

The total claims liability of $167 million reported at June 30, 2012 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements, and the amount of the loss can be reasonably estimated.

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

Fiscal Year	Beginning of Fiscal Year Liability (in thousands)	Current Year Claims and Changes in Estimates (in thousands)	Claims Payments (in thousands)	End of Fiscal Year Liability (in thousands)
2010-11	$ 145,394	$ 40,832	$ (35,275)	$ 150,951
2012-12	$ 150,951	$ 58,008	$ (42,010	$ 166,949

NOTE 7: CONTINGENCIES

As of June 30, 2012, in the opinion of the CSA Administration, there are no outstanding matters, which would have a significant effect on the financial position of the CSA.

NOTE 8: PROPOSITION 111 APPROPRIATION LIMITS

Proposition 111, which added Article XIIB to the State Constitution, established limited on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the CSA during the 2011-2012 fiscal year, and have found the revenue to be within the guidelines established by proposition 111.

NOTE 9: SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 5, 2012, which is the date the financial statements were available to be issued, and has determined that there are no transactions that will have a significant impact on the CSA.

COUNTY OF SAN BERNARDINO SPECIAL DISTRICTS
COUNTY SERVICE AREA NO. 70 - Zone R-40 - Upper North Bay Lake Arrowhead
Budgetary Comparison Schedule - Special Revenue Fund (General)
For the Year Ended June 30, 2012

	SPECIAL REVENUE FUND			
	General (RGW)			
	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Property taxes	$ 140	$ 545	$ 544	(1)
Special Assessments	17,250	19,752	19,751	(1)
Investment earnings	175	175	155	(20)
Total revenues	17,565	20,472	20,450	(22)
Expenditures				
Salaries and benefits	7,161	6,570	5,422	1,148
Services and supplies	42,503	46,001	4,480	41,521
Total Expenditures	49,664	52,571	9,902	42,669
Net Change in Fund Balance	$ (32,099)	$ (32,099)	10,548	$ 42,647
Fund balances - beginning			32,172	
Fund balances - ending			$ 42,720	