

**COUNTY OF SAN BERNARDINO  
CALIFORNIA  
SPECIAL DISTRICTS**

**REPORT ON AUDIT**

**COUNTY FLOOD CONTROL DISTRICT**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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Flood Control District  
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INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and the major fund of the County of San Bernardino Special District - Flood Control (the District), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2011, which collectively comprise the District's 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 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, the standards applicable to financial statements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the State Controller's Minimum Audit Requirements 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 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, and the major fund of the County of San Bernardino Special District - Flood Control as of June 30, 2011, and the respective changes in financial position and, where applicable, cash flows 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.

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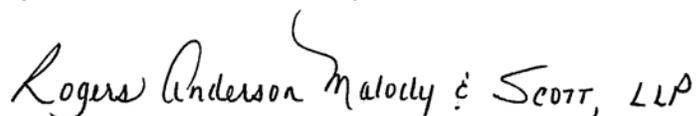
During the year under audit, the District adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2011, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management has omitted the management's discussion and analysis 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 on page 43 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements as a whole. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements are the responsibility of management and were derived from, and relate directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

 Rogers Anderson Malooly & Scott, LLP

November 30, 2011

County of San Bernardino  
Flood Control District  
Statement of Net Assets  
June 30, 2011

	Governmental Activities <u>Flood Control</u>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents (note 2)	\$ 19,728,832
Cash with fiscal agent (note 2)	40,259,052
Customer deposits (note 10)	60,000
Cash in trust	5,811,423
Interest receivable	22,541
Taxes receivable	1,274,938
Due from other governments	4,713,974
Total current assets	<u>71,870,760</u>
Noncurrent assets:	
Accounts receivable	3,272,102
Capital assets (note 3):	
Land	32,704,061
Buildings	759,462
Construction in progress	63,022,190
Channels, drains, dams, basins	412,077,999
Equipment and vehicles	14,517,142
Less accumulated depreciation	(218,482,990)
Deferred charges	1,391,303
Total noncurrent assets	<u>309,261,269</u>
Total assets	<u>381,132,029</u>

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

**County of San Bernardino  
Flood Control District  
Statement of Net Assets  
June 30, 2011**

	<u>Governmental Activities Flood Control</u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	\$ 3,413,807
Salaries and benefits payable	483,797
Retentions payable (note 11)	696,692
Interest payable	1,446,883
Due to other governments	1,740,135
Deferred revenue (note 4)	1,087,798
Employee compensated absences - current portion (note 1 & 8)	443,028
Bonds payable - current portion (note 6 & 8)	3,345,000
Customer deposits (note 9)	196,420
Total current liabilities	<u>12,853,560</u>
Noncurrent liabilities:	
Employee compensated absences (note 1 & 8)	1,329,086
Loans payable (note 5 & 8)	4,000,000
Bonds payable (note 6 & 8)	108,210,000
Deferred loss on refunding bond (note 8)	(650,700)
Premium on bonds (note 8)	1,335,893
Total noncurrent liabilities	<u>114,224,279</u>
Total liabilities	<u>127,077,839</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	254,594,559
Unrestricted	<u>(540,369)</u>
Total net assets (note 10)	<u><u>\$ 254,054,190</u></u>

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

**County of San Bernardino  
Flood Control District  
Statement of Activities  
For the Fiscal Year Ended June 30, 2011**

	Governmental Activities Flood Control
<b>EXPENSES</b>	
Salaries and benefits	\$ 15,054,110
Services and supplies	22,225,951
Depreciation	9,000,010
Interest	3,742,276
Total program expenses	50,022,347
 <b>PROGRAM REVENUES</b>	
Operating grants and contributions	16,798,468
Net program expense	(33,223,879)
 <b>GENERAL REVENUES</b>	
Property taxes	36,164,379
Other taxes	266,880
Interest	318,142
Rents, concessions and royalties	931,262
Other	4,057,071
Intergovernmental	924,458
Gain on sale of capital assets	2,917,187
Total general revenues	45,579,379
 Change in net assets	 12,355,500
 <b>Net assets - beginning</b>	 241,698,690
 <b>Net assets - ending</b>	 \$ 254,054,190

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

**County of San Bernardino  
Flood Control District  
Balance Sheet  
Governmental Funds  
June 30, 2011**

	Flood Control
<b>ASSETS</b>	
Cash and cash equivalents	\$ 14,679,623
Cash with fiscal agent	40,259,052
Customer deposits	60,000
Cash in trust	5,811,423
Interest receivable	12,589
Taxes receivable	1,274,938
Due from other governments	4,702,624
Total assets	\$ 66,800,249
<b>LIABILITIES AND FUND BALANCE</b>	
Liabilities:	
Accounts payable	\$ 3,413,807
Salaries and benefits payable	483,797
Retention payable	696,692
Due to other funds	91,199
Due to other governments	1,740,135
Deferred revenue	1,087,798
Customer deposits	196,420
Total liabilities	7,709,848
Fund balances:	
Assigned	2,059,176
Restricted for:	
Flood control	57,423,963
Unassigned	(392,738)
Total fund balance	59,090,401
Total liabilities and fund balance	\$ 66,800,249

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

**County of San Bernardino  
Flood Control District  
Reconciliation of the Balance Sheet of Governmental  
Funds to the Statement of Net Assets  
June 30, 2011**

Fund balance - governmental funds		\$ 59,090,401
<p>Amounts reported for <i>governmental activities</i> in the Statement of Net Assets are different because:</p>		
Internal Service Fund's working capital is combined into the government-wide Statement of Net Assets for reporting purposes.		5,161,710
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund financial statements.		304,597,864
Long-term receivables related to capital assets are not receivable in the current period and are not reported in the governmental fund's balance sheet.		3,272,102
<p>Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds.</p>		
Bonds payable	\$ (111,555,000)	
Loans payable	(4,000,000)	
Less: deferred charges	1,391,303	
Less: deferred loss on refunding bond	650,700	
Plus: premium on debt	(1,335,893)	
Accrued interest payable	(1,446,883)	
Long-term compensated absences payable	(1,772,114)	(118,067,887)
Net assets of governmental activities		<u>\$ 254,054,190</u>

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

**County of San Bernardino**  
**Flood Control District**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Governmental Funds**  
**For the Fiscal Year Ended June 30, 2011**

	Flood Control
<b>REVENUES</b>	
Property taxes	\$ 36,164,379
Other taxes	266,880
Governmental aid	16,798,468
Rents, concessions and royalties	931,262
Interest	278,686
Intergovernmental	924,458
Other	1,052,046
	56,416,179
<b>EXPENDITURES</b>	
Salaries and benefits	15,002,060
Services and supplies	34,843,516
Debt service:	
Principal	3,741,842
Interest	3,897,303
Capital outlay:	
Easements / right of way	93,747
	57,578,468
Excess of revenues over (under) expenditures	(1,162,289)
<b>OTHER FINANCING SOURCES (USES)</b>	
Sale of capital assets	2,929,816
	2,929,816
Net change in fund balance	1,767,527
<b>Fund balance - beginning</b>	<b>57,322,874</b>
<b>Fund balance - ending</b>	<b>\$ 59,090,401</b>

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

**County of San Bernardino  
Flood Control District  
Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balance of Governmental Funds to the  
Statement of Activities  
For the Fiscal Year Ended June 30, 2011**

Net change in fund balance - total governmental funds	\$	1,767,527
<p>Amounts reported for <i>governmental activities</i> in the Statement of Activities are different because:</p>		
<p>Internal Service Fund's net change in fund balance is "rolled into" the governmental funds' fund balance for reporting purposes in the government-wide Statements of Activities. This is the amount by which the internal service fund's net assets increased.</p>		112,131
<p>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 (\$7,925,930) was exceeded by capital outlay (\$14,640,533) in the current period.</p>		6,714,603
<p>In the Statement of Activities, only the gain on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the capital assets sold.</p>		(1,284)
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has an effect on net assets.</p>		
Deferred charges	\$	11,794
Principal payments on bonds		3,195,000
Principal payments on loans		546,842
		3,753,636
<p>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.</p>		
Decrease in accrued interest payable		60,937
Increase in compensated absences payable		(52,050)
Change in net assets of governmental activities	\$	12,355,500

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

**County of San Bernardino  
Flood Control District  
Statement of Net Assets  
Proprietary Fund  
June 30, 2011**

	<u>INTERNAL SERVICE FUND Equipment Rental</u>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 5,049,209
Interest receivable	9,952
Due from other funds	91,199
Due from other governments	<u>11,350</u>
Total current assets	<u>5,161,710</u>
Noncurrent assets:	
Vehicles	14,477,411
Equipment	13,052
Less accumulated depreciation	<u>(10,183,950)</u>
Total noncurrent assets	<u>4,306,513</u>
Total assets	<u>9,468,223</u>
<b>LIABILITIES</b>	
Total liabilities	<u>-</u>
<b>NET ASSETS</b>	
Invested in capital assets	4,306,513
Unrestricted	<u>5,161,710</u>
Total net assets	<u><u>\$ 9,468,223</u></u>

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

**County of San Bernardino**  
**Flood Control District**  
**Statement of Revenues, Expenses, and Changes in Net Assets**  
**Proprietary Fund**  
**For the Fiscal Year Ended June 30, 2011**

	INTERNAL SERVICE FUND Equipment Rental
<b>OPERATING REVENUES</b>	
Charges for services	\$ 3,005,025
Total operating revenues	3,005,025
<b>OPERATING EXPENSES</b>	
Services and supplies	1,845,641
Depreciation	1,074,080
Total operating expenses	2,919,721
Operating income	85,304
<b>NONOPERATING REVENUES</b>	
Investment earnings	39,456
Loss on sale of capital assets	(12,629)
Total nonoperating revenues	26,827
Change in net assets	112,131
<b>Net assets - beginning</b>	9,356,092
<b>Net assets - ending</b>	\$ 9,468,223

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

**County of San Bernardino  
Flood Control District  
Statement of Cash Flows  
Proprietary Fund  
For the Fiscal Year Ended June 30, 2011**

	INTERNAL SERVICE FUND Equipment Rental
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from interfund services provided	\$ 3,106,143
Payments to suppliers	(1,847,281)
Net cash provided by operating activities	1,258,862
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Investment earnings	39,840
Proceeds from sale of capital assets	4,314
Net cash provided by investing activities	44,154
Net increase in cash and cash equivalents	1,303,016
<b>Cash and cash equivalents - beginning of the year</b>	<b>3,746,193</b>
<b>Cash and cash equivalents - end of the year</b>	<b>\$ 5,049,209</b>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>	
Operating income	\$ 85,304
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	1,074,080
Change in assets and liabilities:	
Decrease in due from other funds	7,197
Decrease in due from other governments	93,921
Decrease in due to other funds	(1,640)
Net cash provided by operating activities	<b>\$ 1,258,862</b>

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

**County of San Bernardino  
Flood Control District  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2011**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting entity**

The County Flood Control District (the District) is a special district located within the County of San Bernardino. The District has governmental powers as established by the San Bernardino County Government Charter (the County). The County was established in 1852 as a legal subdivision of the State of California.

The District was established under Chapter 73 of the 1939 Statutes for the State of California. The District's powers are exercised through the Board of Supervisors (the Board), which is the governing body for the County. The District maintains and constructs flood control channels, basins, storm drains and dams in six geographical zones within San Bernardino County. The District also works with the neighboring counties of Los Angeles, Riverside and Orange to maintain flood control systems and clean up after disasters.

The governmental reporting entity consists of the six flood control zones, administration, the internal service fund (equipment rental) and their related groups of funds. The District is a component unit of the County. Component units are legally separate organizations for which the Board is financially accountable or other organizations whose nature and significant relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and (i) either the County's ability to impose its will on the organization or (ii) there is potential for the organization to provide a financial benefit to or impose a financial burden on the County.

The accompanying financial statements reflect only the accounts of the District and are not intended to present the financial position of the County taken as a whole.

The District's six zones, administration and the internal service fund have combined resources within the County to form an integrated flood drainage and water conservation system in the incorporated and unincorporated areas of the County. The six flood control zones are as follows:

<u>Zone</u>	<u>Geographical Areas (Description)</u>
1	The westerly portion of the San Bernardino Valley extending from Beech Avenue in the Fontana area to the Los Angeles County line, all south of the San Gabriel mountain range divide. This embraces the cities or communities of Upland, Montclair, Ontario, Chino, Alta Loma, Rancho Cucamonga, Etiwanda and Guasti (277 square miles).
2	The central areas of the San Bernardino Valley east of Zone 1 to approximately the Santa Ana River and City Creek demarcations. This includes the cities of Fontana, Rialto, San Bernardino, Colton and Grand Terrace, together with the communities of Devore, Muscoy, Del Rosa, and Bloomington (315 square miles).

**County of San Bernardino  
Flood Control District  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2011**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued***

**Reporting entity - *Continued***

<u>Zone</u>	<u>Geographical Areas (Description)</u>
3	The east end of the San Bernardino Valley east from Zone 2 including the cities and communities of Redlands, Highland, East Highland, Mentone, Yucaipa and Loma Linda (393 square miles).
4	The Mojave River Valley from the San Bernardino mountains to Silver Lake including the cities and communities of Barstow, Hesperia, Apple Valley, Victorville, Oro Grande, Helendale, Hodge, Hinkley, Yermo and Daggett (1,129 square miles).
5	The mountainous watershed of the Mojave River on the crest and north slopes of the San Bernardino mountains including the communities of Crestline, Lake Gregory, Lake Arrowhead, Running Springs and Green Valley Lake (175 square miles).
6	The remainder of the County not embraced by other zones including portions of the San Gabriel and San Bernardino mountains and the semi-desert portion of the County. This embraces the cities and communities of Needles, Trona, Adelanto, Phelan, Lucerne Valley, Amboy and the Twenty-nine Palms-Morongo Valley districts (17,900 square miles).

The District also has three Local Area Drainage Plans (LADP), the National Pollution Discharge Elimination System Program (NPDES) and the Bark Beetle Hazardous Tree Removal Program, which are reported with the Zones.

**Government-wide and fund financial statements**

The government-wide financial statements (i.e., the Statement of Net Assets 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*, 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 is 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. Likewise, general revenues include all taxes.

**County of San Bernardino  
Flood Control District  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2011**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued***

**Government-wide and fund financial statements - *Continued***

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**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 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 property tax revenues and interest 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 federal and state grants, the County expanded its definition of "available" to nine 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 government reports the following major governmental funds:

The *special revenue funds* used in Zones 1-6, LADP, NPDES, and the Bark Beetle Hazardous Tree Removal Program are the government's primary operating funds. The funds account for all financial resources of the general government, except those required to be accounted for in another fund.

**County of San Bernardino  
Flood Control District  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2011**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued***

**Measurement focus basis of accounting and financial statement presentation –  
*Continued***

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 these same limitations. 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 operation. The principal operating revenue of the Flood Control District is charges to customers for equipment rental. Operating expenses for the proprietary fund 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 non-operating revenues and expenses.

The government reports the following major proprietary fund:

The *internal service fund* labeled "Equipment Rental" accounts for the activities of renting the vehicles and equipment to the six zones in Flood Control and the County Department of Transportation.

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 cash equivalents**

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

Cash and cash equivalents include the cash balances of substantially all funds, which are pooled and invested by the County Treasurer to increase interest earnings through investment activities.

Investment activities are governed by the California Government Code Sections 53601, 53635, and 53638 and the County's Investment Policy. Authorized investments include U.S. Government Treasury and Agency securities, bankers' acceptances, commercial paper, medium term notes, mutual funds, repurchase agreements, and reverse repurchase agreements.

**County of San Bernardino  
Flood Control District  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2011**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued***

**Cash and cash equivalents - *Continued***

Interest income and realized gains and losses earned on pooled investments are deposited quarterly to the District's accounts based upon the District's average daily deposit balances during the quarter. Unrealized gains and losses of the pooled investments are distributed to the District annually. Cash and cash equivalents are shown at fair value as of June 30, 2011.

**Receivables**

All accounts receivable are shown net of an allowance from uncollectibles when applicable. The accounts receivable balance at June 30, 2011 was \$3,272,102.

**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 the March 1 lien date and become delinquent with penalties on August 31.

**Capital assets**

Capital assets, which include property, plant and equipment and infrastructure assets (e.g., dams, channels, drainage systems), 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, structures and equipment and vehicles) 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 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.

**County of San Bernardino  
Flood Control District  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2011**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued***

**Capital assets - *Continued***

Infrastructure, buildings, equipment and vehicles are depreciated using the straight-line method or the productive hours method over the following estimated useful lives:

	Estimated Useful Lives
Basins, storm drains, channels, dams	50 to 99 years
Vehicles, governmental funds	6 years
Equipment, governmental funds	6 to 15 years
Buildings, structures	45 years
 Internal Service Fund (Proprietary)	
Equipment and vehicles	productive hours

**Fund equity**

Beginning with the current fiscal year, the District 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.

**County of San Bernardino  
Flood Control District  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2011**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued***

**Fund equity - *Continued***

- ***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.

When both restricted and unrestricted resources are available for use when 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.

**Employee compensated absences**

Accumulated vacation, holiday benefits, sick pay and compensatory time are recorded as an expense and liability as the benefits are earned. Compensated absences liability is recorded as a noncurrent liability. In the event of retirement or termination, an employee is paid 100% of accumulated vacation pay, and those with ten or more years of continuous services are paid 30% to 60% of their accumulated sick leave.

Compensated absences activity for the year ended June 30, 2011 was as follows:

<b>Beginning Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance</b>
\$ 1,720,064	\$ 1,206,067	\$ 1,154,017	\$ 1,772,114

**County of San Bernardino  
Flood Control District  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2011**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued***

**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 District 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 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 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.

**NOTE 2 - CASH AND INVESTMENTS**

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. The County sponsors an external investment pool (the County Pool) which includes cash and investments held by certain joint powers authorities and cash held by various trustee financial institutions in accordance with the California Government Code. 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, 2011.

The District's portion in the County Pool represents 0.48% of the total pool. Information and amounts indicated below are for the entire County (unless otherwise indicated) of which the District is only an internal pool participant.

**County of San Bernardino  
Flood Control District  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2011**

**NOTE 2 - CASH AND INVESTMENTS - *Continued***

State law requires that all operating monies of the County, school districts, and board-governed special districts be held by the County Treasurer. The net asset value associated with legally mandated participants in the asset pool was \$2,150,914,000 at June 30, 2011.

As of June 30, 2011, the fair value of the County Pool was \$4.11 billion, of which the District's portion was \$19.7 million. Approximately 7.9% of the County pool is attributable to the County General Fund, with the remainder of the balance comprised of other County funds, school districts and special districts. Additionally, as of June 30, 2011, \$221,265,000 of the amounts deposited in the County pool was attributable to depositors who are not required to, but choose to, invest in the County pool. These include independent special districts, State Trial Court, and other governmental agencies. The deposits held for both involuntary and voluntary external entities are reported in the Investment Trust Fund.

The fair value of the pool is determined monthly, and depends on, among other factors, the maturities and types of investments and general market conditions. The fair value of each participant's position including both voluntary and involuntary participants is the same as the value of the pool share. The method used to determine participants' equity withdrawn is based on the daily average book value of the participants' percentage participation in the pool.

The County has not produced or provided any letters of credit or legal binding guarantees as supplemental support of Pool values during the year ended at June 30, 2011. The Pool provides monthly reporting to both the Board of Supervisors and the County Treasury Oversight Committee who also review and approve investment policy.

The County pools its external participants' investments with the County Pool. The average rate of return on investments during fiscal year 2011 was 0.71%.

On June 28, 2011, the County purchased Federal Home Loan Bank Callable Notes, which were settled on July 14, 2011 for \$49,990,000. As a result, cash in banks at June 30, 2011 decreased.

**County of San Bernardino  
Flood Control District  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2011**

**NOTE 2 - CASH AND INVESTMENTS - *Continued***

A summary of the District's portion of the investments held by the County as of June 30, 2011, is as follows:

<u>Investment Type</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Interest Rate Range</u>	<u>Maturity Range</u>	<u>Average Maturity</u>
U.S. Treasury Securities	\$ 1,567,741	\$ 1,574,131	0.20% - 1.90%	07/31/11-07/15/13	472
U.S. Government Agencies	9,426,654	9,463,217	0.22% - 3.20%	07/27/11-07/30/14	622
U.S. Agency Discount Notes	119,466	119,941	0.40%	07/11/11	1
Negotiable Certificates of Deposit	3,766,164	3,765,771	0.18% - 0.29%	07/01/11-12/28/11	76
Commercial Paper	4,197,011	4,197,764	0.04% - 0.36%	07/01/11-09/01/11	11
TLGP Corporate Notes	482,287	483,270	1.11% - 1.74%	07/15/11-03/30/12	141
Money Market Mutual Funds	124,738	124,738	0.01%	07/01/11	1
<b>Total Treasurer's Pooled Investments</b>	<b>19,684,061</b>	<b>19,728,832</b>			
Investments Controlled by Fiscal Agents:					
Municipal Bonds	8,941,000	8,941,000			
Mutual Funds	31,318,052	31,318,052			
Total Investments Controlled by Fiscal Agents	<u>40,259,052</u>	<u>40,259,052</u>			
<b>Total Cash and Investments</b>	<b><u>\$ 59,943,113</u></b>	<b><u>\$ 59,987,884</u></b>			

**Investments authorized by debt agreement**

Investment of debt proceeds held by bond trustees are governed by provisions of the trust agreements, created in connection with the issuance of debt rather than the general provisions of the California Government Code. Certificates of Participation and Revenue Bond indentures specify the types of securities in which proceeds may be invested as well as any related insurance, collateral, or minimum credit rating requirements. Although requirements may vary between debt issues, money market funds are all required to be investment grade. Guaranteed investment contracts are required to be acceptable to the municipal bond insurer. The fair value of investments is based on the valuation provided by trustee banks. Investment contracts are recorded at cost.

Federal Treasury regulations limit the amount of tax exempt obligations that can be issued based on cash levels maintained by the agency issuing the obligations. Because of the nature of the services provided by the District, it was determined at the time the Judgment Obligation Bonds were issued that cash balances in excess of those allowed by the regulations must be maintained to ensure that the District can continue to provide the proper level of service to the public.

Taking into account the District's need for cash and in order to comply with the Federal Treasury regulations any cash on hand in excess of what the regulations allow must be segregated from other funds in the County Treasury Pool and must be invested in certain tax-exempt securities. The Indenture requires the District to cause the calculation of excess cash to be made annually.

**County of San Bernardino  
Flood Control District  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2011**

**NOTE 2 - CASH AND INVESTMENTS - Continued**

As of June 30, 2011, the District has on deposit \$40,259,052 of segregated funds that are invested as required by the Treasury Regulations.

**Investment credit risk**

*Investment credit risk* exists when there is a possibility the issuer or other counterparty to an investment may be unable to fulfill its obligations. GASB Statement No. 40 requires the disclosure of credit quality ratings for investments in debt securities as well as investments in external investment pools, money market funds, and other pooled investments of fixed income securities.

California Law and San Bernardino County Treasury Pool Investment Policy (where more restrictive) place limitations on the purchase of investments in the County Pool. Purchases of commercial paper and negotiable certificates of deposit are restricted to the top two ratings issued by a minimum of two of three nationally recognized statistical rating organizations (NRSRO's). For an issuer of short-term debt, the rating must be no less than A-1 (S&P), P-1 (Moody's), or F-1 (Fitch) while an issuer of long-term corporate debt must have a minimum letter rating of "AA". Federal Agency notes and bonds, municipal notes and bonds, and money market mutual funds must have a minimum letter rating of "AAA" (AAAe letter rating is acceptable for U.S. Treasury Securities and Federal Agency Securities, including securities issued under TLGP). Limits are also placed on the maximum percentage investment by sector and by individual issuer (see schedule). As of June 30, 2011, all investments held by the County Pool were within policy limits.

<b>Investment Type</b>	<b>S&amp;P Rating</b>	<b>Moody's Rating</b>	<b>Fitch Rating</b>	<b>Maximum Allowed % of Portfolio</b>	<b>Individual Issuer Limitations</b>	<b>Weighted % of Pool 6/30/2011</b>
U.S. Treasury Securities	AAA	Aaa	AAA	100	None	7.98
U.S. Government Agencies	AAA	Aaa	AAA	100	None	48.57
Negotiable Certificates of Deposit	A1+	P1	F1+	30	5%	19.09
Commercial Paper	A1+	P1	F1+	40	5%	12.68
Commercial Paper	A1	P1	F1+	40	5%	4.30
Commercial Paper	A1	P1	N/R	40	5%	4.30
TLGP Corporate Notes	AAA	Aaa	AAA	30	None	2.45
Money Market Mutual Funds	AAA	Aaa	AAA	15	10%	0.63

The District's portion of the County's investments controlled by fiscal agents were rated as of June 30, 2011 as follows:

<b>Investment Type</b>	<b>S&amp;P Rating</b>	<b>Moody's Rating</b>	<b>Fitch Rating</b>	<b>Weighted % of Pool 6/30/2011</b>
Municipal Bonds	AAA	Aaa	AAA	7.26
Mutual Funds	AAA	Aaa	N/R	25.40

**County of San Bernardino  
Flood Control District  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2011**

**NOTE 2 - CASH AND INVESTMENTS - *Continued***

**Concentration of credit risk**

An increased risk of loss occurs as more investments are acquired from one issuer (i.e. lack of diversification). This results in a *concentration of credit risk*.

GASB Statement No. 40 requires disclosure of investments by amount and issuer that represent five-percent or more of total investments held. This requirement excludes investments issued or explicitly guaranteed by the United States Government, investments in mutual funds, external investment pools, and other pooled investments.

As of June 30, 2011, the following issuers represented more than five-percent of the District's portion of the County Pool balance:

<u>Issuer</u>	<u>Fair Value</u>	<u>% of Portfolio</u>
Federal Home Loan Bank (FHLB)	\$ 2,280,870	11.56
Federal National Mortgage Association (FNMA)	3,330,194	16.87
Federal Home Loan Mortgage Corporation (FHLMC)	2,426,301	12.30
Federal Farm Credit Bank (FFCB)	1,545,792	7.84

**Interest rate risk**

*Interest rate risk* exists when there is a possibility that changes in interest rates could adversely affect an investment's fair value. Generally, the longer the maturity of an investment, the greater the interest rate risk associated with that investment.

GASB Statement No. 40 requires that *interest rate risk* be disclosed using a minimum of one of five approved methods which are: *segmented time distribution, specific identification, weighted average maturity, duration, and simulated model*.

The County manages its exposure to interest rate risk by carefully matching cash flows and maturing positions to meet expenditures, limiting 40% of the County Pool to maturities of one year or less, and by maintaining an overall Duration-to-Maturity of 1.5 years or less. Modified Duration is a measure of a fixed income's cash flow using present values, weighted for cash flows as a percentage of the investments full price. Effective Duration makes assumptions regarding the most likely timing and amounts of variable cash flows arising from such investments as callable bonds. Duration-to-Maturity assumes that all securities in the portfolio, including callable and floating rate notes, are held to final maturity.

**County of San Bernardino  
Flood Control District  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2011**

**NOTE 2 - CASH AND INVESTMENTS - *Continued***

California Law and, where more restrictive, the San Bernardino County Pool Investment Policy, place limitations on the maximum maturity of investments to be purchased by sector (see schedule). As of June 30, 2011, all investments held by the County Pool were within policy limits. A summary of the District's portion of the County investments for Maturity Range, Limits, and effective duration is as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity Range (Days)</u>	<u>Maturity Limits</u>	<u>Modified Duration</u>
U.S. Treasury Securities	\$ 1,574,131	31 - 746	5 years	1.28
U.S. Government Agencies	9,463,217	27 - 1,126	5 years	1.07
U.S. Agency Discount Notes	119,941	11	5 years	0.03
Negotiable Certificates of Deposit	3,765,771	1 - 181	540 days	0.21
Commercial Paper	4,197,764	1 - 63	270 days	0.03
TLGP Corporate Notes	483,270	15 - 274	5 years	0.38
Money Market Mutual Funds	124,738	1	Daily Liq.	0.003
Total Securities	<u>\$ 19,728,832</u>			

Weighted average maturity of the District's investments controlled by fiscal agents, as of June 30, 2011 is as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Municipal Bonds	\$ 8,941,000	11.73
Mutual Funds	31,318,052	0.00
Total Securities	<u>\$ 40,259,052</u>	

**Custodial credit risk**

*Custodial Credit Risk for Deposits* exists when, in the event of a depository financial institution failure, a government may be unable to recover deposits, or recover collateral securities that are in the possession of an outside party.

GASB Statement No. 40 requires the disclosure of deposits into a financial institution that are not covered by FDIC depository insurance and are uncollateralized.

California Law requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure County deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

**County of San Bernardino  
Flood Control District  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2011**

**NOTE 2 - CASH AND INVESTMENTS - *Continued***

As of June 30, 2011, the carrying amount of the County's deposits was \$104,129,000 and the corresponding bank balance was \$191,673,000. The difference of \$87,544,000 was primarily due to outstanding warrants, wires and deposits in transit. Of the bank balance, \$191,673,000 was insured by the FDIC depository insurance.

*Custodial Credit Risk for Investments* exists when, in the event of a failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

In order to limit *Custodial Credit Risk for Investments*, San Bernardino County Pool Investment Policy requires that all investments and investment collateral be transacted on a delivery versus payment basis with a third-party custodian and registered in the County's name. All counterparties to repurchase agreements must sign a SIFMA Global Master Repurchase Agreement and/or Tri-Party Repurchase Agreement before engaging in repurchase agreement transactions.

The County traded Federal Home Loan Bank Callable Notes, which were purchased on June 28, 2011 and settled on July 14, 2011 for approximately \$49,990,000. The County accounts for this investment accordingly under trade date accounting, even though the security remained in the possession of the counterparty pending settlement as of June 30, 2011.

As of June 30, 2011, Cash and Investments are classified in the District's accompanying financial statements as follows:

	<b>Governmental Activities</b>
Cash and Cash Equivalents	\$ 19,728,832
Cash with Fiscal Agents	40,259,052
Total Cash and Investments	<u>\$ 59,987,884</u>

**County of San Bernardino  
Flood Control District  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2011**

**NOTE 3 - CAPITAL ASSETS**

The cost of building and acquiring capital assets (land, buildings, dams, channels, storm drains, vehicles and equipment) financed from the governmental funds are reported as expenditures in the year they are incurred, and the assets do not appear on the balance sheet. However, the Statement of Net Assets includes those capital assets among the assets of County Flood Control as a whole, and their original costs are expensed annually over their useful lives. For the Internal Service Fund (ICA), capital assets are recorded at historical cost, or at estimated historical cost if actual cost is not available. During the year of acquisition the capital assets are capitalized in the Internal Service Fund and are depreciated over their productive hours estimated life. Depreciation expense is recorded annually in the Internal Service Fund. Capital assets for the governmental type activities are as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
<b>Governmental Activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 31,710,313	\$ 993,748	\$ -	\$ 32,704,061
Construction in progress	49,375,405	13,646,785	-	63,022,190
Total capital assets, not being depreciated	<u>81,085,718</u>	<u>14,640,533</u>	<u>-</u>	<u>95,726,251</u>
Capital assets, being depreciated:				
Buildings	759,462	-	-	759,462
Channels, drains, dams, basins	412,077,999	-	-	412,077,999
Equipment and vehicles	45,807	-	(19,128)	26,679
Total capital assets, being depreciated	<u>412,883,268</u>	<u>-</u>	<u>(19,128)</u>	<u>412,864,140</u>
Less accumulated depreciation for:				
Buildings	(379,622)	(19,796)	-	(399,418)
Channels, drains, dams, basins	(199,977,991)	(7,902,307)	-	(207,880,298)
Equipment and vehicles	(33,341)	(3,827)	17,844	(19,324)
Total accumulated depreciation	<u>(200,390,954)</u>	<u>(7,925,930)</u>	<u>17,844</u>	<u>(208,299,040)</u>
Total capital assets, being depreciated, net	<u>212,492,314</u>	<u>(7,925,930)</u>	<u>(1,284)</u>	<u>204,565,100</u>
Total governmental activities, net	<u>\$ 293,578,032</u>	<u>\$ 6,714,603</u>	<u>\$ (1,284)</u>	<u>\$ 300,291,351</u>

**County of San Bernardino  
Flood Control District  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2011**

**NOTE 3 - CAPITAL ASSETS - *Continued***

**Internal Service Fund:**

Capital assets, being depreciated:

Vehicles	\$ 14,522,691	\$ -	\$ (45,280)	\$ 14,477,411
Equipment	13,052	-	-	13,052
Total capital assets, being depreciated	<u>14,535,743</u>	<u>-</u>	<u>(45,280)</u>	<u>14,490,463</u>
Less accumulated depreciation for:				
Vehicles	(9,138,207)	(1,074,080)	28,337	(10,183,950)
Equipment	-	-	-	-
Total accumulated depreciation	<u>(9,138,207)</u>	<u>(1,074,080)</u>	<u>28,337</u>	<u>(10,183,950)</u>
Total capital assets, being depreciated, net	<u>5,397,536</u>	<u>(1,074,080)</u>	<u>(16,943)</u>	<u>4,306,513</u>
Total government	<u>\$ 298,975,568</u>	<u>\$ 5,640,523</u>	<u>\$ (18,227)</u>	<u>\$ 304,597,864</u>

At June 30, 2011 the District had \$63,022,190 in construction in progress for the following projects:

**Construction in progress**

	<u>Zone</u>	<u>Description</u>	<u>Total CIP By Project</u>	<u>Totals By Zone</u>
RFA	1	West State Street SD	\$ 13,735,286	
RFA	1	English Channel-Carbon Canyon	263,220	
RFA	1	West Fontana Channel	650,221	
RFA	1	Sultana-Cypress SD	14,263,783	
RFA	1	Sultana Interceptor	204,692	
RFA	1	San Sevaine Basins 1-4	4,482	
RFA	1	Cucamonga Storm Drain	34,666	
RFA	1	Cucamonga Basin #6	10,631,842	
RFA	1	24th St Storm Drain	1,502	
RFA	1	Alta Loma Storm Drain	4,800	
RFA	1	Turner Basin #3	3,617	
RFA	1	San Sevaine Channel	47,417	
RFA	1	Rancho Cucamonga Trail Project	349,337	\$ 40,194,865
RFF	2	Rialto Channel System	637,238	
RFF	2	Randall Basin	569,828	
RFF	2	Del Rosa Channel	144,761	
RFF	2	Cactus Basin System	6,182,474	
RFF	2	Rialto Channel	1,508,656	
RFF	2	West Fontana Channel	51,775	
RFF	2	Lytle Cajon Channel & Warm Creek	151,073	

**County of San Bernardino  
Flood Control District  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2011**

**NOTE 3 - CAPITAL ASSETS - *Continued***

**Construction in progress - *Continued***

	<u>Zone</u>	<u>Description</u>	<u>Total CIP By Project</u>	<u>Totals By Zone</u>
RFF	2	Rialto Channel Priority Crossings	\$ 638	
RFF	2	Rialto Cactus Basin #3 Street	917	
RFF	2	Randall Channel (Project 3-5)	92,274	
RFF	2	Upper Warm Creek Channel	478,818	
RFF	2	City Creek @ Alabama Ave.	164,152	\$ 9,982,604
RFL	3	Elder Creek Channel	411,174	
RFL	3	Wildwood Creek Detention Basin	9,729	
RFL	3	Plunge Creek Emergency Repairs	92,524	
RFL	3	Wildwood Creek Basin	159,741	
RFL	3	Mill Creek Zanja Crafton Detention Basin	2,719	
RFL	3	Wildwood Creek System	73,465	
RFL	3	Elder Creek Channel	2,937	
RFL	3	Wilson 2 Basin	145	
RFL	3	Oak Creek Glen Basin Improvement	3,840	
RFM	3	Wilson Creek	9,424	
RFM	3	San Timoteo System	8,590,125	9,355,823
RFQ	4	Oro Grande Wash	114,542	
RFQ	4	Hesperia Basin	296,312	
RFQ	4	Hesperia Mpd Line G-01	29,009	
RFQ	4	Desert Knolls Wash	1,069,650	
RFQ	4	Adelanto Line E-01	353,948	
RFQ	4	Mojave River Levee	435,419	
RFQ	4	Oro Grande Wash Detention Basin	52,585	
RFQ	4	Ranchero Basin/Antelope Creek Wash	167,686	
RFQ	4	Choiceana Outlet @ Mojave River	9,992	
RFQ	4	Kitchen Wash	341,483	
RFQ	4	Line E-01 Extention	103,134	
RFQ	4	Mountain View Acres	175,820	
RFQ	4	Sheep Creek	148,215	3,297,795
RFT	5	Rim Forest Drainage	52,113	
RFT	5	Cumberland Drain	2,326	54,439
RFV	6	Donnell Basin	136,664	136,664
			<u>\$ 63,022,190</u>	<u>\$ 63,022,190</u>

**County of San Bernardino  
Flood Control District  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2011**

**NOTE 3 - CAPITAL ASSETS - *Continued***

The District has active major construction projects as of June 30, 2011. The projects are financed by government aid and property taxes and include new construction and renovations of dams, channels, basins and storm drains. At year-end the government's commitments with contractors are as follows:

<u>Job Number</u>	<u>Project</u>	<u>Remaining Commitment</u>
F01087	West State Street Storm Drain	\$ 70,927
F01272	Rialto Channel	94,586
F01312	English Canyon	88,775
F01328	Oro Grande Wash	34,500
F01334	Comprehensive Storm Drain Plan (CSDP) Project 3-5	112,726
F01510	San Timoteo Channel Phase 3B	4,671
F01545	Randall Basin	11,553
F01566	Sultana/Cypress Storm Drain	618,597
F01582	Desert Knoll Wash	30,601
F01669	Rialto Channel (Ultimate Channel Design)	71,426
F01798	Mojave River	25,000
F01840	Turner Basin #3	617
F01850	San Sevaine Channel	19,561
F02094	Cucamonga Basin # 6	498,795
F02129	Wildwood Creek Detention Basin	1,207,000
	<b>Total</b>	<u><u>\$ 2,889,335</u></u>

**NOTE 4 - DEFERRED REVENUE**

Deferred revenue represents amounts received where revenue recognition has not yet occurred. Deferred revenue is \$1,087,798 at June 30, 2011 and includes RDA pass-through property tax, as well as lease revenue.

**County of San Bernardino  
Flood Control District  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2011**

**NOTE 5 - LOANS PAYABLE**

Loans payable consist of loans from the United States Army Corps of Engineers for \$4,000,000.

Flood Control entered into a loan agreement with the United States Army Corps of Engineers for the San Timoteo Creek Project. The County has agreed to pay back the loan and accrued interest upon completion of the project. (Interest is to be determined by the Secretary of the Treasury upon completion of the project). This project was not completed as of June 30, 2011. The unpaid loan balance at June 30, 2011 was \$4,000,000.

The following is a schedule by year of future loan repayments as of June 30, 2011:

<b>Years Ending June 30,</b>	<b>Army Corps of Engineers San Timoteo</b>	<b>Total</b>
2012	\$ -	\$ -
2013	-	-
2014	-	-
2015	-	-
2016	-	-
2017	4,000,000	4,000,000
Totals	<u>\$ 4,000,000</u>	<u>\$ 4,000,000</u>

**NOTE 6 - BONDS PAYABLE**

**Refunding Bonds**

In May 2007, the San Bernardino County Flood Control District issued Refunding Bonds, Series 2007, in the amount of \$23,845,000. Interest on the Refunding Bonds, Series 2007 is paid at a rate from 4.25% to 5.00% payable semiannually on February 1 and August 1 of each year commencing on February 1, 2008. Principal payments are due annually in various amounts commencing August 1, 2008 through 2021.

The Bonds were issued to refund the obligation of the District under a contract with the County relating to a loan made by and between the United States of America and the County, finance a reserve fund surety bond and pay certain expenses in connection with the issuance of the Bonds. The contract referred to above was entered into under the Small Reclamation Projects Act of 1956.

**County of San Bernardino  
Flood Control District  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2011**

**NOTE 6 - BONDS PAYABLE - *Continued***

As a result of the advance refunding, the District decreased its overall debt service by approximately \$5,514,000 which resulted in an economic gain (difference between the present value of the debt service payments on the old and the new debt) of \$4,241,241.

The following is a schedule of debt service requirements to maturity as of June 30, 2011 for the Refunding Bonds:

<b>Years Ending June 30,</b>	<b>Refunding Bonds, Series 2007</b>	
	<b>Principal</b>	<b>Interest</b>
2012	\$ 1,405,000	\$ 995,550
2013	1,465,000	938,150
2014	1,525,000	870,725
2015	1,605,000	788,463
2016	1,715,000	697,162
2017-2021	10,080,000	2,041,750
2022	2,920,000	73,000
Totals	<u>\$ 20,715,000</u>	<u>\$ 6,404,800</u>

**Judgment obligation bonds**

In May 2007, the San Bernardino County Flood Control District issued Judgment Obligation Bonds, Series A in the amount of \$58,780,000. The Series A Bonds were initially issued as auction rate securities on May 29, 2007, with an initial interest rate of 5.35% for the Initial Period of one day. Pursuant to the Indenture of Trust, all of the Series A Bonds were converted to bear interest at Fixed Interest Rates on the Established Fixed Rate Conversion Date (May 30, 2007) and were reoffered. In connection with the conversion of the Series A Bonds on the established fixed rate conversion date, \$425,000 principal amount of the Series A Bonds was paid, leaving a balance outstanding of \$58,355,000. The unpaid balance at June 30, 2011 was \$53,545,000.

Interest on the Series A Bonds is paid at a rate from 4.50% to 5.00% payable semiannually on February 1 and August 1 of each year commencing on February 1, 2008. Principal payments are due annually in various amounts commencing August 1, 2008 through 2029.

**County of San Bernardino  
Flood Control District  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2011**

**NOTE 6 - BONDS PAYABLE - *Continued***

The Bonds were issued to pay the obligation of the District under a settlement agreement relating to an inverse condemnation action against the District, finance a reserve fund surety bond and pay certain expenses in connection with the issuance of the Bonds.

The following is a schedule of debt service requirements to maturity as of June 30, 2011 for the Judgment Obligation Bonds:

<b>Years Ending June 30,</b>	<b>Judgement Obligation Bonds, Series A</b>	
	<b>Principal</b>	<b>Interest</b>
2012	\$ 1,940,000	\$ 2,400,369
2013	2,040,000	2,300,869
2014	2,140,000	2,196,369
2015	2,205,000	2,098,769
2016	2,330,000	2,005,156
2017-2021	13,150,000	8,474,656
2022-2026	16,280,000	5,255,834
2027-2030	13,460,000	1,203,500
Totals	<u>\$ 53,545,000</u>	<u>\$ 25,935,522</u>

**Refunding Bonds**

In April 2008, the San Bernardino County Flood Control District issued Refunding Bonds, Series 2008, in the amount of \$37,295,000. Interest on the Refunding Bonds, Series 2008 is paid at a Weekly Rate Mode interest rate payable on the first Business Day of each calendar month commencing on May 1, 2008. Principal payments are due annually in various amounts commencing August 1, 2029 through 2037.

The Bonds were issued to refund all of the District's outstanding \$45,000,000 San Bernardino County Flood Control District Judgment Obligation Bonds, Series B, which were issued to refund a portion of certain obligations of the District under a settlement agreement relating to an inverse condemnation action against the District, fund interest on the Series 2008 Bonds at an assumed rate of 4.85% through August 1, 2008 at costs of issuance incurred in connection with the issuance of the Series 2008 Bonds.

As a result of the advance refunding, the District decreased its overall debt service by approximately \$18,563,737 which resulted in an economic gain (difference between the present value of the debt service payments on the old and the new debt) of \$3,058,909.

**County of San Bernardino  
Flood Control District  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2011**

**NOTE 6 - BONDS PAYABLE - *Continued***

The following is a schedule of debt service requirements to maturity as of June 30, 2011 for the Refunding Bonds:

<b>Years Ending June 30,</b>	<b>Refunding Bonds, Series 2008</b>	
	<b>Principal</b>	<b>Interest</b>
2012	\$ -	\$ 1,808,807
2013	-	1,810,706
2014	-	1,807,081
2015	-	1,808,635
2016	-	1,808,808
2017-2021	-	9,045,937
2022-2026	-	9,042,311
2027-2031	5,730,000	8,958,727
2032-2036	21,590,000	5,733,294
2037-2039	9,975,000	790,134
<b>Totals</b>	<b>\$ 37,295,000</b>	<b>\$ 42,614,440</b>

**NOTE 7 - OPERATING LEASE**

The San Bernardino County Flood Control District leases equipment from the San Bernardino County Transportation Department. The total lease payments made by Flood Control for the year ended June 30, 2011 was \$160,669. The lease payments are reflected in services and supplies expense in the Statement of Activities (Exhibit B). The future minimum lease payments for the lease are as follows:

<b>Year Ending June 30,</b>	<b>Amount</b>
2012	\$ 174,097
2013	130,573
<b>Total</b>	<b>\$ 304,670</b>

**County of San Bernardino  
Flood Control District  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2011**

**NOTE 8 - LONG-TERM OBLIGATIONS**

A schedule of changes in long-term obligations of the District during fiscal year 2011 follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Amounts Due in One Year
<b>Governmental Activities:</b>					
Compensated Absences	\$ 1,720,064	\$ 1,206,067	\$ 1,154,017	\$ 1,772,114	\$ 443,028
Loan-Bureau of Rec. Day Creek	546,842	-	546,842	-	-
U.S. Army Corp of Engineers	4,000,000	-	-	4,000,000	-
Series 2007 Refunding Bond	22,065,000	-	1,350,000	20,715,000	1,405,000
JOBS Series A	55,390,000	-	1,845,000	53,545,000	1,940,000
Premium	1,454,083	-	118,190	1,335,893	-
Deferred Loss on Refunding	(674,800)	-	(24,100)	(650,700)	-
Series 2008 Refunding Bond	37,295,000	-	-	37,295,000	-
<b>Total Governmental Activities</b>	<u>\$ 121,796,189</u>	<u>\$ 1,206,067</u>	<u>\$ 4,989,949</u>	<u>\$ 118,012,307</u>	<u>\$ 3,788,028</u>

**NOTE 9 - CUSTOMER DEPOSITS**

Customer deposits represent amounts held by the District on behalf of customers that are required to make deposits for various projects that require rights of way and easements and access to water for construction purposes.

**County of San Bernardino  
Flood Control District  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2011**

**NOTE 10 - NET ASSETS**

Net assets represent the difference between assets and liabilities. The net asset amounts were as follows:

	<u>Governmental Activities</u>	<u>Internal Service Fund</u>	<u>Total Governmental Activities</u>
Invested in Capital Assets, Net of Related Debt: June 30, 2011			
Net structures, construction in progress, dams, channels, drainage systems, equipment and vehicles	\$ 300,291,351	\$ 4,306,513	\$ 304,597,864
Less: Loans payable on infrastructure	(50,003,305)	-	(50,003,305)
	<u>250,288,046</u>	<u>4,306,513</u>	<u>254,594,559</u>
Unrestricted	(5,702,079)	5,161,710	(540,369)
<b>Total Net Assets</b>	<u><u>\$ 244,585,967</u></u>	<u><u>\$ 9,468,223</u></u>	<u><u>\$ 254,054,190</u></u>

**NOTE 11 - RETENTIONS PAYABLE**

The District retains 10% of construction contracts until contracts are completed and approved. Some contracts require that the retention be deposited into an escrow account. For all others, the final 10% payment is not made until the work is completed and approved. At June 30, 2011 the District's Retentions Payable balance was \$696,692.

**County of San Bernardino  
Flood Control District  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2011**

**NOTE 12 - RETIREMENT PLAN**

The District participates in the following County-Wide Retirement Plan. Information and amounts indicated below are for the entire County of which the District is only a single component unit.

**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 Act of 1937 (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) and Crestline Sanitation District were later included, along with the County, and are collectively referred to as the "Participating Members." 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 - 3<sup>rd</sup> Floor, San Bernardino, California 92415-0014.

**Fiduciary responsibility**

SBCERA is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member 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. For these reasons, the County's Comprehensive Annual Financial Report excludes SBCERA pension trust fund as of June 30, 2011.

**County of San Bernardino  
Flood Control District  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2011**

**NOTE 12 - 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). General members are required to contribute 7.42% - 12.96% and safety members 9.54% - 15.32% of their annual covered salaries, of which the County pays approximately 7%. County of San Bernardino employer contribution rates are as follows: County General 12.32%, County Safety 26.82%. All employers combined are required to contribute 15.4% of the current year covered payroll. For 2011, the County's annual pension cost of \$213,311,000 was equal to the County's required and actual contributions. 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 assets, computed in accordance with GASB Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, for the year ended June 30, 2011, were as follows (in thousands):

Annual Required Contribution (County fiscal year basis)	\$	213,311
Interest on Pension Assets		(2,331)
Adjustment to the Annual Required Contribution		<u>24,585</u>
Annual Pension Cost		235,565
Annual Contributions Made		<u>213,311</u>
Increase/(Decrease) in Pension Assets		(22,254)
Pension Assets, Beginning of Year		<u>741,388</u>
Pension Assets, End of Year	\$	<u><u>719,134</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	
2009	\$ 246,232	\$ 200,300	100%
2010	243,773	197,097	100%
2011	258,128	213,311	100%

**County of San Bernardino  
Flood Control District  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2011**

**NOTE 12 - RETIREMENT PLAN - *Continued***

The County, along with the SCAQMD, 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 SCAQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266,000. The outstanding liability at June 30, 2011 is \$414,041,000.

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 \$189,070,000, \$149,825,000, and \$125,000,000. The Bonds were issued to finance the County's share of the unfunded accrued actuarial liability of the SBCERA. In April 2008, the County refunded all of the 2004 Series B. The outstanding liability at June 30, 2011 is \$285,270,000.

In April 2008, the County of San Bernardino issued its \$160,900,000 in Pension Obligation Refunding Bonds (POB), Series 2008 (the Series 2008 Bonds). The outstanding liability at June 30, 2011 is \$157,735,000.

**NOTE 13 - 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. We have reviewed the proceeds of taxes received by the District during the 2010-2011 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

**County of San Bernardino  
Flood Control District  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2011**

**NOTE 14 - RISK MANAGEMENT**

The District participates in the following County-Wide Risk Management Program. Information and amounts indicated below are for the entire County of which the District is only a single component unit.

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 AON Risk Services, Broker of Record, as follows: Primary Liability coverage of \$25 million excess of \$2.5 million SIR with CV Starr/Everest; Excess Liability coverage of \$10 million, excess of \$25 million with Allied World Assurance Company (AWAC); and Excess Liability coverage of \$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 National Ins. 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 \$5 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 per claim basis with an SIR of \$2 million for each claim. Additional coverage of \$15 million, excess of \$10 million is provided by Steadfast Ins. Co. All public officials and County employees are insured under a blanket Comprehensive Disappearance, Destruction, and Dishonesty policy covering County monies and securities, with National Union Fire Ins. Co. of Pittsburgh with a \$100 thousand deductible, and excess limits up to \$10 million per occurrence.

The activities related to such programs are accounted for in Risk Management except for unemployment insurance, and employee dental insurance, which are accounted for in the General Fund. The IBNR (Incurred But Not Reported) and IBNS (Incurred But Not Settled) liabilities stated on Risk Management's balance sheet are based upon the results of actuarial studies, and include amounts for allocated and unallocated loss adjustment expenses. The liabilities for these claims are reported using a discounted rate of 1.17%. It is Risk Management's practice to obtain actuarial studies on an annual basis.

The total claims liability of \$151 million reported at June 30, 2011 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.

**County of San Bernardino  
Flood Control District  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2011**

**NOTE 14 - RISK MANAGEMENT - Continued**

Changes in the claims liability amount in fiscal years 2010 and 2011 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>
2009-10	\$ 149,941	\$ 40,453	\$ (45,000)	\$ 145,394
2010-11	\$ 145,394	\$ 48,900	\$ (43,343)	\$ 150,951

**NOTE 15 - TRANSFERS TO/FROM OTHER FUNDS**

Interfund Transfers to/from transactions are used to reimburse an operating fund, and/or transfer cash between operating funds and capital project funds. When aggregating data for the government-wide Statement of Net Assets and the Statement of Activities, amounts between Internal Service Funds and Governmental Funds reported as interfund activity and balances in the fund financial statements are eliminated. For the year ended June 30, 2011, the District had the following interfund activities:

	<u>Transfers in:</u>					<u>Total</u>
	<u>Zone 1</u>	<u>Zone 3</u>	<u>Zone 4</u>	<u>Administration</u>	<u>LADP/NPDES/ Bark Beetle</u>	
<b>Transfers out:</b>						
Zone 1	\$ 6,718,454	\$ -	\$ 900,000	\$ 1,203,333	\$ 24,400	\$ 8,846,187
Zone 2	-	998,877	-	532,800	109,921	1,641,598
Zone 3	-	60,000	-	289,500	6,000	355,500
Zone 4	-	-	-	711,800	-	711,800
Zone 5	-	-	-	24,600	100	24,700
Zone 6	-	-	-	95,700	100	95,800
<b>Totals</b>	<u>\$ 6,718,454</u>	<u>\$1,058,877</u>	<u>\$ 900,000</u>	<u>\$ 2,857,733</u>	<u>\$ 140,521</u>	<u>\$11,675,585</u>

**NOTE 16 - COMMITMENTS AND CONTINGENCIES**

The District has been named as a defendant in numerous lawsuits and claims arising in the normal course of operations.

**County of San Bernardino  
Flood Control District  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2011**

**NOTE 17 - SUBSEQUENT EVENTS**

Management has evaluated subsequent events through November 30, 2011, 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 District.

**Required Supplementary Information**  
**County of San Bernardino**  
**Flood Control District**  
**Budgetary Comparison Schedule - Special Revenue Fund**  
**For the Fiscal Year Ended June 30, 2011**

	Special Revenue Fund			
	Flood Control			
	Original Budget	Final Budget	Actual	Variance with Final Budget
<b>REVENUES</b>				
Property taxes	\$ 37,669,800	\$ 36,115,763	\$ 36,164,379	\$ 48,616
Other taxes	315,500	315,500	266,880	(48,620)
Governmental aid	10,988,100	16,798,462	16,798,468	6
Rents, concessions and royalties	1,295,000	939,176	931,262	(7,914)
Interest	297,350	324,858	278,686	(46,172)
Intergovernmental	-	-	924,458	924,458
Other	987,565	935,658	1,052,046	116,388
Total revenues	<u>51,553,315</u>	<u>55,429,417</u>	<u>56,416,179</u>	<u>986,762</u>
<b>EXPENDITURES</b>				
Salaries and benefits	15,900,298	15,130,971	15,002,060	128,911
Services and supplies	75,768,320	38,206,673	34,843,516	3,363,157
Debt service:				
Principal	4,026,315	4,026,315	3,741,842	284,473
Interest	5,643,531	4,008,531	3,897,303	111,228
Capital outlay:				
Easements / Right of way	1,132,000	93,750	93,747	3
Equipment	105,000	-	-	-
Structures and improvements	30,000	-	-	-
Software	155,250	-	-	-
Reserves and contingencies	8,087,533	59,948,759	-	59,948,759
Total expenditures	<u>110,848,247</u>	<u>121,414,999</u>	<u>57,578,468</u>	<u>63,836,531</u>
Excess of revenues over (under) expenditures	<u>(59,294,932)</u>	<u>(65,985,582)</u>	<u>(1,162,289)</u>	<u>64,823,293</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	15,207,671	17,835,292	-	(17,835,292)
Transfer out	(13,891,209)	(10,227,212)	-	10,227,212
Sale of capital assets	2,908,000	2,929,816	2,929,816	-
Total other financing sources (uses)	<u>4,224,462</u>	<u>10,537,896</u>	<u>2,929,816</u>	<u>(7,608,080)</u>
Net change in fund balances	<u>\$ (55,070,470)</u>	<u>\$ (55,447,686)</u>	1,767,527	<u>\$ 57,215,213</u>
<b>Fund balances - beginning</b>			<u>57,322,874</u>	
<b>Fund balances - ending</b>			<u>\$ 59,090,401</u>	

**County of San Bernardino  
Flood Control District  
Combining Balance Sheet  
Special Revenue Funds  
June 30, 2011**

	<u>Zone 1</u>	<u>Zone 2</u>	<u>Zone 3</u>	<u>Zone 4</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 5,131,007	\$ 2,785,818	\$ 3,227,729	\$ 759,287
Cash with fiscal agent	1,669,503	8,592,029	3,491,382	20,981,464
Customer deposits	60,000	-	-	-
Cash in trust	5,811,423	-	-	-
Interest receivable	226	2,278	5,903	-
Loans receivable	-	-	-	10,925,000
Taxes receivable	639,388	180,764	141,258	174,818
Due from other funds	13,893	2,359	1,186	2,511
Due from other governments	612,792	2,336,957	849,388	472,776
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total assets	<u>\$ 13,938,232</u>	<u>\$ 13,900,205</u>	<u>\$ 7,716,846</u>	<u>\$ 33,315,856</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 2,166,541	\$ 372,811	\$ 207,610	\$ 32,850
Salaries and benefits payable	-	-	-	-
Retention payable	414,588	5,734	12,760	29,788
Loan payable	10,925,000	-	-	-
Due to other funds	174,022	268,362	147,827	71,205
Due to other governments	257,419	54,335	1,187,496	39,365
Deferred revenue	326,980	209,059	73,716	459,267
Customer deposits	66,420	130,000	-	-
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total liabilities	<u>14,330,970</u>	<u>1,040,301</u>	<u>1,629,409</u>	<u>632,475</u>
Fund balances:				
Assigned	-	-	2,059,176	-
Restricted for:				
Flood control	-	12,859,904	4,028,261	32,683,381
Unassigned	(392,738)	-	-	-
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total fund balances	<u>(392,738)</u>	<u>12,859,904</u>	<u>6,087,437</u>	<u>32,683,381</u>
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total liabilities and fund balances	<u>\$ 13,938,232</u>	<u>\$ 13,900,205</u>	<u>\$ 7,716,846</u>	<u>\$ 33,315,856</u>

Zone 5	Zone 6	Administration	LADP/NPDES/ Bark Beetle	Eliminations	Total
\$ 278,651	\$ 1,141,338	\$ 150,355	\$ 1,205,438	\$ -	\$ 14,679,623
1,496,330	2,165,673	1,862,671	-	-	40,259,052
-	-	-	-	-	60,000
-	-	-	-	-	5,811,423
-	335	952	2,895	-	12,589
-	-	-	-	(10,925,000)	-
14,876	48,372	75,462	-	-	1,274,938
523	1,727	705,316	53,321	(780,836)	-
763	2,012	239,990	187,946	-	4,702,624
<u>\$ 1,791,143</u>	<u>\$ 3,359,457</u>	<u>\$ 3,034,746</u>	<u>\$ 1,449,600</u>	<u>\$ (11,705,836)</u>	<u>\$ 66,800,249</u>
\$ 181	\$ 155,154	\$ 74,700	\$ 403,960	\$ -	\$ 3,413,807
-	-	483,797	-	-	483,797
-	-	209,084	24,738	-	696,692
-	-	-	-	(10,925,000)	-
6,875	27,476	128,159	48,109	(780,836)	91,199
10,500	11,748	177,889	1,383	-	1,740,135
-	-	18,776	-	-	1,087,798
-	-	-	-	-	196,420
<u>17,556</u>	<u>194,378</u>	<u>1,092,405</u>	<u>478,190</u>	<u>(11,705,836)</u>	<u>7,709,848</u>
-	-	-	-	-	2,059,176
1,773,587	3,165,079	1,942,341	971,410	-	57,423,963
-	-	-	-	-	(392,738)
<u>1,773,587</u>	<u>3,165,079</u>	<u>1,942,341</u>	<u>971,410</u>	<u>-</u>	<u>59,090,401</u>
<u>\$ 1,791,143</u>	<u>\$ 3,359,457</u>	<u>\$ 3,034,746</u>	<u>\$ 1,449,600</u>	<u>\$ (11,705,836)</u>	<u>\$ 66,800,249</u>

**County of San Bernardino  
Flood Control District  
Combining Statement of Revenues, Expenditures and  
Changes in Fund Balances  
Special Revenue Funds  
For the Fiscal Year Ended June 30, 2011**

	Zone 1	Zone 2	Zone 3	Zone 4
<b>REVENUES</b>				
Property taxes	\$ 16,947,670	\$ 6,610,549	\$ 3,928,177	\$ 4,914,900
Other taxes	123,682	52,117	26,073	37,521
Governmental aid	7,365,173	4,294,444	3,624,823	108,682
Rents, concessions and royalties	602,788	248,181	47,735	27,800
Interest	40,270	97,866	46,986	40,058
Intergovernmental	-	-	-	-
Other	464,647	33,862	(5,472)	(33,100)
<b>Total revenues</b>	<b>25,544,230</b>	<b>11,337,019</b>	<b>7,668,322</b>	<b>5,095,861</b>
<b>EXPENDITURES</b>				
Salaries and benefits	3,128,156	2,863,595	2,352,467	1,582,833
Services and supplies	18,132,530	5,899,475	4,377,215	2,601,372
Debt service:				
Principal	3,741,842	-	-	-
Interest	3,720,545	52,250	36,910	24,161
Capital outlay:				
Easements / Right of way	31,249	31,249	31,249	-
<b>Total expenditures</b>	<b>28,754,322</b>	<b>8,846,569</b>	<b>6,797,841</b>	<b>4,208,366</b>
Excess of revenues over (under) expenditures	(3,210,092)	2,490,450	870,481	887,495
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	6,718,454	-	1,058,877	900,000
Transfers out	(8,846,187)	(1,641,598)	(355,500)	(711,800)
Sale of capital assets	2,623,081	42,600	-	263,635
<b>Total other financing sources (uses)</b>	<b>495,348</b>	<b>(1,598,998)</b>	<b>703,377</b>	<b>451,835</b>
Net change in fund balances	(2,714,744)	891,452	1,573,858	1,339,330
<b>Fund balances - beginning</b>	<b>2,322,006</b>	<b>11,968,452</b>	<b>4,513,579</b>	<b>31,344,051</b>
<b>Fund balances - ending</b>	<b>\$ (392,738)</b>	<b>\$ 12,859,904</b>	<b>\$ 6,087,437</b>	<b>\$ 32,683,381</b>

Zone 5	Zone 6	Administration	LADP/NPDES/ Bark Beetle	Eliminations	Total
\$ 353,352	\$ 1,317,915	\$ 2,091,816	\$ -	\$ -	\$ 36,164,379
2,699	8,893	15,895	-	-	266,880
8,600	119,560	25,315	1,251,871	-	16,798,468
-	4,758	-	-	-	931,262
3,277	8,054	26,854	15,321	-	278,686
-	-	506	923,952	-	924,458
(3,192)	(8,005)	108,732	494,574	-	1,052,046
364,736	1,451,175	2,269,118	2,685,718	-	56,416,179
137,260	419,322	3,301,623	1,216,804	-	15,002,060
94,687	428,008	1,056,223	2,254,006	-	34,843,516
-	-	-	-	-	3,741,842
2,482	10,559	50,396	-	-	3,897,303
-	-	-	-	-	93,747
234,429	857,889	4,408,242	3,470,810	-	57,578,468
130,307	593,286	(2,139,124)	(785,092)	-	(1,162,289)
-	-	2,857,733	140,521	(11,675,585)	-
(24,700)	(95,800)	-	-	11,675,585	-
-	500	-	-	-	2,929,816
(24,700)	(95,300)	2,857,733	140,521	-	2,929,816
105,607	497,986	718,609	(644,571)	-	1,767,527
1,667,980	2,667,093	1,223,732	1,615,981	-	57,322,874
\$ 1,773,587	\$ 3,165,079	\$ 1,942,341	\$ 971,410	\$ -	\$ 59,090,401

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Flood Control

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

We have audited the financial statements of the governmental activities, the business-type activities, and the major fund of the County of San Bernardino Special District - Flood Control (the District), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 30, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the State Controller's Minimum Audit Requirements for California Special Districts.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County of San Bernardino Special District - Flood Control's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board of supervisors, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

*Rogers Anderson Maloney & Scott, LLP*

November 30, 2011