

**SAN BERNARDINO COUNTY  
FLOOD CONTROL DISTRICT  
(A Component Unit of the  
County of San Bernardino, California)**

**INDEPENDENT AUDITORS' REPORTS AND  
FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2018**

**SAN BERNARDINO COUNTY FLOOD CONTROL DISTRICT  
YEAR ENDED JUNE 30, 2018**

**TABLE OF CONTENTS**

Page

<b>Independent Auditors’ Report</b> .....	1	
 <b>Basic Financial Statements</b>		
 <b>Government Wide Financial Statements</b>		
Statement of Net Position .....	4	
Statement of Activities .....	5	
 <b>Fund Financial Statements</b>		
Balance Sheet – Governmental Fund .....	6	
Reconciliation of the Balance Sheet of Governmental Fund to the Statement of Net Position.....	7	
Statement of Revenues, Expenditures and Changes In Fund Balance – Governmental Fund.....	8	
Reconciliation of the Statement of Revenues, Expenditure and Changes In Fund Balance of the Governmental Fund to the Statement of Activities.....	9	
Statement of Net Position – Proprietary Fund.....	10	
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Fund.....	11	
Statement of Cash Flows – Proprietary Fund.....	12	
Notes to the Basic Financial Statements .....	13	
 <b>Required Supplementary Information</b>		
Budgetary Comparison Schedule – General Fund .....	41	
Note to Required Supplementary Information .....	42	
Schedule of Proportionate Share of the Net Pension Liability .....	43	
Schedule of Contributions .....	44	
 <b>Other Information</b>		
Combining Balance Sheet – By Zone .....	45	
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – By Zone.....	47	
 <b>Independent Auditors’ Report on Internal Control over Financial Reporting and On Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i></b> .....		49



**VAVRINEK, TRINE, DAY & CO., LLP**  
Certified Public Accountants

VALUE THE *difference*

## INDEPENDENT AUDITORS' REPORT

To the Honorable Board of Supervisors  
San Bernardino County Flood Control District  
San Bernardino, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the general fund, and the aggregate remaining fund information of the San Bernardino County Flood Control District (District), a component unit of the County of San Bernardino, California (County), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the general fund, and the aggregate remaining fund information of the District as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## *Other Matters*

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, schedule of proportionate share of the net pension liability, and the schedule of contributions on pages 41 through 44, 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.

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 the 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.

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The general fund combining statements by zone are presented for purposes of additional analysis and are not a required part of the District's basic financial statements.

The general fund combining statements by zone are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statement or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the general fund combining statements by zone are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2018 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 solely 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 effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Rancho Cucamonga, California  
November 8, 2018

**SAN BERNARDINO COUNTY FLOOD CONTROL DISTRICT**

**STATEMENT OF NET POSITION  
JUNE 30, 2018**

	<u><b>Governmental Activities</b></u>
<b>Assets</b>	
Cash and cash equivalents	\$ 45,077,232
Cash and investments with fiscal agent	100,418,993
Restricted:	
Cash in escrow	8,088,642
Cash and investments in trust	6,636,748
Interest receivable	1,078,866
Accounts receivable	254,776
Taxes receivable	1,020,377
Due from other governments	1,638,490
Prepaid expenses	99,254
Capital assets, not being depreciated	67,523,454
Capital assets being depreciated, net	274,550,341
Total Assets	<u>506,387,173</u>
 <b>Deferred Outflows of Resources</b>	
Loss on refunding of debt	482,000
Deferred outflows related to pensions	7,133,648
Total Deferred Outflows of Resources	<u>7,615,648</u>
 <b>Liabilities</b>	
Accounts payable	1,186,405
Salaries and benefits payable	1,031,704
Retentions payable	314,257
Interest payable	332,824
Due to other governments	369,043
Deposits payable	284,913
Unearned revenue	8,421,094
Long-term liabilities:	
Due within one year	5,741,939
Due in more than one year	79,548,418
Total Liabilities	<u>97,230,597</u>
 <b>Deferred Inflows of Resources</b>	
Gain on refunding of debt	180,000
Deferred inflows related to pensions	2,519,740
Total Deferred Inflows of Resources	<u>2,699,740</u>
 <b>Net Position</b>	
Net investment in capital assets	331,001,314
Restricted for:	
Debt service	9,827,007
Unrestricted	73,244,163
Total Net Position	<u>\$ 414,072,484</u>

See accompanying notes to the financial statements.

**SAN BERNARDINO COUNTY FLOOD CONTROL DISTRICT**

**STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2018**

	<b>Governmental Activities</b>
<b>Expenses</b>	
Public works - flood control:	
Salaries and benefits	\$ 12,559,704
Services and supplies	11,424,867
Depreciation	10,390,309
Interest	1,186,045
Total Program Expenses	<u>35,560,925</u>
 <b>Program Revenues</b>	
Operating grants and contributions	6,116,254
Charges for services	1,782,353
Total Program Revenues	<u>7,898,607</u>
Net Program Expense	<u>27,662,318</u>
 <b>General Revenues</b>	
Property taxes	52,907,339
Other taxes	347,325
Interest	1,056,793
Settlements	4,000,000
Other	7,852
Gain on sale of capital assets	1,917,226
Total General Revenues	<u>60,236,535</u>
 Change in net position before County contributions	32,574,217
 Contributions to County	<u>(3,437,260)</u>
 Change in net position	29,136,957
 Net Position, Beginning of Year	<u>384,935,527</u>
 Net Position, End of Year	<u>\$ 414,072,484</u>

See accompanying notes to the financial statements.

**SAN BERNARDINO COUNTY FLOOD CONTROL DISTRICT**

**BALANCE SHEET  
GOVERNMENTAL FUND  
JUNE 30, 2018**

	<b>General Fund</b>
<b>Assets</b>	
Cash and cash equivalents	\$ 39,722,796
Cash and investments with fiscal agent	100,418,993
Cash in escrow	8,088,642
Cash and investments in trust	6,636,748
Interest receivable	1,078,866
Accounts receivable	254,776
Taxes receivable	1,020,377
Due from other governments	1,638,490
Prepaid items	18,589
Total Assets	\$ 158,878,277
<b>Liabilities</b>	
Accounts payable	\$ 1,177,940
Salaries and benefits payable	1,031,704
Retentions payable	314,257
Due to other governments	369,043
Unearned revenue	8,421,094
Deposits payable	284,913
Total Liabilities	11,598,951
<b>Deferred inflows of resources</b>	
Unavailable revenue	2,006,510
<b>Fund balance</b>	
Nonspendable:	
Prepaid items	18,589
Restricted for:	
Debt service	9,827,007
Assigned for:	
Flood improvement projects	9,115,598
NPDES program	7,399,615
Unassigned	118,912,007
Total Fund Balance	145,272,816
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ 158,878,277

See accompanying notes to the financial statements.

**SAN BERNARDINO COUNTY FLOOD CONTROL DISTRICT**

**RECONCILIATION OF THE BALANCE SHEET OF THE GOVERNMENTAL FUND TO THE  
STATEMENT OF NET POSITION  
JUNE 30, 2018**

Fund balance governmental fund		\$ 145,272,816
Amounts reported for governmental activities in the Statement of Net Position are different because:		
The internal service fund is used by management to charge the cost of certain activities to individual zones.		11,415,322
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the fund financial statements.		336,004,444
Certain receivables are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in the governmental fund financial statements.		2,006,510
Certain liabilities are not due and payable in the current period and, therefore, are not reported in the governmental fund financial statements.		
Bonds payable	\$ (68,325,000)	
Plus: premium on debt	(296,819)	
Accrued interest payable	(332,824)	
Compensated absences payable	(2,353,589)	
Net pension liability	<u>(14,314,949)</u>	(85,623,181)
Prepaid bond insurance costs are expenditures in the governmental fund financial statements when paid, however, such costs are capitalized and amortized over the life of the corresponding bonds in the statement of net position.		80,665
Deferred loss on refunding of debt are not current financial resources and, therefore are not reported in the governmental fund. These items are amortized over the life of the corresponding bonds in the statement of net position.		482,000
Deferred gain on refunding of debt are not current financial resources and, therefore are not reported in the governmental fund. These items are amortized over the life of the corresponding bonds in the statement of net position.		(180,000)
Deferred outflows and inflows related to pensions reported in the statement of net position are not current financial resources, and therefore are not recognized in the governmental funds:		
Deferred outflows related to pensions		7,133,648
Deferred inflows related to pensions		<u>(2,519,740)</u>
Net position of governmental activities		<u>\$ 414,072,484</u>

See accompanying notes to the financial statements.

**SAN BERNARDINO COUNTY FLOOD CONTROL DISTRICT**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUND  
YEAR ENDED JUNE 30, 2018**

	<u><b>General Fund</b></u>
<b>Revenues</b>	
Property taxes	\$ 52,907,339
Other taxes	347,325
Rents, concessions and royalties	480,863
Interest	1,014,834
Other governmental aid	6,024,847
Licenses, fees and permits	1,301,490
Other	7,852
Total Revenues	<u>62,084,550</u>
<b>Expenditures</b>	
Current:	
Public works - flood control:	
Salaries and benefits	12,932,771
Services and supplies	11,809,361
Capital outlay	10,349,738
Debt service:	
Principal	5,355,000
Interest	1,331,894
Total Expenditures	<u>41,778,764</u>
Excess of revenues over expenditures	<u>20,305,786</u>
<b>Other Financing Sources (Uses)</b>	
Settlements	4,000,000
Sale of capital assets	1,905,995
Contributions to County	(3,437,260)
Total Other Financing Sources (uses)	<u>2,468,735</u>
Net change in fund balance	22,774,521
Fund Balance, Beginning	<u>122,498,295</u>
Fund Balance, Ending	<u>\$ 145,272,816</u>

See accompanying notes to the financial statements.

**SAN BERNARDINO COUNTY FLOOD CONTROL DISTRICT**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUND  
TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2018**

Net change in fund balance - governmental fund		\$ 22,774,521
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
<p>Internal services funds are used by management to charge the costs of certain activities, such as insurance, and vehicle and computer replacement, to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities.</p>		
		(239,224)
<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 in the current period.</p>		
Capital outlay	\$ 10,349,738	
Depreciation expense	(9,668,078)	
Loss on disposals and cancelled construction in progress	<u>(45,323)</u>	636,337
<p>Amortization of deferred inflows and outflows of resources resulting from the deferred amounts on refunding.</p>		
		(24,100)
<p>The issuance of long term debt provided current resources to the governmental funds, while the repayment of the principal of the long term debt consumes the current resources of governmental funds. Also, the governmental funds report the effect of the premium and similar items when the debt is first issued, whereas these amounts are deferred in the statement of activities. This is the effect of the difference in the treatment of long term debt and related items:</p>		
Amortization of bond premium	98,941	
Amortization of deferred charges	9,111	
Retirement of bonds	<u>5,355,000</u>	5,463,052
<p>Certain revenues reported in the Statement of Activities do not represent current financial resources and therefore are not reported as revenue in the governmental funds. The amount represents the change in deferred inflows of resources.</p>		
		91,407
<p>Amounts payable for accrued interest on long term liabilities, compensated absences, and pension related items do not use current financial resources. This is the net change in these expenses.</p>		
Decrease in accrued interest payable		61,897
Increase in compensated absences payable		(137,997)
Changes in the net pension liability		<u>511,064</u>
Change in net position of governmental activities		<u>\$ 29,136,957</u>

See accompanying notes to the financial statements.

**SAN BERNARDINO COUNTY FLOOD CONTROL DISTRICT**

**STATEMENT OF NET POSITION  
PROPRIETARY FUND  
JUNE 30, 2018**

	<u>Internal Service Fund</u>
<b>Assets</b>	
Current assets:	
Cash and cash equivalents	\$ 5,354,436
Noncurrent assets:	
Capital assets being depreciated, net	<u>6,069,351</u>
Total Assets	<u>11,423,787</u>
<b>Liabilities</b>	
Accounts payable	<u>8,465</u>
<b>Net Position</b>	
Net Investment in capital assets	6,069,351
Unrestricted	<u>5,345,971</u>
Total Net Position	<u>\$ 11,415,322</u>

See accompanying notes to the financial statements.

**SAN BERNARDINO COUNTY FLOOD CONTROL DISTRICT**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
 PROPRIETARY FUND  
 YEAR ENDED JUNE 30, 2018**

	<b>Internal Service Fund</b>
<b>Operating Revenues</b>	
Charges for services	\$ 1,764,508
Other revenues	1,850
Total Operating Revenues	1,766,358
<b>Operating Expenses</b>	
Services and supplies	1,381,864
Depreciation	722,231
Total Operating Expenses	2,104,095
Operating loss	(337,737)
<b>Nonoperating Revenues</b>	
Investment earnings	41,959
Gain on sale of capital assets	56,554
Total Nonoperating Revenues	98,513
Change in net position	(239,224)
Net Position, Beginning of Year	11,654,546
Net Position, End of Year	\$ 11,415,322

See accompanying notes to the financial statements.

**SAN BERNARDINO COUNTY FLOOD CONTROL DISTRICT**

**STATEMENT OF CASH FLOWS  
 PROPRIETARY FUND  
 YEAR ENDED JUNE 30, 2018**

	<b><u>Internal Service Fund</u></b>
<b>Cash Flows From Operating Activities</b>	
Receipts from interfund services provided	\$ 1,879,702
Payments to suppliers	<u>(1,417,219)</u>
Net cash provided by operating activities	<u>462,483</u>
<b>Cash Flows From Capital and Related Financing Activities</b>	
Proceeds from sale of capital assets	90,228
Purchase of capital assets	<u>(897,183)</u>
Net cash used by capital and related financing activities	<u>(806,955)</u>
<b>Cash Flows From Investing Activities</b>	
Investment earnings	<u>41,959</u>
Net decrease in cash and cash equivalents	(302,513)
Cash and cash equivalents - beginning of the year	<u>5,656,949</u>
Cash and cash equivalents - end of the year	<u>\$ 5,354,436</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating loss	\$ (337,737)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation expense	722,231
Change in assets, liabilities, deferred outflows and deferred inflows of resources:	
Decrease in due from other County funds	85,915
Decrease in due from other governments	27,429
(Decrease) in accounts payable	<u>(35,355)</u>
Net cash provided by operating activities	<u>\$ 462,483</u>

See accompanying notes to the financial statements.

# SAN BERNARDINO COUNTY FLOOD CONTROL DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The San Bernardino County Flood Control District (District) is a special district located within the County of San Bernardino, California (County). The District has governmental powers as established by the County Government Charter. 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 the 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 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 District's General Fund 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:

Zone    Geographical Areas (Description)

- 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).
- 3    The east end of the San Bernardino Valley going east from Zone 2. The zone includes the following cities and the surrounding 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 county areas 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 Twentynine Palms-Morongo Valley districts (17,900 square miles).

The District also has two Local Area Drainage Plans (LADP) and the National Pollution Discharge Elimination System Program (NPDES), which are reported with the Zones.

# SAN BERNARDINO COUNTY FLOOD CONTROL DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the reporting entity. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. *Governmental activities* normally are supported by taxes and intergovernmental revenues.

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.

Separate financial statements are provided for the governmental fund and proprietary fund. The General Fund is the primary operating fund of the District. It accounts for all financial resources of the District. The Internal Service Fund accounts for the activities of renting vehicles and equipment to the six zones in the District and to the County's Department of Transportation.

#### **Measurement focus, basis of accounting and financial statement presentation**

The government-wide financial statements and proprietary fund 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 revenue in the year for which they are levied. Grants and intergovernmental revenue are recognized as revenue when all eligibility requirements 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 District 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, and government mandated nonexchange transactions, the District expanded its definition of "available" to nine months. All of the other revenue items are considered to be measurable and available when grant requirements are met and cash is received.

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.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first and then unrestricted resources, as they are needed.

# SAN BERNARDINO COUNTY FLOOD CONTROL DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **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.

The District is required to set aside in a trust fund the principal and interest payments for their outstanding bonds six months prior to the payment due date noted in the bond indentures.

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

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, 2018.

#### **Cash in escrow**

Cash in escrow represents unexpended proceeds and interest thereon received for and restricted by settlement agreements for flood control improvements in addition to amounts withheld for retainage related to ongoing construction projects as required by the construction contract. The settlement agreement requires that these proceeds be maintained and expended in accordance with the specifications outlined by the terms of the agreement. Amounts in escrow related to retainage are required to be maintained until the work is completed and approved.

#### **Accounts Receivable**

All accounts receivable are shown net of an allowance for uncollectable when applicable. The accounts receivable balance at June 30, 2018 was \$254,776 and considered fully collectible at year end.

#### **Prepaid bond insurance, original issue premiums, and refunding**

Prepaid bond insurance costs are amortized using the straight-line method over the life of the bonds. Amortization of these balances is recorded as a component of program expenses. In addition, bonds payable are reported net of the applicable bond premiums. Original issue premiums are amortized using the straight-line method over the life of the bonds. Gain or loss from refunding of debt is reported as deferred outflows or inflows of resources and amortized over the shorter of the life of the refunded debt or refunding debt. Amortization of these balances is recorded as a component of interest expense.

#### **Property taxes**

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

# SAN BERNARDINO COUNTY FLOOD CONTROL DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Capital assets

Capital assets, which include property, plant and equipment and infrastructure assets (e.g., dams, channels, drainage systems), are reported in the governmental activities 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 or more are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition cost at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Productive hours depreciation estimates the useful lives of the equipment and vehicles in usage hours and depreciation is taken for each usage hour the machine is utilized.

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

Basins, storm drains, channels, dams	50 to 99 years
Vehicles	6 years
Equipment	6 to 15 years
Buildings	45 years
Internal Service Fund (Proprietary) Equipment and vehicles	Productive hours

#### Deferred outflows/inflows of resources

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

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time.

The deferred amounts on refunding reported in the statement of net position as a deferred outflows and inflows of resources results from differences in the carrying values of refunded debts and the reacquisition prices. These amounts are deferred and amortized over the shorter of the life of the refunded or refunding debt.

Other amounts reported as deferred outflows of resources and deferred inflows of resources are related to the District's proportion of the County's pension plan and will be recognized in pension expense in future periods.

# SAN BERNARDINO COUNTY FLOOD CONTROL DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The District also reports deferred inflows of resources in the governmental fund balance sheet which arise only under a modified accrual basis of accounting. Accordingly, the item, unavailable revenue, is only reported in the governmental fund balance sheet. The governmental fund balance sheet reports unavailable revenues for amounts due from other governments that will not be collected within the District's period of availability. As such, these amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

#### **Fund equity**

The following fund balance 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. At June 30, 2018, the District General Fund had a nonspendable fund balance of \$18,589.
- ***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. At June 30, 2018, the District General Fund had a restricted fund balance of \$9,827,007.
- ***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 highest level of action available to the Board is a resolution. The formal action must occur prior to the end of the reporting period, however, the amount may be determined in the subsequent period. These are self-imposed limitations on available resources. These committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same level of action it employed to previously commit those amounts. These committed amounts would be approved and adopted by formal action of the Board.
- ***Assigned Fund Balance:*** Amounts are constrained by the government's intent to be used for specific purposes that are neither restricted nor committed. The intent will be expressed by the body or official to which the governing body has delegated the authority, i.e. the County Administrative Office. The County Administrative Office will assign fund balance for specific departmental projects through the use of the respective department's general fund savings. Such projects would not normally be feasible for the department without reserving funding over a multiple year period. At June 30, 2018, the District had an assigned fund balance of \$16,515,213.
- ***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, unassigned fund balance is calculated as total fund balance less nonspendable, restricted, committed, or assigned 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. At June 30, 2018, the District had an unassigned fund balance of \$118,912,007.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then followed by unrestricted resources; committed, assigned and unassigned, as they are needed.

# SAN BERNARDINO COUNTY FLOOD CONTROL DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **Employee compensated absences**

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

#### **Pension**

For purposes of measuring the net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense related to pensions, information about the fiduciary net position of the District's allocation of the County's share of the San Bernardino County Employees' Retirement Association (SBCERA) plan (Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by SBCERA. For this purpose, employer and employee contributions are recognized in the period the related salaries are earned and become measurable pursuant to formal commitments, statutory or contractual requirements, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms, and investments are reported at fair value.

#### **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.

#### **Fair Value Measurement**

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The District does not have any investments that are measured using Level 3 inputs. The valuation of 2a7 money market mutual funds are at one-dollar net asset value (NAV) per share. The redemption frequency is daily and redemption notice of period of inter-daily. This type of investment primarily invests in short term U.S. Treasury and government securities (including repurchase agreements collateralized by U.S. Treasury and government agency securities).

# SAN BERNARDINO COUNTY FLOOD CONTROL DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

#### New GASB Pronouncements

##### Effective in Current Year

###### *Governmental Accounting Standard No. 75*

In June 2015, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of this Statement is to establish new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. The provisions of this Statement are effective for fiscal years beginning after June 15, 2017. This Statement did not have an effect on the District's financial statements.

###### *Governmental Accounting Standard No. 81*

In March 2016, GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016. This Statement did not have an effect on the District's financial statements.

###### *Governmental Accounting Standard No. 85*

In March 2017, GASB Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. The requirements of this Statement are effective for periods beginning after June 15, 2017. This Statement did not have an effect on the District's financial statements.

###### *Governmental Accounting Standard No. 86*

In May 2017, GASB Statement No. 86, *Certain Debt Extinguishment Issues*. The objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – recourses other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. The requirements of this Statement are effective for periods beginning after June 15, 2017. This Statement did not have an effect on the District's financial statements.

##### Effective in Future Years

###### *Governmental Accounting Standard No. 83*

In November 2016, GASB Statement No. 83, *Certain Asset Retirement Obligations*. The objective of this Statement is to provide financial statement users with information about asset retirement obligations that were not addressed in GASB standards by establishing uniform accounting and financial reporting requirements for these obligations. The requirements of this Statement are effective for periods beginning after June 15, 2018. The District has not determined its effect, if any, on the financial statements.

**SAN BERNARDINO COUNTY FLOOD CONTROL DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2018**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**New GASB Pronouncements (Continued)**

*Governmental Accounting Standard No. 84*

GASB Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for periods beginning after December 15, 2018. The District has not determined its effect of this Statement.

*Governmental Accounting Standard No. 87*

GASB Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The requirements of this Statement are effective for periods beginning after December 15, 2019. The District has not determined its effect of this Statement.

*Governmental Accounting Standard No. 88*

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. The requirements of this Statement are effective for periods beginning after June 15, 2018. The District has not determined its effect of this Statement.

*Governmental Accounting Standard No. 89*

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The objective of this Statement are to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. The requirements of this Statement are effective for periods beginning after December 15, 2019. The District has not determined its effect of this Statement.

*Governmental Accounting Standard No. 90*

GASB Statement No. 90, *Majority Equity Interests-(an amendment of GASB Statements No. 14 and No. 61)*. The primary objectives of this Statement are to improve consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. The District has not determined its effect on the financial statements.

**SAN BERNARDINO COUNTY FLOOD CONTROL DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2018**

**NOTE 2 – CASH AND INVESTMENTS**

Cash includes the cash balances of monies deposited with the County Treasurer, which are pooled and invested for the purpose of increasing earning through investment activities. Interest earned on pooled investments is deposited to the District’s account based upon the District’s average daily deposit balance during the allocation period. Cash and cash investments are shown at fair value as of June 30, 2018.

The District pools its cash and investments with the County. The District’s position or share of the County’s cash and investment pool is reflected on the balance sheet and statement of net position as cash and cash equivalents. The District has no separate bank accounts or investments in the pool and the District’s equity in the cash and investment pool is managed by the County of San Bernardino. The District is a component unit of the County and is required to participate in the pool with the exception of cash with fiscal agent. The treasury pool is rated by Fitch ratings (NRSRO) at AAf/S1+ and is governed by the Treasury Oversight Committee.

Cash and investments as of June 30, 2018, consist of the following:

Cash on hand	\$ 163,994
Cash pooled with the County of San Bernardino Treasury	44,913,238
Cash and cash equivalents	<u>45,077,232</u>
Cash and investments with fiscal agent	<u>100,418,993</u>
Cash in escrow	8,088,642
Cash and investments in trust	6,636,748
Restricted Cash and Investments	<u>14,725,390</u>
Total Cash and Investments	<u>\$ 160,221,615</u>

The District has the following amounts held in escrow accounts as of June 30, 2018:

Settlement funds in escrow for construction of Cactus Basin 4 and 5	<u>\$ 8,088,642</u>
---	---------------------

The investment balances are made up of the following accounts as of June 30, 2018:

San Bernardino County Pool	\$ 44,913,238
Money market mutual funds with trustee	6,636,748
Municipal bonds with fiscal agent	70,403,657
Money market mutual funds with fiscal agent	30,015,336
	<u>\$ 151,968,979</u>

# SAN BERNARDINO COUNTY FLOOD CONTROL DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

### NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

#### Investments Authorized by the California Government Code and the County’s Investment Policy

The following table presents the authorized investment types per the CGC that were held by the County as of June 30, 2018, along with their respective requirements and restrictions per the CGC and the Investment Policy:

Investment Type	Maximum Maturity		Maximum % of Pool		Maximum % per Issuer		Minimum Rating (2)(3)	
	Investment		Investment		Investment		Investment	
	CGC	Policy	CGC	Policy	CGC	Policy	CGC	Policy
U.S. Treasury Securities	5 Years	5 Years	None	None	None	None	None	None
U.S. Government Agencies	5 Years	5 Years	None	None	None	None	None	None
Negotiable Certificates of Deposit	5 Years	3 Years	30%	30%	None	5%	None	A-1/P-1/F1/A-/A3
Commercial Paper	270 Days	270 Days	40%	40%	10%	5%	A-1 / A	A-1/P-1/F1
Medium-Term Corporate Notes	5 Years	3 Years	30%	20%	None	100MM/5%	A	A-/A3
Insured Placement Service Accounts (1)	5 Years	Immediate Liquidity	30%	5%	None	50MM/100MM	None	None
JPA Investment Pools	N/A	Immediate Liquidity	None	5%	None	200MM	None	AAA
Money Market Mutual Funds	N/A	Immediate Liquidity	20%	15%	None	10%	AAAam	AAAam
Supranational Securities	5 Years	5 Years	30%	30%	None	None	AA	AA

Footnote:

<sup>(1)</sup> FICA accounts balances are fully covered by FDIC insurance. Maximum \$50MM preselected depository institution. Maximum \$100MM per placement service

<sup>(2)</sup> Minimum credit rating categories are without regard to ratings modifiers (+/-)

<sup>(3)</sup> Standard & Poor’s Ratings (quoted) or the equivalent NRSRO rating

#### Investments Authorized by Debt Agreements

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, Pension Obligation Bond 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.

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.

As of June 30, 2018, the District had \$70,403,657 of municipal bonds with fiscal agent and \$30,015,336 of money market mutual funds with fiscal agent for a total of \$100,418,993 of segregated funds that are invested as required by the Treasury Regulations.

**SAN BERNARDINO COUNTY FLOOD CONTROL DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2018**

**NOTE 2 – CASH AND INVESTMENTS (CONTINUED)**

**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. Generally accepted accounting principles 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 Government Code and the San Bernardino County Treasury Pool Investment Policy (where more restrictive) place limitations on the purchase of investments in the County Pool. The District's investment in the County pool is rated annually by Fitch. Purchases of commercial paper, banker's acceptances, and negotiable certificates of deposit are restricted to issuers rated in the top three long-term letter ratings by a minimum of two or three nationally recognized statistical rating organizations (NRSRO's). For an issuer of medium-term corporate notes must have a minimum letter rating of "A". Purchases of supranational issuer securities must have a minimum long-term letter rating of "AA" from one NRSRO. Municipal notes and bonds and money market mutual funds must have a minimum letter rating of "AAA" from two of three NRSRO's (if rated). JPA pools must have a minimum letter rating of "AAA" from one NRSRO. As of June 30, 2018, all investments held by the County pool were within policy limits.

**SAN BERNARDINO COUNTY FLOOD CONTROL DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2018**

**NOTE 2 – CASH AND INVESTMENTS (CONTINUED)**

As of June 30, 2018, all cash and investments held by the District were rated as follows:

<u>Investment Type</u>	<u>S&amp;P Rating</u>	<u>Moody's Rating</u>	<u>Fitch Rating</u>	<u>Amount at June 30, 2018</u>
Investment in County Pool	Not Rated	Not Rated	AAAf/S1+	\$ 44,913,238
Money Market Mutual Funds with Trustee	AAAm	Aaa-mf	Not Rated	6,636,748
Investments with Fiscal Agent:				
Municipal and Other Governments:				
Austin Tx Ind. School Dist.	AA+	AAA	AA+	3,755,407
California State	AA-	AA3	AA-	1,518,105
California State	AA-	AA3	AA-	703,892
California State	AA-	AA3	Not Rated	3,008,670
Connecticut State	A	A1	A+	1,438,176
Georgia State	AAA	AAA	AAA	1,723,156
Georgia State	AAA	AAA	Not Rated	4,000,000
Hawaii State	Not Rated	Not Rated	Not Rated	742,507
Honolulu City & County	Not Rated	AA1	AA+	4,111,440
Houston, Texas	AA	Not Rated	AA	997,542
Louisiana State	AA-	AA3	AA-	1,028,830
Maryland State	AAA	AAA	AAA	2,074,760
Maryland State	AAA	AAA	Not Rated	2,271,410
MCCSC Ind. 1996 Sch. Bldg. Corp.	AA+	Not Rated	Not Rated	1,384,187
Minnesota State	AA+	AA1	Not Rated	4,011,200
Mississippi State	AA	AA2	Not Rated	605,298
New York, New York City Transitional	AAA	AA1	AAA	5,824,290
New York, New York	AA	AA2	Not Rated	1,002,870
North Carolina State	AAA	AAA	AAA	1,207,124
Ohio State	AA+	AA1	AA+	1,576,425
Oregon State Dept. of Admin. Svc.	AAA	AA1	Not Rated	901,338
Pennsylvania State	A+	AA3	AA-	4,156,040
Pennsylvania State Tpk. Commn. Oil	AA	AA3	Not Rated	3,018,465
San Antonio Texas Ind. School Dist.	Not Rated	AAA	AAA	3,489,106
Texas State	AAA	AAA	AAA	3,079,410
Texas State	AAA	AAA	AAA	3,531,500
Utah State	AAA	AAA	AAA	4,137,680
Vermont State	AA+	AAA	Not Rated	1,104,829
Washington State	AA+	AA1	Not Rated	4,000,000
Money Market Mutual Funds	AA+	AA1	Not Rated	30,015,336
Total				<u>\$ 151,968,979</u>

**SAN BERNARDINO COUNTY FLOOD CONTROL DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2018**

**NOTE 2 – CASH AND INVESTMENTS (CONTINUED)**

**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. Generally accepted accounting principles 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.

Weighted average maturity of the District’s investments as of June 30, 2018, is as follows:

<b>Investment Type</b>	<b>Fair Value</b>	<b>Weighted Average Maturity (Years)</b>
Investment in the San Bernardino County Pool	\$ 44,913,238	0.85
Money market mutual funds with trustee	6,636,748	0.10
Municipal bonds with fiscal agent	70,403,657	2.50
Money market mutual funds with fiscal agent	30,015,336	0.03
	<b>\$ 151,968,979</b>	

**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 collateral securities that are in the possession of an outside party.

Generally accepted accounting principles requires the disclosure of deposits into a financial institution that are not covered by Federal Deposit Insurance Corporation (FDIC) 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 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits.

*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*, the San Bernardino County Pool Investment Policy requires that all investments and investment collateral be transacted on a delivery-vs-payment basis with a third-party custodian and registered in the County’s name. All counterparties to repurchase agreements must sign a Securities Industry and Financial Markets Association (SIFMA) Global Master Repurchase Agreement and/or Tri-Party Repurchase Agreement before engaging in repurchase agreement transactions.

Bank balances are insured by FDIC depository insurance up to \$250,000 and the remainder, when applicable, is collateralized, as required by California Government Code Section 53652.

# SAN BERNARDINO COUNTY FLOOD CONTROL DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

### NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

#### Fair Value Measurements

The District is a participant in the San Bernardino Treasurer's Pool (County Pool). The County Pool is an external investment pool and is not registered with the Securities Exchange Commission (SEC). The County Pool is rated by Fitch ratings (NRSRO) at AAAf/S1+. The San Bernardino County Treasury Oversight Committee conducts County Pool oversight. Cash on deposit in the County Pool at June 30, 2018, is stated at fair value. The County Pool values participant shares on an amortized cost basis during the year and adjusts to fair value at year-end. The fair value adjustment at June 30, 2018 decreased the District's investment income by \$206,590. For further information regarding the County Pool, refer to the County of San Bernardino Annual Financial Report.

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1 — Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the District has the ability to access.

Level 2 — Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 — Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Unobservable inputs reflect the Districts' own assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs are developed based on the best information available in the circumstances and may include the District's own data.

The asset's level within the hierarchy is based on the lowest level of input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The determination of what constitutes observable requires judgment by the District's management. District management considers observable data to be that market data which is readily available, regularly distributed or updated, reliable, and verifiable, not proprietary, and provided by multiple independent sources that are actively involved in the relevant market. The categorization of an investment within the hierarchy is based upon the relative observability of the inputs to its fair value measurement and does not necessarily correspond to District management's perceived risk of that investment.

**SAN BERNARDINO COUNTY FLOOD CONTROL DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2018**

**NOTE 2 – CASH AND INVESTMENTS (CONTINUED)**

**Fair Value Measurements (Continued)**

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The District’s assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability. Deposits and withdrawals in the County Treasury Pool are made on the basis of \$1 and not fair value. Accordingly, the District’s proportionate share of investments in the County Pool at June 30, 2018 of \$44,913,238 is an uncategorized input not defined as a Level 1, Level 2, or Level 3 input.

The following is a description of the valuation methods and assumptions used by the District to estimate the fair value of its investments. There have been no changes in the methods and assumptions used at June 30, 2018. The methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. District management believes its valuation methods are appropriate and consistent with other market participants. The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

When available, quoted prices are used to determine fair value. When quoted prices in active markets are available, investments are classified within Level 1 of the fair value hierarchy. For investments classified within Level 2 of the fair value hierarchy, the District's custodians generally uses a multi-dimensional relational model. Inputs to their pricing models are based on observable market inputs in active markets. The inputs to the pricing models are typically benchmark yields, reported trades, broker-dealer quotes, issuer spreads and benchmark securities, among others. The District's Level 2 investments consist of investments in municipal bonds that did not trade on the District's fiscal year end date. The valuation of money market mutual funds are at one-dollar net asset (NAV) per share. The redemption frequency is daily and redemption notice of period of intra-daily. This type of investment primarily invests in short term U.S. Treasury and government securities (including repurchase agreements collateralized by U.S. Treasury and government agency securities). The District has the following recurring fair value measurements as of June 30, 2018:

<u>Investments by Fair Value Level</u>	<u>Total</u>	<u>Level 2</u>
Municipal bonds with fiscal agent	\$ 70,403,657	\$ 70,403,657
Total Leveled Investments	<u>70,403,657</u>	<u>\$ 70,403,657</u>
Non-leveled investments:		
Investment in the San Bernardino County Pool	<u>44,913,238</u>	
Investments measured at the net asset value (NAV):		
Money market mutual funds with trustee	6,636,748	
Money market mutual funds with fiscal agent	<u>30,015,336</u>	
Total investments measured at the net asset value (NAV)	<u>36,652,084</u>	
Total Investments	<u>\$ 151,968,979</u>	

**SAN BERNARDINO COUNTY FLOOD CONTROL DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2018**

**NOTE 3 – CAPITAL ASSETS**

The cost of building and acquiring capital assets (land, buildings, dams, channels, storm drains, vehicles and equipment) financed from the General Fund are reported as expenditures in the year they are incurred, and the assets do not appear on the governmental fund balance sheet. However, the Statement of Net Position includes those capital assets among the assets of the District 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 every pay period in the Internal Service Fund.

Capital assets for the governmental activities and internal service fund are as follows:

	Balance June 30, 2017	Additions	Deletions	Balance June 30, 2018
<b>Governmental Activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 34,919,896	\$ 1,168,146	\$ -	\$ 36,088,042
Easements	1,658,993	-	-	1,658,993
Construction in progress	49,074,911	9,236,430	(28,534,922)	29,776,419
Internally generated software	186,831	-	(186,831)	-
Total capital assets, not being depreciated	<u>85,840,631</u>	<u>10,404,576</u>	<u>(28,721,753)</u>	<u>67,523,454</u>
Capital assets, being depreciated:				
Buildings	779,575	10,288	-	789,863
Channels, drains, dams, basins	517,215,071	28,239,866	-	545,454,937
Equipment and vehicles	294,928	184,607	(5,394)	474,141
Internally generated software	-	186,831	-	186,831
Total capital assets, being depreciated	<u>518,289,574</u>	<u>28,621,592</u>	<u>(5,394)</u>	<u>546,905,772</u>
Less accumulated depreciation for:				
Buildings	(517,294)	(21,363)	-	(538,657)
Channels, drains, dams, basins	(268,203,502)	(9,562,913)	-	(277,766,415)
Equipment and vehicles	(41,302)	(66,676)	5,394	(102,584)
Internally generated software	-	(17,126)	-	(17,126)
Total accumulated depreciation	<u>(268,762,098)</u>	<u>(9,668,078)</u>	<u>5,394</u>	<u>(278,424,782)</u>
Capital assets, being depreciated, net	<u>249,527,476</u>	<u>18,953,514</u>	<u>-</u>	<u>268,480,990</u>
Governmental activities capital assets, net	<u>335,368,107</u>	<u>29,358,090</u>	<u>(28,721,753)</u>	<u>336,004,444</u>
<b>Internal Service Fund (ICA):</b>				
Capital assets, being depreciated				
Vehicles	16,537,349	897,183	(456,426)	16,978,106
Equipment	131,092	-	-	131,092
Total capital assets being depreciated	<u>16,668,441</u>	<u>897,183</u>	<u>(456,426)</u>	<u>17,109,198</u>
Less accumulated depreciation for:				
Vehicles	(10,731,826)	(699,177)	422,752	(11,008,251)
Equipment	(8,542)	(23,054)	-	(31,596)
Total accumulated depreciation	<u>(10,740,368)</u>	<u>(722,231)</u>	<u>422,752</u>	<u>(11,039,847)</u>
Total internal service fund capital assets being depreciated, net	<u>5,928,073</u>	<u>174,952</u>	<u>(33,674)</u>	<u>6,069,351</u>
Total capital assets, net-governmental activities	<u>\$ 341,296,180</u>	<u>\$ 29,533,042</u>	<u>\$ (28,755,427)</u>	<u>\$ 342,073,795</u>

**SAN BERNARDINO COUNTY FLOOD CONTROL DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2018**

**NOTE 3 – CAPITAL ASSETS (CONTINUED)**

Depreciation expense for the year is \$10,390,309 for governmental activities, of which, \$722,231 relates to the internal service fund.

At June 30, 2018, the District had construction in progress for the following projects:

**Construction in progress (CIP)**

<u>Zone</u>	<u>Description</u>	<u>Total CIP by Project</u>	<u>Totals by Zone</u>
1	West State Street Storm Drain	\$ 248,590	
1	English Channel-Carbon Canyon	2,652,821	
1	West Fontana Channel	2,998,727	
1	Francis Street Storm Drain	4,131,042	
1	Hawker Crawford Channel	145,631	
1	Carbon Canyon Channel	9,721	
1	Grove Basin Outlet Storm Drain	11,222	\$ 10,197,754
2	Rialto Channel	2,040,348	
2	Del Rosa Channel (Daley Channel)	144,916	
2	Cactus Basins	1,512,955	
2	Upper Warm Creek Channel	1,227,260	
2	City Creek Levee Repair	56,993	4,982,472
3	Elder Creek Channel	1,363,062	1,363,062
4	Amethyst Basin (Oro Grande Wash)	5,533,342	
4	Bandicoot Basin (Hesperia Basin)	3,500,373	
4	Desert Knolls Wash	1,664,990	
4	Oak Hill Basin (Hesperia Basin #2)	126,549	
4	Tussing Juniper Basin	22,929	
4	Ranchero Basin/Antelope Creek Wash	185,602	
4	Line E-01 Extension	103,134	
4	Avenue I Drainage	3,938	11,140,857
5	Rim Forest Drainage	1,186,605	1,186,605
6	Donnell Basin	905,669	905,669
	Total Construction in Progress	<u>\$ 29,776,419</u>	<u>\$ 29,776,419</u>

**SAN BERNARDINO COUNTY FLOOD CONTROL DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2018**

**NOTE 3 – CAPITAL ASSETS (CONTINUED)**

The District has active major construction projects as of June 30, 2018. The projects are financed by government aid and property taxes and include new construction and renovations of dams, channels, basins and storm drains. At June 30, 2018, the District’s commitments with contractors are as follows:

<b>Project #</b>	<b>Description</b>	<b>Commitment Amount</b>
F01087	West State Street Storm Drain	\$ 20,650
F01666	Cactus Basin #3	104,572
F01650	Upper Warm Creek Chanel	6,284
F01911	Elder Creek Channel	49,016
F01417	Bandicoot Basin (Hesperia Basin)	245,963
F01336	Amethyst Basin (Oro Grande Wash)	7,635,878
F02377	Rim Forest Drainage	276,416
F01284	Donnel Basin	13,461
	Total	<u>\$ 8,352,240</u>

**NOTE 4 – RETENTIONS PAYABLE**

Effective January 1, 2012, the District retains 5 percent 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 5 percent or 10 percent payment is not made until the work is completed and approved. At June 30, 2018, the District’s retentions payable balance was \$314,257.

**NOTE 5 – DEFERRED INFLOWS OF RESOURCES**

As of June 30, 2018, total deferred inflows of resources in the General Fund are related to the following unavailable resources:

Other governmental aid receivable	\$ 2,006,510
-----------------------------------	--------------

**SAN BERNARDINO COUNTY FLOOD CONTROL DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2018**

**NOTE 6 – LONG-TERM OBLIGATIONS**

A schedule of changes in long-term obligations of the District during fiscal year 2018 is as follows:

	Balance on July 1, 2017	Additions	Deletions	Balance on June 30, 2018	Amounts Due In One Year
<b>Governmental Activities:</b>					
Compensated absences	\$ 2,215,592	\$ 1,213,147	\$ 1,075,150	\$ 2,353,589	\$ 137,998
Series 2007 Refunding Bonds	11,185,000	-	1,910,000	9,275,000	2,010,000
Series 2008 Refunding Bonds	37,295,000	-	-	37,295,000	-
2016 Refunding JOBS, Series A	25,200,000	-	3,445,000	21,755,000	3,495,000
Premium	395,760	-	98,941	296,819	98,941
Net pension liability	13,402,058	3,037,011	2,124,120	14,314,949	-
Total Long-Term Debt	<u>\$ 89,693,410</u>	<u>\$ 4,250,158</u>	<u>\$ 8,653,211</u>	<u>\$ 85,290,357</u>	<u>\$ 5,741,939</u>

**Series 2007 Refunding Bonds**

In May 2007, the 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 percent 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 unpaid balance at June 30, 2018 was \$9,275,000.

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.

**Series 2008 Refunding Bonds**

In April 2008, the 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 unpaid balance at June 30, 2018 was \$37,295,000.

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 percent through August 1, 2008 and costs of issuance incurred in connection with the issuance of the Series 2008 Bonds. The interest rate is variable and is shown at the assumed rate of 4.85 percent in the repayment schedule.

The Bonds have an optional tender provision that gives the bondholder the option of selling their Bonds back to the District, at par, upon seven days’ notice. The District has obtained a direct pay, irrevocable letter of credit (LC) from Bank of America (Bank) to provide credit support, and cash for such tenders, in the event tendered Bonds cannot be immediately remarketed to another investor. The District entered into a Reimbursement Agreement and Fee Letter with the Bank in July of 2011 to document the terms related to the issuance of the LC.

**SAN BERNARDINO COUNTY FLOOD CONTROL DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2018**

**NOTE 6 – LONG-TERM OBLIGATIONS (CONTINUED)**

**Series 2008 Refunding Bonds (Continued)**

The District did not pay any upfront commitment fee to the Bank for this LC; however it pays a facility fee at agreed upon rates on the Available Amount of the LC (as defined in the LC agreement). This LC is an irrevocable direct pay letter of credit with a current stated expiration date of July 5, 2019.

The LC is directly drawn on monthly to make the interest payment on the Bonds. The Bank is reimbursed for the monthly draw on the LC with the debt service payments made by the District. An LC draw would also occur if an investor exercises the optional tender provision and the Bonds cannot be immediately remarketed to another investor. In the event of a draw on the LC to purchase bonds that have been tendered but not remarked (Liquidity Advance) that is not repaid by the District within 90 days, the Liquidity Advance will convert to a Term Loan on the 91st day, if conditions precedent to a Term Loan are satisfied by the District.

As of June 30, 2018, there were no outstanding 2008 Judgment Obligation Bonds that have been tendered but failed to be remarketed. In accordance with the agreement, in the event any Bonds are optionally tendered and cannot be remarketed, interest on tendered Bonds for the first 90 days is paid to the Bank at the highest of a) Prime Rate in effect for such day plus 1.5 percent, b) overnight effective federal funds rate for such day as quoted in the “*Composition Closing Quotations for U.S. Government Securities*” published by the Federal Reserve Bank of New York plus 3 percent, c) 7.5 percent or d) the maximum rate of interest borne by Bonds that are still held by investors. If a Liquidity Advance remains outstanding after ninety days, and if conditions precedent to a Term Loan are satisfied by the District, the rate paid to the Bank on the Term Loan is the highest of a) through d) above, plus one percent.

The loss on refunding of debt, in the amount of \$554,300, is required to be classified as deferred outflows of resources. This amount will be amortized through 2038 at \$24,100 per year. At June 30, 2018, the District’s unamortized loss on refunding of debt balance was \$482,000.

The following schedule represents a debt service scenario in which all the bonds are tendered by investors on July 1, 2018 and fail to be remarketed during the Liquidity Advance and Term Loan periods. The scenario assumes that interest on the Liquidity Advance is paid at a rate of 7.5 percent, and that interest on the Term Loan is paid at a rate of 8.5 percent. Principal is amortized as required in the Reimbursement Agreement over the Term Loan period.

<b>Year ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2019	\$ 10,600,000	\$ 2,820,543	\$ 13,420,543
2020	10,600,000	1,745,358	12,345,358
2021	10,700,000	834,167	11,534,167
2022	5,395,000	76,639	5,471,639
Total	<u>\$ 37,295,000</u>	<u>\$ 5,476,707</u>	<u>\$ 42,771,707</u>

**SAN BERNARDINO COUNTY FLOOD CONTROL DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2018**

**NOTE 6 – LONG-TERM OBLIGATIONS (CONTINUED)**

**2016 Refunding Judgment Obligation Bonds, Series A**

In February 2016, the District issued Refunding Judgment Obligation Bonds, Series A, in the amount of \$27,870,000. Interest on the Refunding Judgment Obligation Bonds, Series A is paid at a fixed rate of 1.54 percent payable annually on August 1 of each year commencing on August 1, 2016. Principal payments are due annually in various amounts commencing August 1, 2016 through 2023. The unpaid balance at June 30, 2018 was \$21,755,000.

Proceeds from the 2016 Refunding Judgment Obligation Bonds, Series A, along with other District funds, were used to pay in full the outstanding principal balance of the 2007 Judgment Obligation Bonds, Series A. The refunding resulted in a gain in the amount of \$252,000 and is reported as a deferred inflow of resources. The deferred gain will be amortized through 2024 at \$36,000 per year as a reduction to interest expense. At June 30, 2018, the District’s unamortized deferred gain balance was \$180,000.

The following schedule of debt service requirements to maturity as of June 30, 2018, for the Bonds:

<b>Year ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2019	\$ 5,505,000	\$ 2,607,584	\$ 8,112,584
2020	5,665,000	2,347,511	8,012,511
2021	5,795,000	2,183,413	7,978,413
2022	6,580,000	2,051,369	8,631,369
2023	3,715,000	1,924,077	5,639,077
2024-2028	3,770,000	9,102,097	12,872,097
2029-2033	13,800,000	8,206,038	22,006,038
2034-2038	23,495,000	3,507,941	27,002,941
Total	<u>\$ 68,325,000</u>	<u>\$ 31,930,030</u>	<u>\$ 100,255,030</u>

**NOTE 7 – RETIREMENT PLAN**

The District participates in the following County-Wide Retirement Plan. The District contributes to the plan an amount determined by the County.

**Plan Description**

The County provides pension benefits to eligible employees through a cost sharing multiple-employer defined benefit pension plan (the Plan) administered by the San Bernardino County Employees’ Retirement Association (SBCERA).

**SAN BERNARDINO COUNTY FLOOD CONTROL DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2018**

**NOTE 7 – RETIREMENT PLAN (CONTINUED)**

**Plan Description (Continued)**

The Plan is governed by the SBCERA Board of Retirement (Board) under the provisions of the California County Employees’ Retirement Law of 1937 (CERL), the California Public Employees’ Pension Reform Act of 2013 (PEPRA). The Plan’s authority to establish and amend the benefit terms are set by the CERL and PEPRA, and may be amended by the California state legislature and in some cases require approval by the County of San Bernardino Board of Supervisors and/or the SBCERA Board. SBCERA is a tax qualified plan under Section 401(a) of the Internal Revenue Code.

SBCERA publishes its own comprehensive annual financial report that includes its financial statements and required supplementary information, which can be obtained by writing to SBCERA at 348 W. Hospitality Lane, Third Floor, San Bernardino, California 92415-0014 or visiting the website at [www.SBCERA.org](http://www.SBCERA.org).

**Benefits Provided**

SBCERA provides retirement, disability, death and survivor benefits. SBCERA administers the Plan which provides benefits for two membership classifications, General and Safety, and those benefits are tiered based upon date of SBCERA membership. Safety membership is extended to those involved in active law enforcement and fire suppression. All other members are classified as General members. Generally, those who become members prior to January 1, 2013 are Tier 1 members.

All other members are Tier 2. An employee who is appointed to a regular or contract position, whose service is at least fifty percent of the full standard of hours required is a member of SBCERA, and is provided with pension benefits pursuant to Plan requirements.

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

	<u>General - Tier 1</u>	<u>General - Tier 2</u>
Final average compensation	Highest 12 months	Highest 36 months
Normal retirement age	The later of age 55 or the age at which the member vests in his/her benefits under the CERL, but not later than age 70	The later of age 55 or the age at which the member vests in his/her benefits under the CERL, but not later than age 70
Early retirement: years of services required and/or age eligible for	Age 70 any years 10 years age 50 30 years any age	Age 70 any years 5 years age 52 N/A
Benefit	At normal retirement age, 2.0% per year of final average compensation for every year of service credit	At age 67, 2.5% per year of final average compensation for every year of service credit
Benefit adjustments	Reduced before age 55, increased after 55 up to age 65	Reduced before age 67
Final average compensation limitation	Internal Revenue Code section 401(a)(17)	Government Code section 7522.10

# SAN BERNARDINO COUNTY FLOOD CONTROL DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018

### NOTE 7 – RETIREMENT PLAN (CONTINUED)

An automatic cost of living adjustment is provided to benefit recipients based on changes in the local region Consumer Price Index (CPI) up to a maximum of 2 percent per year. Any increase greater than 2 percent is banked and may be used in years where the CPI is less than 2 percent. There is a one-time 7 percent increase at retirement for members hired before August 19, 1975. The Plan also provides disability and death benefits to eligible members and their beneficiaries, respectively. For retired members, the death benefit is determined by the retirement benefit option chosen. For all other members, the beneficiary is entitled to benefits based on the members years of service or if the death was caused by employment. General members are also eligible for survivor benefits which are payable upon a member's death.

#### Contributions

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

Employee and employer contribution rates for the fiscal year ended June 30, 2018 are as follows:

	<u>General - Tier 1</u>	<u>General - Tier 2</u>
Employee contribution rates	7.90% to 14.87%	8.45%
Employer contribution rates	22.41%	19.36%

For the year ended June 30, 2018, the District's contribution to the Plan of \$2,202,039 equaled the actuarially determined required employer contributions.

#### Net Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2018, the District reported a net pension liability for its proportionate share of the County's net pension liability of \$14,314,949.

The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportionate share of the net pension liability of the County as of June 30, 2018 and 2017 with measurement dates as of June 30, 2017 and 2016 was .6564 percent and .6533 percent, respectively.

For the year ended June 30, 2018, the District recognized pension expense of \$1,690,975.

**SAN BERNARDINO COUNTY FLOOD CONTROL DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2018**

**NOTE 7 – RETIREMENT PLAN (CONTINUED)**

**Net Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)**

At June 30, 2018, the District reported its proportionate share of the County’s deferred outflows of resources and deferred inflows of resources related to pensions, from the following sources.

	Deferred Outflows Related to Pensions
Pension contributions subsequent to measurement date	\$ 2,202,039
Net differences between projected and actual investment earnings on pension plan investments	519,761
Changes of assumptions	3,658,160
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>753,688</u>
Total proportionate share of deferred outflows of resources	<u>\$ 7,133,648</u>
	Deferred Inflows Related to Pensions
Difference between expected and actual experience	\$ 1,531,405
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>988,335</u>
Total proportionate share of deferred inflows of resources	<u>\$ 2,519,740</u>

**SAN BERNARDINO COUNTY FLOOD CONTROL DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2018**

**NOTE 7 – RETIREMENT PLAN (CONTINUED)**

The total amount of \$2,202,039 reported as deferred outflows of resources related to contributions to the Plan subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amount reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

	<u>Year Ended June 30:</u>	
	2019	\$ 215,812
	2020	777,030
	2021	704,464
	2022	8,542
	2023	586,083
	Thereafter	119,938
	Total	<u>\$ 2,411,869</u>

**Actuarial Assumptions**

The District’s proportion of the County’s total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions:

Actuarial Valuation Date	June 30, 2017
Actuarial Cost Method	Entry Age Actuarial Cost Method
Actuarial Assumptions	
Investment Rate of Return	7.25%, net of pension plan investment expenses
Inflation	3.00%
Projected Salary Increases	General: 4.50% to 14.50%
Cost of Living Adjustments	Consumer price index with a 2.00% maximum
Administrative Expenses	0.70% of payroll

Mortality rates used in the June 30, 2017 actuarial valuation were based on the Headcount-Weighted RP 2014 Healthy Annuitant Mortality Table projected generationally using the two-dimensional mortality improvement scale MP-2016. For healthy General male members, the ages are set forward to one year. No adjustment is made for healthy General female members. For all General members that are disabled, the ages are set forward seven years. Beneficiaries are assumed to have the same mortality as a General member of the opposite sex who is receiving a service (non-disability) retirement.

The actuarial assumptions used to determine the total pension liability as of June 30, 2017 were based on the results of the June 30, 2017 Actuarial Experience Study, which covered the period from July 1, 2013 through June 30, 2016.

The long-term expected rate of return on the Plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adding expected inflation, and subtracting expected investment expenses and a risk margin.

**SAN BERNARDINO COUNTY FLOOD CONTROL DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2018**

**NOTE 7 – RETIREMENT PLAN (CONTINUED)**

**Actuarial Assumptions (Continued)**

Actuarial assumptions reported in 2018 reflect a decrease of 0.25% for both the investment rate of return and inflation rate, an increase of 0.1% of payroll for administrative expenses, and adjustments of projected salary and mortality rates to more closely reflect actual experience.

The June 30, 2017 target allocation (approved by the SBCERA Board) and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before deducting investment expenses, used in the derivation of the long-term expected investment rate of return assumption are summarized in the table as follows:

Asset Class	Investment Classification	Target Allocation*	Long-term Expected Real Rate of Return
Large Cap U.S. Equity	Domestic Common and Preferred Stock	8.00%	5.61%
Small Cap U.S. Equity	Domestic Common and Preferred Stock	2.00%	6.37%
Developed International Equity	Foreign Common and Preferred Stock	6.00%	6.96%
Emerging Market Equity	Foreign Common and Preferred Stock	6.00%	9.28%
U.S. Core Fixed Income	U.S. Government and Municipals/Corporate Bonds	2.00%	1.06%
High Yield/Credit Strategies	Corporate Bonds/Foreign Bonds	13.00%	3.65%
Global Core Fixed Income	Foreign Bonds	1.00%	0.07%
Emerging Market Debt	Emerging Market Debt	6.00%	3.85%
Real Estate	Real Estate	9.00%	4.37%
International Credit	Foreign Alternatives	11.00%	6.75%
Absolute Return	Domestic Alternatives/Foreign Alternatives	13.00%	3.56%
Other Real Assets	Domestic Alternatives/Foreign Alternatives	5.00%	6.35%
Private Equity	Domestic Alternatives/Foreign Alternatives	16.00%	8.47%
Cash & Equivalents	Short-Term Cash Investment Funds	2.00%	-0.17%
Total		100.00%	

\* For actuarial purposes, target allocations only change once every three years based on the triennial actuarial experience study.

**Discount Rate**

The discount rate used to measure the Plan’s total pension liability was 7.25 percent for the year ended June 30, 2017. The projection of cash flows used to determine the discount rate assumed employer and member contributions will be made at rates equal to the actuarially determined contribution rates. For this purpose, only employee and employer contributions that are intended to fund benefits for current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the Plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on the Plan investments of 7.25 percent was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2017.

**SAN BERNARDINO COUNTY FLOOD CONTROL DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2018**

**NOTE 7 – RETIREMENT PLAN (CONTINUED)**

**Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate**

The following presents the District’s proportionate share of the County’s net pension liability, calculated using the discount rate of 7.25 percent, as well as what the District’s proportionate share of the County’s net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25%) or 1-percentage-point higher (8.25%) than the current rate:

	<u>1% Decrease (6.25%)</u>	<u>Current Discount Rate (7.25%)</u>	<u>1% Increase (8.25%)</u>
The District's proportionate share of the net pension liability	\$ 25,128,266	\$ 14,314,949	\$ 5,420,743

Detailed information about the Plan’s fiduciary net position is available in the separately issued SBCERA and San Bernardino County Comprehensive annual financial reports.

**NOTE 8 – NET POSITION**

Net position represents the difference between total assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. The net position balances are as follows:

*Net investment in capital assets* – This consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of related debt.

*Restricted* – This consists of assets restricted for debt service payments and certain flood improvements projects and training projects under contract with other governmental agencies less liabilities related to those assets.

*Unrestricted* – This consists of the net amount of those assets that are not included in the determination of net investment in capital assets or the restricted component of net position.

The following is a summary of the District’s net position as of June 30, 2018:

Capital assets, net of depreciation	\$ 342,073,795
Less: series 2007 refunding bond	(9,275,000)
Less: premium on 2007 refunding bond	(296,819)
Less: construction related payables	(1,186,405)
Less: retentions payable	<u>(314,257)</u>
Net investment in capital assets	331,001,314
Restricted net position	9,827,007
Unrestricted net position	<u>73,244,163</u>
Total Net Position	<u>\$ 414,072,484</u>

# **SAN BERNARDINO COUNTY FLOOD CONTROL DISTRICT**

## **NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2018**

### **NOTE 9 – RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts, theft, damage to and destruction of assets, errors and omissions, general liabilities, workers' compensation, injuries, to employees and others and natural disasters. Through the County, internal service funds are utilized where assets are set aside for claim settlements up to certain limits and the County has obtained excess liability coverage through a combination of insurance policies. No claim settlements have exceeded insurance coverage in any of the past three years.

### **NOTE 10 - COMMITMENTS AND CONTINGENCIES**

The District is involved in several pending lawsuits. District management estimates that potential claims against the District, not covered by insurance, will not have a material adverse effect on the financial position of the District.

### **NOTE 11 – UNEARNED REVENUE**

In accordance with the settlement agreement effective April 7, 2015, which obligated specified parties for flood control improvements near the extension of the 210 freeway through the City of Rialto, \$16,000,000 was deposited into an escrow account from which the District is allowed to draw from for the construction of the flood control facilities upon the satisfaction of certain milestones. In the fiscal year ending June 30, 2016, the District accomplished the first milestone and recognized \$4,000,000 of the escrow deposit as settlement revenue. In the fiscal year ending June 30, 2018, the District accomplished the second milestone and recognized an additional \$4,000,000 of the escrow deposit as current year settlement revenue. The remainder of the proceeds from the settlement agreement of \$8,088,642, including interest accrued, is reported in cash in escrow on the District's balance sheet. Of the \$8,088,642, \$8,000,000 will be recognized into settlement revenue as the remaining milestones are accomplished by the District and the interest accrued on the monies will not as it does not belong to the District. As such, the \$8,088,642, along with other amounts, is included in unearned revenues on the District's balance sheet.

### **NOTE 12 – TRANSACTIONS WITH THE COUNTY**

The District uses the treasury function of the County and at times maintains a cash overdraft with the County which can be repaid only through collection of receivables. The District had no cash overdrafts as of June 30, 2018.

The District also uses the auditor's functions, including property tax collection, financial transactions, payroll, treasury, real estate, facilities, County Administrative Office, and human resources which are all functions provided to other County departments.

The County contributed \$2,500,000 during the year ended June 30, 2018 of which \$1,300,000 was for the NPDES program and \$1,200,000 for the Rim Forest Drainage project. Contributions from the County are reported in other governmental aid in the District's general fund and as operating grants and contributions in the District's statement of activities.

Contributions to the County in the amount of \$3,437,260 for the year ended June 30, 2018 were for funding of the construction of a new Department of Public Works Administration building.

**REQUIRED SUPPLEMENTARY INFORMATION**

**SAN BERNARDINO COUNTY FLOOD CONTROL DISTRICT**

**BUDGETARY COMPARISON SCHEDULE – GENERAL FUND  
YEAR ENDED JUNE 30, 2018**

	General Fund			Variance with Final Budget
	Original Budget	Final Budget	Actual	
<b>Revenues</b>				
Property taxes	\$ 47,459,000	\$ 47,459,000	\$ 52,907,339	\$ 5,448,339
Other taxes	350,500	350,500	347,325	(3,175)
Rents, concessions and royalties	543,000	543,000	480,863	(62,137)
Interest	86,500	86,500	1,014,834	928,334
Other governmental aid	4,939,256	4,939,256	6,024,847	1,085,591
Licenses, fees and permits	816,980	816,980	1,301,490	484,510
Other	21,300	21,300	7,852	(13,448)
<b>Total Revenues</b>	<b>54,216,536</b>	<b>54,216,536</b>	<b>62,084,550</b>	<b>7,868,014</b>
<b>Expenditures</b>				
Current:				
Public works - flood control:				
Salaries and benefits	13,144,640	14,046,639	12,932,771	1,113,868
Services and supplies	17,646,887	18,231,587	11,809,361	6,422,226
Capital outlay	59,472,782	59,690,783	10,349,738	49,341,045
Debt service:				
Principal	8,182,500	8,182,500	5,355,000	2,827,500
Interest	2,800,508	2,800,508	1,331,894	1,468,614
Reserves and contingencies	78,088,690	73,144,981	-	73,144,981
<b>Total Expenditures</b>	<b>179,336,007</b>	<b>176,096,998</b>	<b>41,778,764</b>	<b>134,318,234</b>
Excess of revenues over (under) expenditures	(125,119,471)	(121,880,462)	20,305,786	142,186,248
<b>Other Financing Sources (Uses)</b>				
Transfers in	12,034,018	15,682,427	12,418,465	(3,263,962)
Transfers out	(11,790,978)	(15,234,687)	(12,418,465)	2,816,222
Settlements & insurance recoveries	4,000,000	-	4,000,000	4,000,000
Sale of capital assets	1,874,000	-	1,905,995	1,905,995
Contributions to County	-	(3,443,709)	(3,437,260)	6,449
<b>Total Other Financing Sources (Uses)</b>	<b>6,117,040</b>	<b>(2,995,969)</b>	<b>2,468,735</b>	<b>5,464,704</b>
Net Change in Fund Balance	\$ (119,002,431)	\$ (124,876,431)	22,774,521	\$ 147,650,952
Fund Balance, Beginning			122,498,295	
Fund Balance, Ending			\$ 145,272,816	

**SAN BERNARDINO COUNTY FLOOD CONTROL DISTRICT**

**NOTE TO REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2018**

**Stewardship, compliance and accountability**

*Budgetary information*

In accordance with provisions of Sections 29000 - 29143 of the California Government code, 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. The budgetary report is available from the Auditor-Controller/Treasurer/Tax Collector's office at 268 W. Hospitality Lane, 4<sup>th</sup> Floor, San Bernardino, California 92415-0018.

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.

**SAN BERNARDINO COUNTY FLOOD CONTROL DISTRICT**

**SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
COUNTY OF SAN BERNARDINO  
COST SHARING DEFINED BENEFIT PLAN  
LAST 10 FISCAL YEARS\***

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Proportionate of the net pension liability	0.6564%	0.6533%	0.6334%	0.6245%
Proportionate share of the net pension liability	\$ 14,314,949	\$ 13,402,058	\$ 10,281,544	\$ 8,978,772
Covered payroll	\$ 9,677,484	\$ 9,018,132	\$ 9,038,851	\$ 8,533,945
Proportionate share of the net pension liability as a percentage of its covered payroll	147.92%	148.61%	113.75%	105.21%
Plan fiduciary net position as a percentage of the total pension liability	77.90%	76.86%	80.98%	82.47%
Measurement date	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014

**Notes to Schedule**

\* Fiscal year 2015 was the first year of implementation, therefore only four years are presented

**Change in Assumptions**

Amounts reported in 2018 primarily reflect a decrease of 0.25% for both the investment rate of return and inflation rate, an increase of 0.1% of payroll for administrative expenses, and adjustments of projected salary increases and mortality rates to more closely reflect actual experience. Mortality rates used in the June 30, 2017 actuarial valuation are based on the Headcount-Weighted RP 2014 Healthy Annuitant Mortality Table rather than on the RP-2000 Combined Healthy Mortality Table, which was used to determine amounts reported prior to 2018.

**SAN BERNARDINO COUNTY FLOOD CONTROL DISTRICT**

**SCHEDULE OF CONTRIBUTIONS  
COUNTY OF SAN BERNARDINO  
COST SHARING DEFINED BENEFIT PLAN  
LAST 10 FISCAL YEARS\***

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution	\$ 2,202,039	\$ 2,124,120	\$ 2,015,092	\$ 1,830,147
Contributions in relation to the contractually required contribution	<u>\$ (2,202,039)</u>	<u>\$ (2,124,120)</u>	<u>\$ (2,015,092)</u>	<u>\$ (1,830,147)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 9,954,294	\$ 9,677,484	\$ 9,018,132	\$ 9,038,851
Contributions as a percentage of covered payroll	22.12%	21.95%	22.34%	20.25%

**Notes to Schedule**

\* Fiscal year 2015 was the first year of implementation, therefore only four years are presented

## **OTHER INFORMATION**

**SAN BERNARDINO COUNTY FLOOD CONTROL DISTRICT**

**GENERAL FUND  
COMBINING BALANCE SHEET  
BY ZONE  
JUNE 30, 2018**

	<u>Zone 1</u>	<u>Zone 2</u>	<u>Zone 3</u>	<u>Zone 4</u>
<b>Assets</b>				
Cash and cash equivalents	\$ 10,108,352	\$ 8,971,916	\$ 6,165,266	\$ 2,226,807
Cash and investments with fiscal agent	38,133,401	26,279,741	6,983,445	21,090,703
Cash in escrow	-	8,088,642	-	-
Cash and investments in trust	6,636,748	-	-	-
Interest receivable	377,007	282,068	75,024	259,181
Accounts receivable	93,840	77,662	-	6,067
Taxes receivable	490,157	162,383	122,158	135,742
Due from other funds	32,128	122,685	11,773	10,960
Due from other governments	36,594	742,221	440,308	388,972
Prepaid items	-	-	-	-
<b>Total Assets</b>	<u>\$ 55,908,227</u>	<u>\$ 44,727,318</u>	<u>\$ 13,797,974</u>	<u>\$ 24,118,432</u>
<b>Liabilities</b>				
Liabilities:				
Accounts payable	\$ 184,520	\$ 30,433	\$ 16,578	\$ 705,491
Salaries and benefits payable	-	-	-	-
Retention payable	10,471	-	4,850	117,159
Due to other funds	809,020	369,123	181,873	212,072
Due to other governments	134,534	6,375	1,500	12,075
Unearned revenues	157,696	8,124,483	134,584	4,331
Deposits payable	-	284,913	-	-
<b>Total Liabilities</b>	<u>1,296,241</u>	<u>8,815,327</u>	<u>339,385</u>	<u>1,051,128</u>
Deferred inflows of resources				
Unavailable revenue	<u>235,781</u>	<u>775,552</u>	<u>414,743</u>	<u>476,135</u>
Fund balances:				
Nonspendable:				
Prepaid items	-	-	-	-
Restricted for:				
Debt service	9,827,007	-	-	-
Assigned for:				
Flood improvement projects	152,379	-	801,898	7,544,134
NPDES program	-	-	-	-
Unassigned	<u>44,396,819</u>	<u>35,136,439</u>	<u>12,241,948</u>	<u>15,047,035</u>
<b>Total Fund Balances</b>	<u>54,376,205</u>	<u>35,136,439</u>	<u>13,043,846</u>	<u>22,591,169</u>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<u>\$ 55,908,227</u>	<u>\$ 44,727,318</u>	<u>\$ 13,797,974</u>	<u>\$ 24,118,432</u>

(Continued)

<u>Zone 5</u>	<u>Zone 6</u>	<u>Administration</u>	<u>LADP/ NPDES</u>	<u>Eliminations</u>	<u>Total</u>
\$ 2,507,724	\$ 1,491,107	\$ 735,400	\$ 7,516,224	\$ -	\$ 39,722,796
2,222,977	5,726,669	(17,943)	-	-	100,418,993
-	-	-	-	-	8,088,642
-	-	-	-	-	6,636,748
24,049	61,482	55	-	-	1,078,866
-	5,718	-	71,489	-	254,776
11,272	38,542	60,123	-	-	1,020,377
8,784	5,547	1,430,996	-	(1,622,873)	-
-	24,137	6,258	-	-	1,638,490
-	-	-	18,589	-	18,589
<u>\$ 4,774,806</u>	<u>\$ 7,353,202</u>	<u>\$ 2,214,889</u>	<u>\$ 7,606,302</u>	<u>\$ (1,622,873)</u>	<u>\$ 158,878,277</u>
\$ 7,804	\$ 1,424	\$ 100,203	\$ 131,487	\$ -	\$ 1,177,940
-	-	1,031,704	-	-	1,031,704
-	-	166,888	14,889	-	314,257
14,275	59,125	162,454	315	(1,808,257)	-
15,600	13,575	-	-	185,384	369,043
-	-	-	-	-	8,421,094
-	-	-	-	-	284,913
<u>37,679</u>	<u>74,124</u>	<u>1,461,249</u>	<u>146,691</u>	<u>(1,622,873)</u>	<u>11,598,951</u>
<u>7,525</u>	<u>49,092</u>	<u>6,275</u>	<u>41,407</u>	<u>-</u>	<u>2,006,510</u>
-	-	-	18,589	-	18,589
-	-	-	-	-	9,827,007
318,416	15,968	282,803	-	-	9,115,598
-	-	-	7,399,615	-	7,399,615
<u>4,411,186</u>	<u>7,214,018</u>	<u>464,562</u>	<u>-</u>	<u>-</u>	<u>118,912,007</u>
<u>4,729,602</u>	<u>7,229,986</u>	<u>747,365</u>	<u>7,418,204</u>	<u>-</u>	<u>145,272,816</u>
<u>\$ 4,774,806</u>	<u>\$ 7,353,202</u>	<u>\$ 2,214,889</u>	<u>\$ 7,606,302</u>	<u>\$ (1,622,873)</u>	<u>\$ 158,878,277</u>

**SAN BERNARDINO COUNTY FLOOD CONTROL DISTRICT**

**GENERAL FUND  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE  
BY ZONE  
JUNE 30, 2018**

	<u>Zone 1</u>	<u>Zone 2</u>	<u>Zone 3</u>	<u>Zone 4</u>
<b>Revenues</b>				
Property taxes	\$ 24,878,123	\$ 10,561,795	\$ 5,671,264	\$ 6,535,207
Other taxes	166,936	55,290	41,583	46,078
Rents, concessions and royalties	151,228	221,564	94,955	11,575
Interest	372,610	275,230	108,410	198,441
Other governmental aid	878,053	805,673	209,242	150,315
Licenses, fees and permits	330,449	495,220	156,399	21,187
Other	(67,454)	10,247	3,783	60,284
Total Revenues	<u>26,709,945</u>	<u>12,425,019</u>	<u>6,285,636</u>	<u>7,023,087</u>
<b>Expenditures</b>				
Current:				
Public works - flood control:				
Salaries and benefits	2,179,685	2,059,774	1,518,227	722,517
Services and supplies	4,298,068	1,950,058	1,333,918	998,194
Capital outlay	2,471,509	1,800,210	268,249	5,129,312
Debt service:				
Principal	5,355,000	-	-	-
Interest	1,331,894	-	-	-
Total Expenditures	<u>15,636,156</u>	<u>5,810,042</u>	<u>3,120,394</u>	<u>6,850,023</u>
Excess of Revenues Over (Under) Expenditures	<u>11,073,789</u>	<u>6,614,977</u>	<u>3,165,242</u>	<u>173,064</u>
<b>Other Financing Sources (Uses)</b>				
Transfers in	5,076,540	-	289,229	-
Transfers out	(8,576,875)	(1,707,171)	(788,380)	(929,057)
Settlement & insurance recoveries	-	4,000,000	-	-
Sale of capital assets	92,270	1,789,000	24,725	-
Contributions to county	-	-	-	-
Total Other Financing Sources (Uses)	<u>(3,408,065)</u>	<u>4,081,829</u>	<u>(474,426)</u>	<u>(929,057)</u>
Net Change in Fund Balances	<u>7,665,724</u>	<u>10,696,806</u>	<u>2,690,816</u>	<u>(755,993)</u>
Fund Balances, Beginning	<u>46,710,481</u>	<u>24,439,633</u>	<u>10,353,030</u>	<u>23,347,162</u>
Fund Balances, Ending	<u>\$ 54,376,205</u>	<u>\$ 35,136,439</u>	<u>\$ 13,043,846</u>	<u>\$ 22,591,169</u>

(Continued)

<u>Zone 5</u>	<u>Zone 6</u>	<u>Administration</u>	<u>LADP/ NPDES</u>	<u>Eliminations</u>	<u>Total</u>
\$ 407,613	\$ 1,714,732	\$ 3,138,605	\$ -	\$ -	\$ 52,907,339
3,835	13,134	20,469	-	-	347,325
-	1,541	-	-	-	480,863
38,559	54,822	(86,952)	53,714	-	1,014,834
1,201,133	4,864	1,649	2,773,918	-	6,024,847
(1,828)	22,605	214,512	62,946	-	1,301,490
-	538	454	-	-	7,852
<u>1,649,312</u>	<u>1,812,236</u>	<u>3,288,737</u>	<u>2,890,578</u>	<u>-</u>	<u>62,084,550</u>
44,554	433,280	5,424,464	550,270	-	12,932,771
110,318	384,706	1,297,141	1,436,958	-	11,809,361
515,443	154,727	10,288	-	-	10,349,738
-	-	-	-	-	5,355,000
-	-	-	-	-	1,331,894
<u>670,315</u>	<u>972,713</u>	<u>6,731,893</u>	<u>1,987,228</u>	<u>-</u>	<u>41,778,764</u>
<u>978,997</u>	<u>839,523</u>	<u>(3,443,156)</u>	<u>903,350</u>	<u>-</u>	<u>20,305,786</u>
-	-	6,970,410	82,286	(12,418,465)	-
(65,760)	(274,682)	-	(76,540)	12,418,465	-
-	-	-	-	-	4,000,000
-	-	-	-	-	1,905,995
-	-	(3,437,260)	-	-	(3,437,260)
<u>(65,760)</u>	<u>(274,682)</u>	<u>3,533,150</u>	<u>5,746</u>	<u>-</u>	<u>2,468,735</u>
<u>913,237</u>	<u>564,841</u>	<u>89,994</u>	<u>909,096</u>	<u>-</u>	<u>22,774,521</u>
<u>3,816,365</u>	<u>6,665,145</u>	<u>657,371</u>	<u>6,509,108</u>	<u>-</u>	<u>122,498,295</u>
<u>\$ 4,729,602</u>	<u>\$ 7,229,986</u>	<u>\$ 747,365</u>	<u>\$ 7,418,204</u>	<u>\$ -</u>	<u>\$ 145,272,816</u>



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

To the Honorable Board of Supervisors  
Sam Bernardino County Flood Control District  
San Bernardino, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the general fund, and the aggregate remaining fund information of the San Bernardino County Flood Control District (District), a component unit of the County of San Bernardino, California (County), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 8, 2018.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

*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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from 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*.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Rancho Cucamonga, California  
November 8, 2018