San Bernardino County
Flood Control District
(A Component Unit of the
County of San Bernardino, California)

Annual Financial Report

Year Ended June 30, 2017

SAN BERNARDINO COUNTY FLOOD CONTROL DISTRICT
YEAR ENDED JUNE 30, 2017

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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, 2017, 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.

10681 Foothill Blvd., Suite 300, Rancho Cucamonga, CA 91730 P 909.466.4410 F 909.466.4431 W vtdcpa.com

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, 2017, 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 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 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 December 11, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

Vavrinek, Trine, Day & Co LLP

Rancho Cucamonga, California
December 11, 2017

SAN BERNARDINO COUNTY FLOOD CONTROL DISTRICT

STATEMENT OF NET POSITION
JUNE 30, 2017

	Governmental Activities
Assets	
Cash and cash equivalents	$ 37,342,424
Cash and investments with fiscal agent	91,200,316
Restricted:	
Cash in escrow	12,636,409
Cash and investments in trust	3,222,779
Interest receivable	655,222
Accounts receivable	223,336
Taxes receivable	867,420
Due from other governments	2,218,627
Prepaid expenses	133,460
Capital assets, not being depreciated	85,840,631
Capital assets being depreciated, net	255,455,549
Total Assets	489,796,173
Deferred Outflows of Resources	
Loss on refunding of debt	506,100
Deferred outflows related to pensions	6,718,418
Total Deferred Outflows of Resources	7,224,518
Liabilities	
Accounts payable	1,967,563
Salaries and benefits payable	913,468
Retentions payable	719,280
Interest payable	394,721
Due to other governments	1,819,498
Unearned revenue	12,832,759
Long-term liabilities:	
Due within one year	6,310,688
Due in more than one year	83,382,722
Total Liabilities	108,340,699
Deferred Inflows of Resources	
Gain on refunding of debt	216,000
Deferred inflows related to pensions	3,528,465
Total Deferred Inflows of Resources	3,744,465
Net Position	
Net investment in capital assets	327,028,577
Restricted for:	
Debt service	9,078,950
Flood improvement projects	12,636,409
Unrestricted	36,191,591
Total Net Position	$ 384,935,527

See accompanying notes to the financial statements.

SAN BERNARDINO COUNTY FLOOD CONTROL DISTRICT

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017

	Governmental Activities
Expenses	
Public works - flood control:	
Salaries and benefits	$ 12,226,812
Services and supplies	11,881,909
Depreciation	9,874,692
Interest	958,739
Total Program Expenses	34,942,152
Program Revenues	
Operating grants and contributions	5,886,288
Charges for services	1,601,906
Total Program Revenues	7,488,194
Net Program Expense	27,453,958
General Revenues	
Property taxes	49,438,219
Other taxes	363,443
Interest	368,294
Other	338,951
Gain on sale of capital assets	1,882,222
Total General Revenues	52,391,129
Change in net position before County contributions	24,937,171
Contributions to county	(3,443,709)
Change in net position	21,493,462
Net Position, Beginning of Year, as restated (Note 13)	363,442,065
Net Position, End of Year	$ 384,935,527

See accompanying notes to the financial statements.

SAN BERNARDINO COUNTY FLOOD CONTROL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2017

	General Fund
Assets	
Cash and cash equivalents	$ 31,685,475
Cash and investments with fiscal agent	91,200,316
Cash in escrow	12,636,409
Cash and investments in trust	3,222,779
Interest receivable	655,222
Accounts receivable	223,336
Taxes receivable	867,420
Due from other governments	2,191,198
Prepaid expenses	25,906
Total Assets	$ 142,708,061
Liabilities	
Accounts payable	$ 1,923,743
Salaries and benefits payable	913,468
Retentions payable	719,280
Due to other governments	1,905,413
Unearned revenue	12,832,759
Total Liabilities	18,294,663
Deferred inflows of resources	
Unavailable revenue	1,915,103
Fund balance	
Nonspendable:	
Prepaid expenses	25,906
Restricted for:	
Debt service	9,078,950
Flood improvement projects	12,636,409
Assigned for:	
Flood improvement projects	6,051,968
NPDES program	6,496,114
Unassigned	88,208,948
Total Fund Balance	122,498,295
Total Liabilities, Deferred Inflows of Resources and Fund Balance	$ 142,708,061

See accompanying notes to the financial statements.

SAN BERNARDINO COUNTY FLOOD CONTROL DISTRICT

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUND TO THE STATEMENT OF NET POSITION
JUNE 30, 2017

Fund balance governmental fund		$ 122,498,295
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. The assets and liabilities are unrestricted in the statement of net position.		11,654,546
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the fund financial statements.		335,368,107
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.		1,915,103
Certain liabilities are not due and payable in the current period and, therefore, are not reported in the governmental fund financial statements.		
Bonds payable	$ (73,680,000)	
Plus: premium on debt	(395,760)	
Accrued interest payable	(394,721)	
Compensated absences payable	(2,215,592)	
Net pension liability	(13,402,058)	(90,088,131)
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.		107,554
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.		506,100
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.		(216,000)
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 pension		6,718,418
Deferred inflows related to pension		(3,528,465)
Net position of governmental activities		$ 384,935,527

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, 2017

	General Fund
Revenues	
Property taxes	$ 49,438,219
Other taxes	363,443
Rents, concessions and royalties	483,888
Interest	340,273
Other governmental aid	6,246,131
Licenses, fees and permits	1,118,018
Other	338,951
Total Revenues	58,328,923
Expenditures	
Current:	
Public works - flood control:	
Salaries and benefits	13,059,237
Services and supplies	12,556,564
Capital outlay	19,301,356
Debt service:	
Principal	4,485,000
Interest	1,234,959
Total Expenditures	50,637,116
Excess of revenues over expenditures	7,691,807
Other Financing Sources (Uses)	
Sale of capital assets	1,846,486
Contributions to county	(3,443,709)
Total Other Financing Sources (uses)	(1,597,223)
Net change in fund balance	6,094,584
Fund Balance, Beginning	116,403,711
Fund Balance, Ending	$ 122,498,295

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, 2017

Net change in fund balance - governmental fund		$ 6,094,584
Amounts reported for governmental activities in the Statement of Activities are different because:		
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.		125,590
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.		
Capital outlay	$ 19,301,356	
Depreciation expense	(9,192,517)	
Loss on disposals and cancelled construction in progress	(69,353)	10,039,486
Amortization of deferred inflows and outflows of resources resulting from the deferred amounts on refunding.		(24,100)
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:		
Amortization of bond premium	98,941	
Amortization of deferred charges	9,111	
Retirement of bonds	4,485,000	4,593,052
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.		(359,843)
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.		
Decrease in accrued interest payable		192,268
Decrease in compensated absences payable		94,213
Changes in the net pension liability		738,212
Change in net position of governmental activities		$ 21,493,462

See accompanying notes to the financial statements.

SAN BERNARDINO COUNTY FLOOD CONTROL DISTRICT

STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2017

	Internal Service Fund
Assets	
Current assets:	
Cash and cash equivalents	$ 5,656,949
Due from other County funds	85,915
Due from other governments	27,429
Total Current Assets	5,770,293
Noncurrent assets:	
Capital assets being depreciated, net	5,928,073
Total Assets	11,698,366
Liabilities	
Current liabilities:	
Accounts payable	43,820
Total Current Liabilities	43,820
Net Position	
Net investment in capital assets	5,928,073
Unrestricted	5,726,473
Total Net Position	$ 11,654,546

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, 2017

	Internal Service Fund
Operating Revenues	
Charges for services	$ 2,059,195
Operating Expenses	
Services and supplies	1,384,540
Depreciation	682,175
Total Operating Expenses	2,066,715
Operating loss	(7,520)
Nonoperating Revenues	
Investment earnings	28,021
Gain on sale of capital assets	105,089
Total Nonoperating Revenues	133,110
Change in net position	125,590
Net Position, Beginning of Year	11,528,956
Net Position, End of Year	$ 11,654,546

See accompanying notes to the financial statements.

SAN BERNARDINO COUNTY FLOOD CONTROL DISTRICT

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2017

	Internal Service Fund
Cash Flows From Operating Activities	
Receipts from interfund services provided	$ 2,053,292
Payments to suppliers	(1,416,358)
Net cash provided by operating activities	636,934
Cash Flows From Capital and Related Financing Activities	
Proceeds from sale of capital assets	107,000
Purchase of capital assets	(1,384,814)
Net cash used by capital and related financing activities	(1,277,814)
Cash Flows From Investing Activities	
Investment earnings	28,021
Net cash provided by investing activities	28,021
Net decrease in cash and cash equivalents	(612,859)
Cash and cash equivalents - beginning of the year	6,269,808
Cash and cash equivalents - end of the year	$ 5,656,949
Reconciliation of operating income to net cash provided by operating activities:	
Operating loss	$ (7,520)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation expense	682,175
Change in assets, liabilities, deferred outflows and deferred inflows of resources:	
(Increase) in due from other County funds	(11,156)
Decrease in due from other governments	11,173
(Decrease) in accounts payable	(31,818)
(Decrease) in due to other governments	(5,920)
Net cash provided by operating activities	$ 636,934

See accompanying notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

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.

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.

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, 2017.

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, 2017 was $223,336 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 operating 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.

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.

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, 2017, the District General Fund had a nonspendable fund balance of $25,906.
- ***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, 2017, the District General Fund had a restricted fund balance of $21,715,359.
- ***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, 2017, the District had an assigned fund balance of $12,548,082.
- ***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, 2017, the District had an unassigned fund balance of $88,208,949.

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.

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).

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

New GASB Pronouncements

Effective in Current Year

Governmental Accounting Standard No. 82

In March 2016, GASB Statement No. 82, *Pension Issues-An Amendment of GASB Statements No. 67, and No 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements Nos. 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. The District implemented the standard effective July 1, 2016 which required change in measurement from covered-employee payroll to covered payroll included in the RSI schedule related to pensions.

Effective in Future Years

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. The District has not determined its effect, if any, on the 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. The District has not determined its effect, if any, on the financial statements.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New GASB Pronouncements (Continued)

Effective in Future Years (Continued)

Governmental Accounting Standard No. 84

In January 2017, 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, if any, on the 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. The District has not determined its effect, if any, on the 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. The District has not determined its effect, if any, on the financial statements.

Governmental Accounting Standard No. 87

In June 2017, 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, if any, on the financial statements.

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, 2017.

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 AAAf/S1+ and is governed by the Treasury Oversight Committee.

Cash and investments as of June 30, 2017, consist of the following:

Cash on hand	$ 99,043
Cash pooled with the County of San Bernardino Treasury	37,243,381
Cash and cash equivalents	37,342,424
Cash and investments with fiscal agent	91,200,316
Cash in escrow	12,636,409
Cash and investments in trust	3,222,779
Restricted Cash and Investments	15,859,188
Total Cash and Investments	$ 144,401,928

The District has the following amounts held in escrow accounts as of June 30, 2017:

Settlement funds in escrow for construction of Cactus Basin 4 and 5	$ 12,064,018
Construction contract retainage in escrow	572,391
Total cash in escrow	$ 12,636,409

The investment balances are made up of the following accounts as of June 30, 2017:

San Bernardino County Pool	$ 37,243,381
Money market mutual funds with trustee	3,222,779
Municipal bonds with fiscal agent	39,650,799
Money market mutual funds with fiscal agent	51,549,517
	$ 131,666,476

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, 2017, 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)	
	CGC	Investment Policy	CGC	Investment Policy	CGC	Investment Policy	CGC	Investment 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
Collateralized Certificates of Deposit	5 Years	1 Year	None	10%	None	None	None	None
Bankers Acceptances	180 Days	180 Days	40%	30%	30%	100MM/5%	None	A-1/P-1/F1
Commercial Paper	270 Days	270 Days	40%	40%	10%	5%	A-1 / A	A-1/P-1/F1
Repurchase Agreements	1 Year	180 Days	None	40%	None	None	None	None
Reverse Repurchase Agreements	92 days	92 Days	20%	10%	None	None	None	None
Municipal Debt	5 Years	5 Years	None	10%	None	None	None	AAA
Medium-Term Corporate Notes	5 Years	3 Years	30%	10%	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%	AAAm	AAAm
Supranational Securities	5 Years	5 Years	30%	30%	None	None	AA	AA

Footnote:

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

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

(3) 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, 2017, the District had $39,650,799 of municipal bonds with fiscal agent and $51,549,517 of money market mutual funds with fiscal agent for a total of $91,200,316 of segregated funds that are invested as required by the Treasury Regulations.

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, 2017, all investments held by the County pool were within policy limits.

As of June 30, 2017, all cash and investments held by the District were rated as follows:

Investment Type	S&P Rating	Moody's Rating	Fitch Rating	Amount at June 30, 2017
Investment in County Pool	Not Rated	Not Rated	AAAf/S1+	$ 37,243,381
Money Market Mutual Funds with Trustee	AAAm	Aaa-mf	Not Rated	3,222,779
Investments with Fiscal Agent:				
Municipal and Other Governments:				
California State	AA-	AA3	AA-	603,282
California State	AA-	AA3	AA-	501,395
Dallas County Community College	AAA	AAA	AAA	1,025,440
Dallas, Texas	AA-	A1	AA	2,323,799
Dallas, Texas	AA-	A1	AA	1,040,558
District of Columbia	AA	AA1	Not Rated	1,353,155
Georgia State	AAA	AAA	AAA	4,162,520
Hawaii State	Not Rated	Not Rated	Not Rated	1,101,093
Houston, Texas	AA	AA3	Not Rated	4,115,280
Indiana University Revenues	AAA	AAA	Not Rated	4,151,440
Maryland State	AAA	AAA	AAA	1,068,887
Mississippi State	AA	AA2	AA	630,144
N. Texas Tollway Authority	A	Not Rated	Not Rated	571,816
N. Texas Tollway Authority	Not Rated	A1	Not Rated	1,024,220
New York, New York	Not Rated	Not Rated	Not Rated	105,383
New York, New York	AA	AA2	Not Rated	898,177
Ohio State	AA+	AA1	AA	1,526,036
Ohio State	AAA	AA1	AA	3,413,553
Oregon State Dept. of Admin. Svc.	AAA	AA2	Not Rated	1,031,060
Pennsylvania State	AA-	AA3	AA-	4,000,480
University of Washington	AA+	AAA	Not Rated	840,561
Washington State	AA+	AA1	AA+	4,162,520
Money Market Mutual Funds	AAAm	Not Rated	Not Rated	51,549,517
Total				$ 131,666,476

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

Concentration of Credit Risk

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

Generally accepted accounting principles require disclosure of investments by amount and issuer that represent five percent or more of the total investments held. This requirement excludes investments issued or explicitly guaranteed by the United States Government, investments in mutual funds, external investment pools, and other pooled investments. As of June 30, 2017, none of the District's investments by issuer represented five percent or more of the District's total investments.

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, 2017, is as follows:

Investment Type	Fair Value	Weighted Average Maturity (Years)
Investment in the San Bernardino County Pool	$ 37,243,381	0.85
Money market mutual funds with trustee	3,222,779	0.10
Municipal bonds with fiscal agent	39,650,799	1.47
Money market mutual funds with fiscal agent	51,549,517	0.02
	$ 131,666,476	

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.

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

Custodial Credit Risk (Continued)

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.

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, 2017, 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, 2017 decreased the District's investment income by $33,408. 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.

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

Fair Value Measurements (Continued)

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.

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, 2017 of $37,243,381 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, 2017. 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 District has the following recurring fair value measurements as of June 30, 2017:

Investments by Fair Value Level	Total	Level 2
Municipal bonds with fiscal agent	$ 39,650,799	$ 39,650,799
Total Leveled Investments	39,650,799	$ 39,650,799
Non-leveled investments:		
Cash with County Treasury	37,243,381	
Investments measured at the net asset value (NAV):		
Money market mutual funds with trustee	3,222,779	
Money market mutual funds with fiscal agent	51,549,517	
Total investments measured at the net asset value (NAV)	54,772,296	
Total Investments	$ 131,666,476	

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 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, 2016, as restated	Additions	Deletions	Balance June 30, 2017
Governmental Activities:				
Capital assets, not being depreciated:				
Land	$ 34,175,145	$ 744,751	$ -	$ 34,919,896
Easements	1,648,593	10,400		1,658,993
Construction in progress	58,231,006	14,347,116	(23,503,211)	49,074,911
Internally generated software	156,214	30,617		186,831
Total capital assets, not being depreciated	94,210,958	15,132,884	(23,503,211)	85,840,631
Capital assets, being depreciated:				
Buildings	784,427	-	(4,852)	779,575
Channels, drains, dams, basins	489,635,610	27,581,037	(1,576)	517,215,071
Equipment and vehicles	271,085	34,329	(10,486)	294,928
Total capital assets, being depreciated	490,691,122	27,615,366	(16,914)	518,289,574
Less accumulated depreciation for:				
Buildings	(498,397)	(22,334)	3,437	(517,294)
Channels, drains, dams, basins	(259,033,760)	(9,170,183)	441	(268,203,502)
Equipment and vehicles	(41,302)	-	-	(41,302)
Total accumulated depreciation	(259,573,459)	(9,192,517)	3,878	(268,762,098)
Capital assets, being depreciated, net	231,117,663	18,422,849	(13,036)	249,527,476
Governmental activities capital assets, net	$ 325,328,621	$ 33,555,733	$ (23,516,247)	$ 335,368,107
Internal Service Fund (ICA):				
Capital assets, being depreciated				
Vehicles	$ 15,756,168	$ 1,331,140	$ (549,959)	$ 16,537,349
Equipment	27,416	103,676	-	131,092
Total capital assets, not being depreciated	15,783,584	1,434,816	(549,959)	16,668,441
Less accumulated depreciation for:				
Vehicles	(10,547,697)	(682,175)	498,046	(10,731,826)
Equipment	(8,542)	-	-	(8,542)
Total accumulated depreciation	(10,556,239)	(682,175)	498,046	(10,740,368)
Capital assets being depreciated, net	5,227,345	752,641	(51,913)	5,928,073
Capital assets, net	$ 330,555,966	$ 34,308,374	$ (23,568,160)	$ 341,296,180

SAN BERNARDINO COUNTY FLOOD CONTROL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

NOTE 3 – CAPITAL ASSETS (CONTINUED)

Depreciation expense for the year is $10,133,945 for governmental activities, of which, $682,175 relates to the internal service fund.

At June 30, 2017, the District had construction in progress for the following projects:

Construction in progress (CIP)

Zone	Description	Total CIP by Project	Totals by Zone
1	West State Street Storm Drain	$ 143,023	
1	English Channel-Carbon Canyon	2,193,965	
1	West Fontana Channel	1,744,111	
1	Francis Street Storm Drain	3,794,231	
1	San Sevaine Flood Wall Extension	54,613	
1	Etiwanda/San Sevaine Invert Repair	27,713	
1	San Sevaine Levee	625,753	$ 8,583,409
2	Rialto Channel	1,930,731	
2	Del Rosa Channel (Daley Channel)	144,916	
2	Cactus Basins	25,042,392	
2	Santa Ana River Wall Repair	82,534	
2	Little Mountain Channel Repair	84,454	
2	Upper Warm Creek Channel	1,057,953	
2	Patton Basin Levee	378,643	28,721,623
3	Elder Creek Channel	1,191,300	
3	San Timoteo Creek - Reach B Levee Repair	620	1,191,920
4	Amethyst Basin (Oro Grande Wash)	2,754,231	
4	Bandicoot Basin (Hesperia Basin)	3,290,298	
4	Desert Knolls Wash	1,494,396	
4	Oak Hill Basin (Hesperia Basin #2)	118,140	
4	Tussing Juniper Basin	22,929	
4	Ranchero Basin/Antelope Creek Wash	185,602	
4	Line E-01 Extension	103,134	
4	Mojve River	897,266	
4	Avenue I Drainage	3,683	8,869,679
5	Rim Forest Drainage	957,339	957,339
6	Donnell Basin	750,941	750,941
	Total Construction in Progress	$ 49,074,911	$ 49,074,911

NOTE 3 – CAPITAL ASSETS (CONTINUED)

The District has active major construction projects as of June 30, 2017. 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, 2017, the District's commitments with contractors are as follows:

Project #	Description	Commitment Amount
F01087	West State Street Storm Drain	$ 95,927
F01312	English Channel-Carbon Canyon	477,253
F01452	West FontanaChannel	29,980
F02601	San Sevaine Levee	139,315
F01666	Cactus Basin #3	1,144,613
F01667	Cactus Basin # 4	11,695
F01334	CSDP Project 3-5	112,726
F02613	Santa Ana River Wall Repair	7,552
F01650	Upper Warm Creek Chanel	13,329
F02528	Patton Basin Levee	689,382
F01911	Elder Creek Channel	49,016
F02129	Wildwood Creek Detention Basin	398,310
F01417	Bandicoot Basin (Hesperia Basin)	155,113
F02217	Sheep Creek	4,650
F01336	Amethyst Basin (Oro Grande Wash)	353,964
F01854	Desert Knolls Wash	7,560
F02377	Rim Forest Drainage	432,496
F01284	Donnel Basin	13,461
	Total	$ 4,136,342

NOTE 4 – RETENTION 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, 2017, the District's retentions payable balance was $719,280. Retentions payable to contractors set aside as required by construction contracts and held in escrow at year-end totaled $572,391.

NOTE 5 – DEFERRED INFLOWS OF RESOURCES

As of June 30, 2017, total deferred inflows of resources in the General Fund are related to the following unavailable resources:

Other governmental aid receivable	$ 1,915,103

NOTE 6 – LONG-TERM OBLIGATIONS

A schedule of changes in long-term obligations of the District during fiscal year 2017 is as follows:

	Balance on July 1, 2016	Additions	Deletions	Balance on June 30, 2017	Amounts Due In One Year
Governmental Activities:					
Compensated absences	$ 2,309,805	$ 1,259,904	$ 1,354,117	$ 2,215,592	$ 955,688
Series 2007 Refunding Bonds	13,000,000	-	1,815,000	11,185,000	1,910,000
Series 2008 Refunding Bonds	37,295,000	-	-	37,295,000	-
2016 Refunding JOBS, Series A	27,870,000	-	2,670,000	25,200,000	3,445,000
Premium	494,701	-	98,941	395,760	-
Net pension liability	10,281,544	5,135,606	2,015,092	13,402,058	-
Total Long-Term Debt	$ 91,251,050	$ 6,395,510	$ 7,953,150	$ 89,693,410	$ 6,310,688

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, 2017 was $11,185,000.

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, 2017 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.

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, 2017, 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, 2017, the District's unamortized loss on refunding of debt balance was $506,100.

The following schedule represents a debt service scenario in which all the bonds are tendered by investors on July 1, 2017 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.

Year ending June 30,	Principal	Interest	Total
2018	$ 10,600,000	$ 2,823,438	$ 13,423,438
2019	10,600,000	1,741,419	12,341,419
2020	10,700,000	835,207	11,535,207
2021	5,395,000	76,639	5,471,639
Total	$ 37,295,000	$ 5,476,703	$ 42,771,703

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, 2017 was $25,200,000.

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, 2017, the District's unamortized deferred gain balance was $216,000.

The following schedule of debt service requirements to maturity as of June 30, 2017, for the Bonds:

Year ending June 30,	Principal	Interest	Total
2018	$ 5,355,000	$ 2,708,387	$ 8,063,387
2019	5,505,000	2,557,334	8,062,334
2020	5,665,000	2,403,284	8,068,284
2021	5,795,000	2,234,194	8,029,194
2022	6,580,000	2,053,441	8,633,441
2023-2027	7,485,000	9,217,366	16,702,366
2028-3032	9,665,000	8,206,038	17,871,038
2033-2037	22,540,000	3,563,649	26,103,649
2038	5,090,000	246,582	5,336,582
Total	$ 73,680,000	$ 33,190,275	$ 106,870,275

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).

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.

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 fi re 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:

	General - Tier 1	General - Tier 2
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

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, 2017 are as follows:

	General - Tier 1	General - Tier 2
Employee contribution rates	7.89% to 14.86%	7.73% to 8.37%
Employer contribution rates	22.33%	19.20%

For the year ended June 30, 2017, the District's contribution to the Plan of $2,124,120 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, 2017, the District reported a net pension liability for its proportionate share of the County's net pension liability of $13,402,058.

The net pension liability was measured as of June 30, 2016, 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, 2017 and 2016 with measurement dates as of June 30, 2016 and 2015 was .06533 percent and .06334 percent, respectively.

For the year ended June 30, 2017, the District recognized pension expense of $1,385,908.

NOTE 7 – RETIREMENT PLAN (CONTINUED)

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

At June 30, 2017, 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 Pension
Pension contributions subsequent to measurement date	$ 2,124,120
Net differences between projected and actual investment earnings on pension plan investments	2,903,174
Changes of assumptions	925,469
Changes in proportion and differences between employer contributions and proportionate share of contributions	765,655
Total proportionate share of deferred outflows of resources	$ 6,718,418

	Deferred Inflows Related to Pension
Difference between expected and actual experience	$ 2,028,984
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,499,481
Total proportionate share of deferred inflows of resources	$ 3,528,465

NOTE 7 – RETIREMENT PLAN (CONTINUED)

The total amount of $2,124,120 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, 2018. Other amount reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30:		
2018	$	(328,961)
2019		141,416
2020		702,478
2021		630,105
2022		(65,614)
Thereafter		(13,591)
Total	$	1,065,833

Actuarial Assumptions

The District's proportion of the County's total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions:

Actuarial Valuation Date	June 30, 2016
Actuarial Cost Method	Entry Age Actuarial Cost Method
Actuarial Assumptions	
Investment Rate of Return	7.50%, net of pension plan investment expenses
Inflation	3.25%
Projected Salary Increases	General: 4.60% to 13.75%; Safety: 4.55% to 13.75%
Cost of Living Adjustments	Consumer price index with a 2.00% maximum
Administrative Expenses	0.60% of payroll

Mortality rates used in the June 30, 2016 actuarial valuation were based on the RP-2000 Combined Healthy mortality table projected to 2020 using Projection Scale BB. For healthy General members, no adjustments are made. For healthy Safety members, ages are set back two years for males and one year for females. For disabled General members, ages are set forward seven years for males and set forward eight years for females. For disabled Safety members, ages are set forward two years for males and females. 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, 2016 were based on the results of the June 30, 2014 Review of Economic Assumptions and Actuarial Experience Study, which covered the period from July 1, 2010 through June 30, 2013.

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.

NOTE 7 – RETIREMENT PLAN (CONTINUED)

Actuarial Assumptions (Continued)

The June 30, 2016 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	5.00%	5.94%
Small Cap U.S. Equity	Domestic Common and Preferred Stock	2.00%	6.50%
Developed International Equity	Foreign Common and Preferred Stock	6.00%	6.87%
Emerging Market Equity	Foreign Common and Preferred Stock	6.00%	8.06%
U.S. Core Fixed Income	U.S. Government and Agency/Corporate Bonds	2.00%	0.69%
High Yield/Credit Strategies	Corporate Bonds/Foreign Bonds	13.00%	3.10%
Global Core Fixed Income	Foreign Bonds	1.00%	0.30%
Emerging Market Debt	Emerging Market Debt	6.00%	4.16%
Real Estate	Real Estate	9.00%	4.96%
International Credit	Foreign Alternatives	10.00%	6.76%
Absolute Return	Domestic Alternatives/Foreign Alternatives	13.00%	2.88%
Real Assets	Domestic Alternatives/Foreign Alternatives	6.00%	6.85%
Long/Short Equity	Domestic Alternatives/Foreign Alternatives	3.00%	4.86%
Private Equity	Domestic Alternatives/Foreign Alternatives	16.00%	9.64%
Cash & Equivalents	Short-Term Cash Investment Funds	2.00%	-0.03%
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 7.50 percent. 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 7.50 percent was applied to all periods of projected benefit payments to determine the total pension liability.

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 7.50 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 (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
The District's proportionate share of the net pension liability	$ 22,386,962	$ 13,402,058	$ 5,956,677

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.

Unstrestricted – 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, 2017:

Capital assets, net of depreciation	$ 341,296,180
Less: series 2007 refunding bond	(11,185,000)
Less: premium on 2007 refunding bond	(395,760)
Less: construction related payables	(1,967,563)
Less: retentions payable	(719,280)
Net investment in capital assets	327,028,577
Restricted net position	21,715,359
Unrestricted net position	36,191,591
Total Net Position	$ 384,935,527

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. The remainder of the proceeds from the settlement agreement of $12,064,018, including interest accrued, is reported in cash in escrow on the District's balance sheet. Of the $12,064,018, $12,000,000 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 $12,064,018, 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, 2017.

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 $1,950,000 during the year ended June 30, 2017 of which $1,300,000 was for the NPDES program and $650,000 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 $3,443,709 for the year ended June 30, 2017 were for funding of the construction of a new Department of Public Works Administration building.

NOTE 13 – PRIOR PERIOD ADJUSTMENT

The District identified certain capital assets not previously reported in the financial statements.

The correction of capital assets and impact on beginning net position is summarized as follows:

	Previously Presented Balance at June 30, 2016	Restatement	Restated Balance at July 1, 2016
Channels, drains, dams, basins	$ 456,536,029	$ 33,099,581	$ 489,635,610
Accumulated depreciation			
Channels, drains, dams, basins	(253,547,762)	(5,485,998)	(259,033,760)
Net book value	$ 202,988,267	$ 27,613,583	$ 230,601,850

The effect and impact on beginning net position as previously reported is as follows:

Net position as previously reported	$ 335,828,482
Prior period adjustment	27,613,583
Net position at beginning of year, as restated	$ 363,442,065

REQUIRED SUPPLEMENTARY INFORMATION

SAN BERNARDINO COUNTY FLOOD CONTROL DISTRICT

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
YEAR ENDED JUNE 30, 2017

	General Fund			
	Original Budget	**Final Budget**	**Actual**	**Variance with Final Budget**
Revenues				
Property taxes	$45,315,452	$45,315,452	$ 49,438,219	$ 4,122,767
Other taxes	360,380	360,380	363,443	3,063
Rents, concessions and royalties	765,794	765,794	483,888	(281,906)
Interest	85,600	85,600	340,273	254,673
Other governmental aid	2,407,096	2,407,096	6,246,131	3,839,035
Licenses, fees and permits	774,400	774,400	1,118,018	343,618
Other	68,840	68,840	338,951	270,111
Total Revenues	49,777,562	49,777,562	58,328,923	8,551,361
Expenditures				
Current:				
Public works - flood control:				
Salaries and benefits	13,406,579	13,935,579	13,059,237	876,342
Services and supplies	20,028,436	19,846,436	12,556,564	7,289,872
Capital outlay	45,342,518	45,348,518	19,301,356	26,047,162
Debt service:				
Principal	8,025,000	8,025,000	4,485,000	3,540,000
Interest	2,940,052	2,940,052	1,234,959	1,705,093
Reserves and contingencies	69,950,864	66,507,155	-	66,507,155
Total Expenditures	159,693,449	156,602,740	50,637,116	105,965,624
Excess of revenues over (under) expenditures	(109,915,887)	(106,825,178)	7,691,807	114,516,985
Other Financing Sources (Uses)				
Transfers in	13,238,817	16,781,526	8,985,717	(7,795,809)
Transfers out	(11,398,277)	(18,031,695)	(12,429,426)	5,602,269
Settlements & insurance recoveries	4,000,000	4,000,000	-	(4,000,000)
Sale of capital assets	1,002,000	1,002,000	1,846,486	844,486
Total Other Financing Sources (Uses)	6,842,540	3,751,831	(1,597,223)	(5,349,054)
Net Change in Fund Balance	$ (103,073,347)	$ (103,073,347)	6,094,584	$ 109,167,931
Fund Balance, Beginning			116,403,711	
Fund Balance, Ending			$ 122,498,295	

SAN BERNARDINO COUNTY FLOOD CONTROL DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2017

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.

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*

	June 30, 2017	June 30, 2016	June 30, 2015
Proportionate of the net pension liability	0.6533%	0.6334%	0.6245%
Proportionate share of the net pension liability	$ 13,402,058	$ 10,281,544	$ 8,978,772
Covered payroll**	$ 9,018,132	$ 9,038,851	$ 8,533,945
Proportionate share of the net pension liability as a percentage of its covered payroll**	148.61%	113.75%	105.21%
Plan fiduciary net position as a percentage of the total pension liability	76.86%	80.98%	82.47%
Measurement date	June 30, 2016	June 30, 2015	June 30, 2014

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

**-Fiscal 2017 County adopted GASB 82, which required the restatement of covered employee payroll to covered payroll, and covered payroll includes only pensionable earnings.

SAN BERNARDINO COUNTY FLOOD CONTROL DISTRICT

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

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

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

**-Fiscal 2017 County adopted GASB 82, which required the restatement of covered employee payroll to covered payroll, and covered payroll includes only pensionable earnings.

OTHER INFORMATION

SAN BERNARDINO COUNTY FLOOD CONTROL DISTRICT

GENERAL FUND
COMBINING BALANCE SHEET
BY ZONE
JUNE 30, 2017

	Zone 1	Zone 2	Zone 3	Zone 4
Assets				
Cash and cash equivalents	$ 10,055,006	$ 5,197,663	$ 5,052,731	$ 2,634,442
Cash and investments with fiscal agent	35,707,030	21,026,449	5,589,344	20,981,764
Cash in escrow	-	12,636,409	-	-
Cash and investments in trust	3,222,779	-	-	-
Interest receivable	234,626	151,247	40,270	172,212
Accounts receivable	77,890	28,041	-	42,480
Taxes receivable	414,088	137,592	103,802	117,721
Due from other funds	25,004	12,399	5,091	6,856
Due from other governments	65,859	736,673	485,773	377,825
Prepaid expenses	-	-	-	-
Total Assets	$ 49,802,282	$ 39,926,473	$ 11,277,011	$ 24,333,300
Liabilities				
Liabilities:				
Accounts payable	$ 742,900	$ 742,002	$ 32,840	$ 99,319
Salaries and benefits payable	-	-	-	-
Retention payable	23,449	572,391	4,850	2,402
Due to other funds	943,736	478,941	264,190	322,950
Due to other governments	1,136,173	313,934	22,689	94,244
Unearned revenues	99,336	12,587,358	140,399	5,666
Total Liabilities	2,945,594	14,694,626	464,968	524,581
Deferred inflows of resources				
Unavailable revenue	146,207	792,214	459,013	461,557
Fund balances:				
Nonspendable:				
Prepaid expenses	-	-	-	-
Restricted for:				
Debt service	9,078,950	-	-	-
Flood improvement projects	-	12,636,409	-	-
Assigned for:				
Flood improvement projects	459,089	-	1,177,144	4,002,403
NPDES program	-	-	-	-
Unassigned	37,172,442	11,803,224	9,175,886	19,344,759
Total Fund Balances	46,710,481	24,439,633	10,353,030	23,347,162
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 49,802,282	$ 39,926,473	$ 11,277,011	$ 24,333,300

(Continued)

Zone 5	Zone 6	Administration	LADP/ NPDES	Eliminations	Total
$ 1,698,900	$ 990,872	$ (484,029)	$ 6,539,890	$ -	$ 31,685,475
2,212,869	5,700,826	(17,966)	-	-	91,200,316
-	-	-	-	-	12,636,409
-	-	-	-	-	3,222,779
15,979	40,851	37	-	-	655,222
-	10,367	-	64,558	-	223,336
9,749	33,413	51,055	-	-	867,420
4,186	2,762	3,125,520	6,477	(3,188,295)	-
-	27,539	294,744	202,785	-	2,191,198
-	-	12,912	12,994	-	25,906
$ 3,941,683	$ 6,806,630	$ 2,982,273	$ 6,826,704	$ (3,188,295)	$ 142,708,061
$ 84,234	$ 4,442	$ 21,463	$ 196,543	$ -	$ 1,923,743
-	-	913,468	-	-	913,468
-	-	104,227	11,961	-	719,280
20,538	90,350	970,834	96,756	(3,188,295)	-
15,134	16,231	306,990	18	-	1,905,413
-	-	-	-	-	12,832,759
119,906	111,023	2,316,982	305,278	(3,188,295)	18,294,663
5,412	30,462	7,920	12,318	-	1,915,103
-	-	12,912	12,994	-	25,906
-	-	-	-	-	9,078,950
-	-	-	-	-	12,636,409
192,630	18,147	202,555	-	-	6,051,968
-	-	-	6,496,114	-	6,496,114
3,623,735	6,646,998	441,904	-	-	88,208,948
3,816,365	6,665,145	657,371	6,509,108	-	122,498,295
$ 3,941,683	$ 6,806,630	$ 2,982,273	$ 6,826,704	$ (3,188,295)	$ 142,708,061

SAN BERNARDINO COUNTY FLOOD CONTROL DISTRICT

GENERAL FUND
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BY ZONE
JUNE 30, 2017

	Zone 1	Zone 2	Zone 3	Zone 4
Revenues				
Property taxes	$ 23,564,253	$ 9,628,737	$ 5,266,899	$ 6,082,053
Other taxes	173,558	57,654	43,523	49,283
Rents, concessions and royalties	129,286	215,371	103,920	29,631
Interest	165,044	77,593	39,848	79,603
Other governmental aid	514,912	1,610,018	482,678	6,237
Licenses, fees and permits	339,591	188,155	137,427	18,274
Other	190,561	91,435	55,688	1,629
Total Revenues	25,077,205	11,868,963	6,129,983	6,266,710
Expenditures				
Current:				
Public works - flood control:				
Salaries and benefits	2,226,016	1,997,872	1,644,453	1,082,170
Services and supplies	4,739,177	2,245,442	1,555,014	1,048,198
Capital outlay	5,346,354	7,972,701	614,145	5,100,708
Debt service:				
Principal	4,485,000	-	-	-
Interest	1,234,959	-	-	-
Total Expenditures	18,031,506	12,216,015	3,813,612	7,231,076
Excess of Revenues Over (Under) Expenditures	7,045,699	(347,052)	2,316,371	(964,366)
Other Financing Sources (Uses)				
Transfers in	5,540,000	-	128,730	-
Transfers out	(8,917,776)	(1,476,271)	(754,980)	(896,157)
Sale of capital assets	696,302	787,576	321,894	-
Contributions to county	-	-	-	-
Total Other Financing Sources (Uses)	(2,681,474)	(688,695)	(304,356)	(896,157)
Net Change in Fund Balances	4,364,225	(1,035,747)	2,012,015	(1,860,523)
Fund Balances, Beginning	42,346,256	25,475,380	8,341,015	25,207,685
Fund Balances, Ending	$ 46,710,481	$ 24,439,633	$ 10,353,030	$ 23,347,162

(Continued)

Zone 5	Zone 6	Administration	LADP/ NPDES	Eliminations	Total
$ 394,305	$ 1,580,131	$ 2,921,841	$ -	$ -	$ 49,438,219
4,084	13,949	21,392	-	-	363,443
-	5,680	-	-	-	483,888
13,310	24,604	(90,212)	30,483	-	340,273
650,000	-	65,190	2,917,096	-	6,246,131
(3,686)	78,916	188,740	170,601	-	1,118,018
-	(633)	271	-	-	338,951
1,058,013	1,702,647	3,107,222	3,118,180	-	58,328,923
57,524	449,248	4,995,581	606,373	-	13,059,237
115,709	361,910	1,031,274	1,459,840	-	12,556,564
185,763	16,742	34,328	30,615	-	19,301,356
-	-	-	-	-	4,485,000
-	-	-	-	-	1,234,959
358,996	827,900	6,061,183	2,096,828	-	50,637,116
699,017	874,747	(2,953,961)	1,021,352	-	7,691,807
-	-	6,678,409	82,287	(12,429,426)	-
(66,260)	(277,982)	-	(40,000)	12,429,426	-
-	40,714	-	-	-	1,846,486
-	-	(3,443,709)	-	-	(3,443,709)
(66,260)	(237,268)	3,234,700	42,287	-	(1,597,223)
632,757	637,479	280,739	1,063,639	-	6,094,584
3,183,608	6,027,666	376,632	5,445,469	-	116,403,711
$ 3,816,365	$ 6,665,145	$ 657,371	$ 6,509,108	$ -	$ 122,498,295

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

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, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 11, 2017.

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.

10681 Foothill Blvd., Suite 300, Rancho Cucamonga, CA 91730 P 909.466.4410 F 909.466.4431 W vtdcpa.com

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.

Vavrinek, Trine, Day & Co LLP

Rancho Cucamonga, California
December 11, 2017