

Additional
Support Material Agenda Item No. 2

Independent Taxpayer Oversight Committee

February 8, 2018
9:00 AM

Location:

San Bernardino County Transportation Authority
First Floor Lobby Board Room
Santa Fe Depot, 1170 W. 3rd Street
San Bernardino, CA 92410

2. Measure I Expenditure Plan Financial Audit for Fiscal Year 2016/2017

Review and make a finding that the Measure I expenditures for Fiscal Year 2016/2017 are consistent with the provisions of the Measure I Expenditure Plan and Ordinance No. 04-01.

Full financial reports are now included for the Cities listed below:

- *City of Rialto*
- *City of San Bernardino*

CITY OF RIALTO, CALIFORNIA

MEASURE I FUNDS

**Financial Statements and
Independent Auditors' Reports**

For the year ended June 30, 2017

CITY OF RIALTO, CALIFORNIA

**San Bernardino County Transportation Authority
Measure I Funds
For the Year Ended June 30, 2017**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
San Bernardino County Transportation Authority
San Bernardino, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Measure I 1990-2010 Fund and the Measure I 2010-2040 Fund (Measure I Funds), of the City of Rialto, California (City), as of and for the year ended June 30, 2017, and the related notes to the 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Measure I Funds of the City of June 30, 2017, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Measure I Funds and do not purport to, and do not, present fairly the financial position of the City as of June 30, 2017, and the changes in its financial position, or where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not affected by this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 9 through 11 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 for the Measure I Funds 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 opinions on the financial statements that collectively comprise the Measure I Funds of the City's basic financial statements. The program status schedule (other information) on page 12, is presented for purposes of additional analysis and is not a required part of the financial statements. The other information has not been subjected to the auditing procedures applied in the audit of the basic financial statement, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2018, on our consideration of the City's internal control over financial reporting of the Measure I Funds 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 City's internal control over financial reporting and compliance, as it relates to the Measure I Funds.



Rancho Cucamonga, California
January 29, 2018

**CITY OF RIALTO, CALIFORNIA
MEASURE I FUNDS**

**BALANCE SHEET
JUNE 30, 2017**

	<u>Measure I 1990-2010</u>	<u>Measure I 2010-2040</u>
ASSETS		
Cash and investments	\$ 1,019	\$ 5,602,883
Receivables:		
Taxes	-	264,063
Interest	646	9,943
Total Assets	<u>\$ 1,665</u>	<u>\$ 5,876,889</u>
LIABILITIES AND FUND BALANCE		
Liabilities:		
Accounts payable	\$ 1,665	\$ 340,675
Accrued payroll	-	286
Payroll clearing	-	326
Retentions payable	-	40,590
Total Liabilities	<u>1,665</u>	<u>381,877</u>
Fund Balance:		
Restricted	<u>-</u>	<u>5,495,012</u>
Total Liabilities and Fund Balance	<u>\$ 1,665</u>	<u>\$ 5,876,889</u>

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

**CITY OF RIALTO, CALIFORNIA
MEASURE I FUNDS**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2017**

	Measure I 1990-2010	Measure I 2010-2040
REVENUES		
Measure I sales tax	\$ -	\$ 1,796,740
Investment income	4,208	64,794
Intergovernmental revenue	-	100,881
Total Revenues	<u>4,208</u>	<u>1,962,415</u>
EXPENDITURES		
Capital:		
Construction	<u>313,253</u>	<u>721,132</u>
Net Change in Fund Balance	(309,045)	1,241,283
Fund Balance, Beginning of Year	<u>309,045</u>	<u>4,253,729</u>
Fund Balance, End of Year	<u>\$ -</u>	<u>\$ 5,495,012</u>

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

**CITY OF RIALTO, CALIFORNIA
MEASURE I FUNDS**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 – GENERAL INFORMATION

Reporting Entity

The financial statements are intended to reflect the financial position and changes in financial position of the Measure I Fund of the City of Rialto, California (City) only. Accordingly, the financial statements do not purport to, and do not, present fairly the financial position of the City as of June 30, 2017, and the changes in financial position thereof for the year then ended in conformity with generally accepted accounting principles in the United States of America.

Measure I

Measure I is the half-cent sales tax collected throughout San Bernardino County for transportation improvements. In 2004, San Bernardino County voters approved the extension of the Measure I sales tax through 2040. See Note 4 for a detailed description of the Measure I Funds.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Measure I Funds of the City conform to accounting policies generally accepted in the United States of America. The following is a summary of significant accounting policies.

A. Basis of Accounting

Governmental Fund Financial Statements

Fund Accounting

The accounts of the City are organized on the basis of funds. A fund is defined as an independent fiscal and accounting entity wherein operations of each fund are accounted for in a separate set of self-balancing accounts that record resources, related benefits, and equity, segregated for the purpose of carrying out specific activities. The City accounts for the Measure I activities in separate general ledger accounts within its Measure I Special Revenue Funds.

Special revenue funds are used to account for the proceeds of revenue sources that are restricted or committed for specified purposes.

Measurement Focus and Basis of Accounting

The special revenue funds of the City are accounted for 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 collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, revenues are available if they are collected within 60 days of the end of the fiscal period. Expenditures generally are recorded when a liability is incurred. Operating statements of governmental funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current resources.

**CITY OF RIALTO, CALIFORNIA
MEASURE I FUNDS**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

B. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

C. Fund Balances

Fund balance is reported according to the following classifications: nonspendable, restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent.

Restricted fund balance represents amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first.

D. Cash and Investments

Cash and investments are pooled by the City to facilitate cash management and maximize investment opportunities and yields. Investment income resulting from this pooling is allocated to the respective funds including the Measure I Funds based upon the average cash balance. The investment policies and the risks related to GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, applicable to the Measure I Fund, are those of the City and are disclosed in the City's basic financial statements. The City's basic financial statements can be obtained at City Hall.

The Measure I Funds' cash and investments are reported at fair value. The fair value measurements are based on 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. 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 Measure I Funds' deposits and withdrawals in the City Investment Pool are made on the basis of \$1 and not fair value. Accordingly, the measurement of fair value of the Measure I Funds' investment in the City Investment Pool is based on inputs that are uncategorized and not defined as Level 1, Level 2, or Level 3.

**CITY OF RIALTO, CALIFORNIA
MEASURE I FUNDS**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

E. Maintenance of Effort

In accordance with California Public Utilities Code 190300 and Ordinance No. 04-01 of the San Bernardino County Transportation Authority (SBCTA), Local Street Program funds shall not be used to supplant existing local discretionary funds being used for street and highway purposes. The maintenance of effort (MOE) base year level was determined based upon the discretionary General Fund expenditures for transportation-related construction and maintenance activities in fiscal year 2008/2009. The MOE base year level as approved by the SBCTA Board of Directors shall remain in effect until the expiration of Measure I 2010-2040. General Fund expenditures in excess of the MOE base year level will carry over to subsequent fiscal years and can be applied in a future year to offset the amount the local agency may need to meet the MOE requirement. The City’s determined MOE base level is \$0.

NOTE 3 – TAXES RECEIVABLE

Taxes receivable represent the Measure I sales tax revenues for the fiscal year received from the SBCTA after June 30, 2017.

NOTE 4 – MEASURE I FUNDS

The California State Legislature authorized county transportation authorities to enact local option sales tax measures for transportation improvements in the late 1980s, under provisions of Division 19 (commencing with Section 180000) of the Public Utilities Code. In November 1989, San Bernardino County voters approved passage of Measure I, authorizing SBCTA to impose a half cent retail transactions and use tax applicable in the incorporated and unincorporated areas of the County of San Bernardino for the 20-year period between April 1, 1990 and March 31, 2010. SBCTA was authorized to administer the programs described in the Measure.

Early in the second decade of Measure I, it became apparent that continuation of the half cent sales tax would be critical to maintaining funding for transportation in San Bernardino County. SBCTA member jurisdictions and transportation stakeholders worked to identify transportation needs, and an expenditure plan was developed to serve as a basis for the renewal of Measure I. Ordinance No. 04-01 was placed before voters in November 2004, and Measure I was renewed. The new Measure I extends the half cent sales tax for 30 years, from April 1, 2010 through March 31, 2040. The new Measure is referred to as Measure I 2010-2040 to distinguish it from the first Measure I. The City accounted for these funding sources in separate Funds which are referred to as Measure I Funds 1990-2010 and Measure I Funds 2010-2040 in these Financial Statements.

Revenue from the tax can only be used for transportation improvement and traffic management programs authorized in the Expenditure Plan.

**CITY OF RIALTO, CALIFORNIA
MEASURE I FUNDS**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 4 – MEASURE I FUNDS, (CONTINUED)

Measure I 2010-2040 has a return-to-source provision that states that funds shall be allocated to subareas in accordance with the actual revenue collected in each subarea. After deduction of required Board of Equalization fees and authorized administrative costs, revenues generated in each subarea are to be expended on projects of direct benefit to that subarea. Revenues are accounted for separately for each subarea and then allocated to specified project categories in each subarea. These project categories are termed “programs” in the Strategic Plan. Decisions on how revenues are expended within the subareas are made by the SBCTA Board of Directors based upon recommendations of local subarea representatives. Other than the projects identified in the Cajon Pass Expenditure Plan, revenues generated within a subarea can be expended outside of that subarea only upon approval of two-thirds (2/3) of the jurisdictions within the affected subarea. A proportional share of projected State and federal transportation funds is to be reserved for use solely within the Valley subarea and individual Mountain/Desert (Colorado River, Morongo Basin, Mountains, North Desert and Victor Valley) subareas. In the San Bernardino Valley subarea, Measure I 2010-2040 contains the following programs:

- Freeway Program
- Freeway Interchange Program
- Major Street Program
- Local Street Program
- Metrolink/Rail Program
- Express Bus/Bus Rapid Transit Program
- Senior and Disabled Transit Program
- Traffic Management Systems Program

In each of the Mountain/Desert subareas, Measure I 2010-2040 contains the following programs:

- Local Street Program
- Major Local Highway Program
- Senior and Disabled Transit Program

NOTE 5– INTERGOVERNMENTAL REVENUES

During fiscal year 2017, the City received a Rubberized Grant award from the Department of Resources Recycling and Recovery (CalRecycle) in the amount of \$100,881. The grant is to be utilized for the City’s citywide resurfacing projects.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF RIALTO, CALIFORNIA
MEASURE I FUND**

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL
MEASURE I 1990-2010 FUND
YEAR ENDED JUNE 30, 2017**

	Budget		Actual	Variance From Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Investment income	\$ 1,300	\$ 1,300	\$ 4,208	\$ 2,908
EXPENDITURES				
Capital:				
Construction	306,997	306,997	313,253	(6,256)
Net Change in Fund Balance	(305,697)	(305,697)	(309,045)	(3,348)
Fund Balance, Beginning of Year	309,045	309,045	309,045	-
Fund Balance, End of Year	\$ 3,348	\$ 3,348	\$ -	\$ (3,348)

See accompanying note to required supplementary information.

**CITY OF RIALTO, CALIFORNIA
MEASURE I FUND**

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL
MEASURE I 2010-2040 FUND
YEAR ENDED JUNE 30, 2017**

	Budget		Actual	Variance From Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Measure I sales tax	\$ 1,750,000	\$ 1,750,000	\$ 1,796,740	\$ 46,740
Investment income	17,000	17,000	64,794	47,794
Intergovernmental revenue	233,058	233,058	100,881	(132,177)
Total Revenues	<u>2,000,058</u>	<u>2,000,058</u>	<u>1,962,415</u>	<u>(37,643)</u>
EXPENDITURES				
Capital:				
Construction	<u>7,035,996</u>	<u>7,035,996</u>	<u>721,132</u>	<u>6,314,864</u>
Net Change in Fund Balance	(5,035,938)	(5,035,938)	1,241,283	6,277,221
Fund Balance, Beginning of Year	<u>4,253,729</u>	<u>4,253,729</u>	<u>4,253,729</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ (782,209)</u>	<u>\$ (782,209)</u>	<u>\$ 5,495,012</u>	<u>\$ 6,277,221</u>

See accompanying note to required supplementary information.

**CITY OF RIALTO, CALIFORNIA
MEASURE I FUNDS**

**NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017**

NOTE 1 – BUDGETARY DATA

The City adopts an annual budget on a basis consistent with accounting principles generally accepted in the United States of America. The legal level of budgetary control is the fund level. Expenditures in the 1990-2010 Measure I Fund exceeded appropriations by \$6,256 during the fiscal year.

OTHER INFORMATION

**CITY OF RIALTO, CALIFORNIA
MEASURE I FUND**

**PROGRAM STATUS: COMPARISON OF 5-YEAR CAPITAL PLAN PROJECT
BUDGET TO CURRENT YEAR EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2017**

The Measure I Five Year Capital Improvement Plan for local streets was adopted by Council Resolution No. 6979. Of the funds allocated under the Measure I Five Year Capital Improvement Plan, the following programs were affected during the current fiscal year:

Local Projects	Project Budget	Fiscal Year Expenditures	Unexpended Budget
Pepper Ave Extension	\$ 840	\$ 13,510	\$ (12,670)
Riverside Widening & Traffic Signal - Riverside/Linden	1,745,500	281,098	1,464,402
Riverside San Bernardino Improvements	6,500,000	275,670	6,224,330
SR2S-Cycle 10 Cedar Improvements	524,900	894	524,006
Ayala Widening	3,250,000	165,444	3,084,556
Traffic Signal upgrade Baseline/Acacia (HSIP Grant)	73,988	10,505	63,483
Valley, Cactus, Linden Widening	1,600,000	6,022	1,593,978
Randall Widening	2,293,805	261,979	2,031,826
Pepper SCE Relocation	47,000	19,221	27,779
Etiwanda Corridor	86,000	42	85,958
		<u>\$ 1,034,385</u>	
		\$ 313,253	
		721,132	
		<u>\$ 1,034,385</u>	



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

To the Board of Directors
San Bernardino County Transportation Authority
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 Measure I 1990-2010 Fund and the Measure I 2010-2040 Fund (Measure I Funds) of the City of Rialto, California (City), as of and for the year ended June 30, 2017, and the related notes to the financial statements, and have issued our report thereon dated January 29, 2018. Our report included an emphasis of matter stating that the financial statements of the Measure I Funds do not purport to, and do not, present fairly the financial position of the City as of June 30, 2017. In addition, our report included an explanatory paragraph stating that the financial statements do not include management discussion and analysis.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting of the Measure I Funds (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 City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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 that might be material weaknesses, or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the Measure I Funds of the City are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including requirements of Measure I as specified in the agreement between the City and San Bernardino County Transportation Authority (SBCTA), 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*, including requirements of Measure I as specified in the agreement between the City and SBCTA.

Purpose of this Report

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



Rancho Cucamonga, California
January 29, 2018

CITY OF SAN BERNARDINO, CALIFORNIA

MEASURE I FUND

**Financial Statements and
Independent Auditors' Reports**

For the year ended June 30, 2017

CITY OF SAN BERNARDINO, CALIFORNIA
San Bernardino County Transportation Authority
Measure I Fund
For the Year Ended June 30, 2017

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
San Bernardino County Transportation Authority
San Bernardino, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Measure I Fund of the City of San Bernardino, California (City), as of and for the year ended June 30, 2017, and the related notes to the 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Measure I Fund of the City as of June 30, 2017, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Measure I Fund and do not purport to, and do not, present fairly the financial position of the City as of June 30, 2017, and the changes in its financial position, or where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 11 and 12 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 for the Measure I Fund that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Measure I Fund of the City. The program status and maintenance of effort schedules (other information) on pages 15 and 16, respectively, are presented for purposes of additional analysis and is not a required part of the basic financial statements. The other information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2018, on our consideration of the City's internal control over financial reporting of the Measure I Fund 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 City's internal control over financial reporting and compliance, as it relates to the Measure I Fund.



Rancho Cucamonga, California
January 31, 2018

**CITY OF SAN BERNARDINO, CALIFORNIA
MEASURE I FUND**

**BALANCE SHEET
JUNE 30, 2017**

ASSETS

Cash and investments	\$ 9,832,719
Receivables:	
Taxes	563,808
Interest	25,910
Total Assets	<u>\$ 10,422,437</u>

LIABILITIES AND FUND BALANCE

Liabilities:	
Accounts payable	\$ 902,724
Retention payable	29,422
Total Liabilities	<u>932,146</u>
Fund Balance:	
Restricted	<u>9,490,291</u>
Total Liabilities and Fund Balance	<u>\$ 10,422,437</u>

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

**CITY OF SAN BERNARDINO, CALIFORNIA
MEASURE I FUND**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2017**

Measure I sales tax	\$ 5,891,096
Other revenue	39,743
Investment income	52,754
Total Revenues	<u>5,983,593</u>

EXPENDITURES

Capital:	
Construction	<u>2,378,574</u>
Net Change in fund balance	3,605,019
Fund Balance, Beginning of year	<u>5,885,272</u>
Fund Balance, End of year	<u><u>\$ 9,490,291</u></u>

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

**CITY OF SAN BERNARDINO, CALIFORNIA
MEASURE I FUND**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 – GENERAL INFORMATION

Reporting Entity

The financial statements are intended to reflect the financial position and changes in financial position of the Measure I Fund of the City of San Bernardino, California (City) only. Accordingly, the financial statements do not purport to, and do not, present fairly the financial position of the City as of June 30, 2017, and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Measure I

Measure I is the half-cent sales tax collected throughout San Bernardino County for transportation improvements. In 2004, San Bernardino County voters approved the extension of the Measure I sales tax through 2040. See Note 4 for a detailed description of the Measure.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Measure I Fund of the City conform to accounting policies generally accepted in the United States of America. The following is a summary of significant accounting policies.

A. Basis of Accounting

Governmental Fund Financial Statements

Fund Accounting

The accounts of the City are organized on the basis of funds. A fund is defined as an independent fiscal and accounting entity wherein operations of each fund are accounted for in a separate set of self-balancing accounts that record resources, related benefits, and equity, segregated for the purpose of carrying out specific activities. The City accounts for the Measure I activities within its Measure I special revenue fund.

Special revenue funds are used to account for the proceeds of revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Measurement Focus and Basis of Accounting

The special revenue funds of the City are accounted for 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 collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, revenues are available if they are collected within 60 days of the end of the fiscal period. Expenditures generally are recorded when a liability is incurred. Operating statements of governmental funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current resources.

**CITY OF SAN BERNARDINO, CALIFORNIA
MEASURE I FUND**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

B. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures at the date of the financial statements and the reported amounts during the reporting period. Actual results could differ from those estimates.

C. Fund Balances

Fund balance is reported according to the following classifications: nonspendable, restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent.

Restricted fund balance represents amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first.

D. Cash and Investments

Cash and investments are pooled to facilitate cash management and maximize investment opportunities and yields. Investment income resulting from this pooling is allocated to the respective funds including the Measure I Fund based upon the average cash balance. The investment policies and the risks related to the Measure I Fund are those of the City and are disclosed in the City's basic financial statements. The City's basic financial statements can be obtained online at the City's website, or at the City's Finance Department.

The Measure I Fund's cash and investments are reported at fair value. The fair value measurements are based on 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. 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 Measure I Fund's deposits and withdrawals in the City investment pool are made on the basis of \$1 and not fair value. Accordingly, the measurement of fair value of the Measure I Fund's investment in the City investment pool is based on inputs that are uncategorized and not defined as a Level 1, Level 2, or Level 3 input.

**CITY OF SAN BERNARDINO, CALIFORNIA
MEASURE I FUND**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

E. Maintenance of Effort

In accordance with California Public Utilities Code 190300 and Ordinance No. 04-01 of the San Bernardino County Transportation Authority (SBCTA), Local Street Program funds shall not be used to supplant existing local discretionary funds being used for street and highway purposes. The maintenance of effort (MOE) base year level was determined based upon the discretionary General Fund expenditures for transportation-related construction and maintenance activities in fiscal year 2008/2009. The MOE base year level as approved by the SBCTA Board of Directors shall remain in effect until the expiration of Measure I 2010-2040. General Fund expenditures in excess of the MOE base year level will carry over to subsequent fiscal years and can be applied in a future year to offset the amount the local agency may need to meet the MOE requirement. As of June 30, 2017, the base level is \$1,075,643.

NOTE 3 – TAXES RECEIVABLE

The taxes receivable represent the Measure I sales tax revenues for the fiscal year received from SBCTA after June 30, 2017.

NOTE 4 – MEASURE I FUND

The California State Legislature authorized county transportation authorities to enact local option sales tax measures for transportation improvements in the late 1980s, under provisions of Division 19 (commencing with Section 180000) of the Public Utilities Code. In November 1989, San Bernardino County voters approved passage of Measure I, authorizing the SBCTA to impose a half cent retail transactions and use tax applicable in the incorporated and unincorporated areas of the County of San Bernardino for the 20-year period between April 1, 1990 and March 31, 2010. SBCTA is authorized to administer the programs described in the Measure.

Early in the second decade of Measure I, it became apparent that continuation of the half cent sales tax would be critical to maintaining funding for transportation in San Bernardino County. SBCTA member jurisdictions and transportation stakeholders worked to identify transportation needs, and an expenditure plan was developed to serve as a basis for the renewal of Measure I. Ordinance No. 04-01 was placed before voters in November 2004, and Measure I was renewed. The new Measure I extends the half cent sales tax for 30 years, from April 1, 2010 through March 31, 2040. The new Measure is referred to as Measure I 2010-2040 to distinguish it from the first Measure I.

Revenue from the tax can only be used for transportation improvement and traffic management programs authorized in the Expenditure Plan.

**CITY OF SAN BERNARDINO, CALIFORNIA
MEASURE I FUND**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 4 – MEASURE I FUND, (CONTINUED)

Measure I 2010-2040 has a return-to-source provision that states that funds shall be allocated to subareas in accordance with the actual revenue collected in each subarea. After deduction of required Board of Equalization fees and authorized administrative costs, revenues generated in each subarea are to be expended on projects of direct benefit to that subarea. Revenues are accounted for separately for each subarea and then allocated to specified project categories in each subarea. These project categories are termed “programs” in the Strategic Plan. Decisions on how revenues are expended within the subareas are made by the SBCTA Board of Directors based upon recommendations of local subarea representatives. Other than the projects identified in the Cajon Pass Expenditure Plan, revenues generated within a subarea can be expended outside of that subarea only upon approval of two-thirds (2/3) of the jurisdictions within the affected subarea. A proportional share of projected State and federal transportation funds is to be reserved for use solely within the Valley subarea and individual Mountain/Desert (Colorado River, Morongo Basin, Mountains, North Desert and Victor Valley) subareas. In the San Bernardino Valley subarea, Measure I 2010-2040 contains the following programs:

- Freeway Program
- Freeway Interchange Program
- Major Street Program
- Local Street Program
- Metrolink/Rail Program
- Express Bus/Bus Rapid Transit Program
- Senior and Disabled Transit Program
- Traffic Management Systems Program

In each of the Mountain/Desert Subareas, Measure I 2010-2040 contains the following programs:

- Local Street Program
- Major Local Highway Program
- Senior and Disabled Transit Program

NOTE 5 – OTHER REVENUE

Other revenue of \$39,743 represents dismissal of invoices that were previously paid for but held in escrow and released to the City when the bankruptcy settlement was finalized, as well as reimbursement of construction invoices from other sources.

NOTE 6 – CITY OF SAN BERNARDINO BANKRUPTCY FILING

On July 18, 2012 the Mayor and Common Council of the City declared a fiscal emergency and on August 1, 2012 the City commenced a bankruptcy case under Chapter 9 of the Bankruptcy Code. In the June 30, 2016 annual financial statements the City’s auditors have expressed concern with respect to the City’s ability to continue as a going concern. Under the City’s Proposed Plan of Adjustment the restricted resources or special use funds of the City, such as the funds accumulated in the Measure I Fund, remain unimpaired. The bankruptcy was settled and the City was removed from bankruptcy on June 15, 2017. The full Plan of Adjustment and related bankruptcy filings can be found on the City’s website.

REQUIRED SUPPLEMENTARY INFORMATION

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**CITY OF SAN BERNARDINO, CALIFORNIA
MEASURE I FUND**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2017**

	Budget		Actual	Variance From
	Original	Final		Final Budget Positive (Negative)
REVENUES				
Measure I sales tax	\$ 3,638,000	\$ 3,638,000	\$ 5,891,096	\$ 2,253,096
Other revenue	-	-	39,743	39,743
Investment income	-	-	52,754	52,754
Total Revenues	<u>3,638,000</u>	<u>3,638,000</u>	<u>5,983,593</u>	<u>2,345,593</u>
EXPENDITURES				
Capital:				
Construction	<u>108,835</u>	<u>412,007</u>	<u>2,378,574</u>	<u>(1,966,567)</u>
Net Change in fund balance	3,529,165	3,225,993	3,605,019	379,026
Fund Balance, Beginning of year	<u>5,885,272</u>	<u>5,885,272</u>	<u>5,885,272</u>	<u>-</u>
Fund Balance, End of year	<u>\$ 9,414,437</u>	<u>\$ 9,111,265</u>	<u>\$ 9,490,291</u>	<u>\$ 379,026</u>

See accompanying note to required supplementary information.

**CITY OF SAN BERNARDINO, CALIFORNIA
MEASURE I FUND**

**NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE 1 – BUDGETARY DATA

The City adopts an annual budget on a basis consistent with accounting principles generally accepted in the United States of America. Actual expenditures exceeded the annual budget in construction by \$1,966,567.

OTHER INFORMATION

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**CITY OF SAN BERNARDINO, CALIFORNIA
MEASURE I FUND**

**PROGRAM STATUS: COMPARISON OF 5 YEAR PLAN PROJECT
BUDGET TO CURRENT YEAR EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2017**

The Measure I Five Year Capital Improvement Plan for local streets was adopted by Council Resolution No. 2017-047. Of the funds allocated under the Measure I Five Year Capital Improvement Plan, the following programs were affected during the current fiscal year:

Local Projects	5-Year Plan Project Estimate	Current Fiscal Year Expenditures	Unexpended Estimate
SS04-019 UNIVERSITY PARKWAY and I-215 Freeway Interchange Improvements	\$ 400,000	\$ 37,835	\$ 362,165
SS04-152 "H" STREET Widening from Kendall Drive to 40th Street (design only)	80,000	3,925	76,075
SS11-010 CALIFORNIA STREET Pavement Rehabilitation between 19th Street to Washington Avenue	2,500	1,614	886
SS12-013 DAVIDSON STREET Pavement Rehabilitation between 16th Street and 19th Street	88,000	151,285	(63,285)
SS13-001 2ND STREET - BRIDGE Replacement at Warm Creek	400,000	111,587	288,413
SS13-034 GARNER AVENUE Pavement Rehabilitation between Baseline Street and 14th Street	45,000	74,074	(29,074)
SS13-037 SHERIDAN ROAD Pavement Rehabilitation between Lakewood Drive and State Street	66,000	60,488	5,512
SS14-009 40TH STREET Pavement Rehabilitation between Harrison Street to Mountain Avenue	500,000	29,359	470,641
SS14-014 28TH STREET Pavement Rehabilitation between Waterman Avenue to Valencia Avenue	5,000	74,059	(69,059)
SS14-015 28TH STREET Pavement Rehabilitation between "H" Street to Arrowhead Avenue	108,000	78,525	29,475
SS14-016 28TH STREET Pavement Rehabilitation between Arrowhead Avenue to Waterman Avenue	134,000	74,631	59,369
SS14-020 DEL ROSA AVENUE Pavement Rehabilitation between Del Rosa Drive to Highland Avenue	24,000	3,221	20,779
SS14-024 "G" STREET Pavement Rehabilitation between 4th Street to 6th Street	20,000	2,766	17,234
SS14-035 29TH STREET Pavement Rehabilitation between Waterman Avenue to Valencia Avenue	44,000	700	43,300
SS14-040 SPRUCE STREET Pavement Rehabilitation between Pico Avenue to Mt Vernon Avenue	25,000	86	24,914
SS15-003 "J" STREET Pavement Rehabilitation between 8th Street and 11th Street	122,000	41,890	80,110
SS15-005 CALIFORNIA STREET Pavement Rehabilitation between Highland Avenue and Porter Street	250,000	53	249,947
SS15-006 TIPPECANOE AVENUE Pavement Rehabilitation between Vine Street to 9th Street	88,600	579	88,021
SS15-022 HIGHLAND AVENUE Pavement Rehabilitation between Sterling Avenue to Guthrie Avenue	177,400	85,800	91,600
SS16-027 SBX "E" Street from 10th Street to Highland Avenue	25,000	6,702	18,298
SS17-001 ATP Cycle 2 - Safe Routes to Schools Project at 3 locations	190,000	3,800	186,200
TC12-001 9th Street & Sierra Way Signal Upgrade	250,000	342,559	(92,559)
TC12-002 9th Street & Arrowhead Avenue Signal Upgrade	250,000	287,965	(37,965)
SS-B Construct Accessibility Improvements at Various Locations (Annual)	500,000	522,331	(22,331)
SS-N CIP Administrative Services	150,000	210,231	(60,231)
Total costs identified for projects on five year CIP		2,206,065	
<u>Expenditures on projects that are not on Five Year CIP</u>			
SS04-009 STATE STREET extension (PA & ED only)		2,618	
SS-D Pavement Rejuvenation at various locations (annual) slurry		6,199	
SS-P Concrete repairs city wide-annual		295	
SS17-006 Concrete work for continuing pavement rehabs		123,427	
34th Street Improvement Project		39,970	
Total costs identified for projects not on Five Year CIP		172,509	
Total Expenditures		\$ 2,378,574	
Total expenditures in Measure I Fund		\$ 2,378,574	

**CITY OF SAN BERNARDINO, CALIFORNIA
MEASURE I FUND**

**MAINTENANCE OF EFFORT: COMPARISON OF BASE LEVEL AMOUNT
TO ANNUAL EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2017**

The maintenance of effort base level amount was determined based upon fiscal year 2008/09 spending levels. Excess/(deficient) amounts are carried forward in accordance with the Measure I Strategic Plan. Actual amounts expended in relation to the base level amount in each year subsequent to the base year are as follows:

Fiscal Year Ending June 30,	General Fund		Excess/(Deficiency)	Cumulative Excess/(Deficiency)	Year to be Resolved	Amount to be resolved
	Street and Highway Funds Utilized	Base Level Amount				
2010	\$ 1,081,305	\$ (1,075,643)	\$ 5,662	\$ 5,662		
2011	(776,984)	(1,075,643)	(1,852,627)	(1,846,965)	June 30, 2020	\$ (1,846,965)
2012	(511,222)	(1,075,643)	(1,586,865)	(3,433,830)	June 30, 2020	(1,586,865)
2013	4,877	(1,075,643)	(1,070,766)	(4,504,596)	June 30, 2020	(1,070,766)
2014	4,580	(1,075,643)	(1,071,063)	(5,575,659)	June 30, 2020	(1,071,063)
2015	457,374	(1,075,643)	(618,269)	(6,193,928)	June 30, 2020	(618,269)
2016	260,138	(1,075,643)	(815,505)	(7,009,433)	June 30, 2021	(815,505)



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

To the Board of Directors
San Bernardino County Transportation Authority
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 Measure I Fund (Measure I Fund) of the City of San Bernardino, California (City), as of and for the year ended June 30, 2017, and the related notes to the financial statements and have issued our report thereon dated January 31, 2018. Our report included an emphasis of matter stating that the financial statements of the Measure I Fund do not purport to, and do not, present fairly the financial position of the City as of June 30, 2017. Our report also included an explanatory paragraph stating that the financial statements do not include management's discussion and analysis.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting of the Measure I Fund (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2017-001 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the Measure I Fund of the City are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including requirements of Measure I as specified in the agreement between the City and San Bernardino County Transportation Authority (SBCTA), 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, including the Measure I requirements as specified in the agreement between the City and SBCTA, which is described in the accompanying schedule of findings and responses as items 2017-001 and 2017-002.

City's Responses to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of finding and response. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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



Rancho Cucamonga, California
January 31, 2018

**CITY OF SAN BERNARDINO, CALIFORNIA
MEASURE I FUND**

**SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2017**

Finding 2017-001

PROJECTS INCLUDED ON THE FIVE YEAR CAPITAL IMPROVEMENT PLAN

Criteria:

The Measure I Strategic Plan states that the Five Year Capital Improvement Plan (CIP) shall be the basis for the annual audit. Jurisdictions will have flexibility in moving projects around in their Five Year Capital Improvement Plan based on the necessities of the jurisdiction. However, in order for a project to be eligible for expenditure of Local Streets funds, the project must be included in the CIP plan. A revised Capital Improvement Plan must be provided to SBCTA by the end of each fiscal year if the project list has been changed for the projects to be eligible for expenditures of Local Streets funds.

Condition:

The City utilized Measure I funds for several projects that were not included in the Five Year CIP adopted for the five year period beginning in 2016/17. Additionally, several projects included in the Five Year CIP had costs exceeding the estimates.

Context:

The condition noted above was identified while testing the actual expenditures for compliance with the Measure I Strategic Plan. Costs tested were consistent with Measure I program requirements however the projects were not on the approved Five Year CIP.

Effect:

The Measure I Five Year Capital Improvement Plan did not include projects that were funded this fiscal year.

Cause:

The City funded projects that were not on the Measure I Local Street Pass-Through Funds Five Year Capital Improvement Plan.

Recommendation:

We recommend the City enhance its procedures to ensure that projects that have activity are included in the CIP for the corresponding year. This can be achieved through a revised CIP being provided to SBCTA by the end of the fiscal year to the extent that modifications from the adopted CIP are encountered.

View of Responsible Official and Planned Corrective Actions:

Management concurs with the finding and is adjusting its internal procedures to be sure that projects are not only eligible for Measure I funding, but are also approved before they begin. Further, it will utilize the CIP revision process, as described to address any future issues.

**CITY OF SAN BERNARDINO, CALIFORNIA
MEASURE I FUND**

**SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2017**

Finding 2017-002

MAINTENANCE OF EFFORT ACKNOWLEDGMENT

Criteria:

Pursuant to Policy VLS-25 of the Strategic Guide, jurisdictions shall annually provide a statement in the resolution of the governing body adopting the Five Year Capital Improvement Plan that acknowledges the jurisdiction will maintain General Fund expenditures for transportation-related construction and maintenance activities at the required maintenance of effort (MOE) base year level in that fiscal year.

Condition:

The resolution dated March 28, 2017 in which the Five Year Capital Improvement Plan was approved did not contain a statement certifying that the City will meet its required MOE base year level in fiscal year 16/17.

Context:

The statement acknowledging the City will maintain MOE base year level was not on the resolution adopting the Five Year Capital Improvement Plan.

Effect:

The City did not comply with VLS-25 of the MSI Strategic Plan.

Cause:

The resolution in which the Five Year Capital Improvement Plan was approved did not contain a statement asserting the City will meet its required MOE base year level in fiscal year 16/17.

Recommendation:

We recommend the City provide a statement in the resolution of the governing body adopting the Five Year Capital Improvement Plan acknowledging it will maintain its General Fund expenditures for transportation-related construction and maintenance activities at the required MOE base year level in the corresponding fiscal year.

View of Responsible Officials and Planned Corrective Action:

The City recognizes that it has not been able to meet its Maintenance of Effort requirements over the last several years. Its intention, in addition to taking steps to budget an appropriate amount going forward, is to seek relief from the SBCTA relative to the historical years' amounts underspent due to the City's five-year involvement with its Chapter 9 Bankruptcy proceedings.

**CITY OF SAN BERNARDINO, CALIFORNIA
MEASURE I FUND**

**SCHEDULE OF PRIOR YEAR FINDING
JUNE 30, 2017**

<u>Finding No.</u>	<u>Description</u>	<u>Status</u>
2016-001	Categorical Projects exceeding \$100,000	Implemented