



**INLAND VALLEY
DEVELOPMENT AGENCY**

**FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S REPORT**

FOR THE YEAR ENDED JUNE 30, 2017

INLAND VALLEY DEVELOPMENT AGENCY

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JUNE 30, 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Inland Valley Development Agency
San Bernardino, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Inland Valley Development Agency (Agency), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Agency'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.

Auditor's 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.



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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Agency 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.

Litigation

As discussed in Note 13 to the financial statements, the Agency, as Successor Agency of the former IVDA Redevelopment Agency (Successor Agency), is involved in litigation against the State of California Department of Finance challenging the DOF's denial of the obligations submitted by the Successor Agency on the Recognized Obligation Payment Schedules (ROPS) for fiscal years 2016-2017 and 2017-2018. Management's evaluation of the events and conditions and management's plans regarding those matters are also described in Note 13. 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 management's discussion and analysis and budgetary comparison information on pages 4 through 14 and pages 50 and 51 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 2018, on our consideration of the Agency'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* and should be considered in assessing the results of our audit.

Eddie and Payne HP

February 6, 2018
Riverside, California

INLAND VALLEY DEVELOPMENT AGENCY

Management's Discussion and Analysis

July 1, 2016 through June 30, 2017



The Inland Valley Development Agency ("Agency") is a regional joint powers authority ("JPA") specifically designated by the U.S. Department of Defense as the officially recognized Local Redevelopment Authority as defined under 32 CFR Part 175, Section 175.3 and under Public Law 100-526 (also referred to as the Base Realignment and Closure Act) created in 1990.

The Agency was created for the purpose of acquiring the former Norton Air Force Base to facilitate the successful reuse of the property and to promote economic development within the area surrounding the Air Base. In addition to the powers inherent in the Agency as formed as a joint exercise of powers authority pursuant to Government Code Section 6500, et seq., the Agency was granted certain additional powers through the adoption of AB419 by the State Legislature in 1989 as currently found in Health & Safety Code Section 33492.40, whereby the Agency has the ability to exercise redevelopment powers under California Community Redevelopment Law.

The Agency derives revenue from the Redevelopment Property Tax Trust Fund ("RPTTF"), member contributions from the member jurisdictions, intergovernmental revenue, lease income, and fees for services.

The Agency members are the City of Colton, City of Loma Linda, City of San Bernardino, and the County of San Bernardino in California.

The Financial Statements

The Agency's financial statements consist of four parts: *Management's Discussion and Analysis*, *basic financial statements*, *Notes to the Financial Statements*, and *Required Supplementary Information*. The financial statements present two views of the Agency- government-wide and by fund.

The *Management's Discussion and Analysis* or MD&A is an integrated part of a company's annual financial statements. The purpose of the MD&A is to provide a narrative explanation, through the eyes of management, of how an entity has performed in the past, its financial condition, and its future prospects.

Government-Wide Financial Statements report information about the Agency as a whole using accounting methods similar to those used by private-sector companies, and for the Agency's purpose, have two categories: governmental activities and business-type activities. These statements consist of a *Statement of Net Position* and a *Statement of Activities*. The *Statement of Net Position* includes all of the Agency's assets, liabilities, and deferred outflows and deferred inflows of resources. Current year's revenues and expenses are accounted for in the *Statement of Activities* regardless when cash is received or paid.

Fund Financial Statements provide more detailed information about the Agency's most significant funds. The Agency uses fund accounting to keep track of specific sources of funding and spending for particular purposes. The Agency has three kinds of funds:

- governmental funds,
- proprietary funds, and
- fiduciary funds.

Governmental Funds. The Agency has two governmental funds- the *JPA General Fund* and the *Capital Projects Fund*. Financial activity for both funds is presented in the following statements:

- *Balance Sheet-Governmental Funds*,
- *Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds*.

The following reconciliations are provided to enhance the readers' understanding of the differences between the two sets of statements.

- *Reconciliation of the Balance Sheet-Governmental Funds to the Statement of Net Position,*
- *Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.*

Proprietary Funds. The Agency uses an enterprise fund, a type of proprietary fund, to account for the Water and Sewer Funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Beginning in the 2003 fiscal year, these funds collect water and sewer revenues from retail users. Expenses are incurred for costs related to providing water and sewer services to the users. These funds' financial statements include the *Statement of Net Position-Proprietary Fund, Statement of Revenues-Proprietary Fund, Expenditures, and Changes in Fund Net Position-Proprietary Fund,* and a *Statement of Cash Flows-Proprietary Fund.*

Fiduciary Funds. Fiduciary funds are used to account for assets held in trust by the government for the benefit of individuals or other entities. The Agency maintains two fiduciary funds- the School District Fund is used to account for assets and liabilities held by the Agency as an agent for the school districts. Secondly, the Private-Purpose Trust Fund is used to report the assets, liabilities, deferred inflows and deferred outflows of resources, and activities of the Successor Agency. The fiduciary funds financial statements include the *Statement of Net Fiduciary Position,* and the *Statement of Changes in Net Fiduciary Position.*

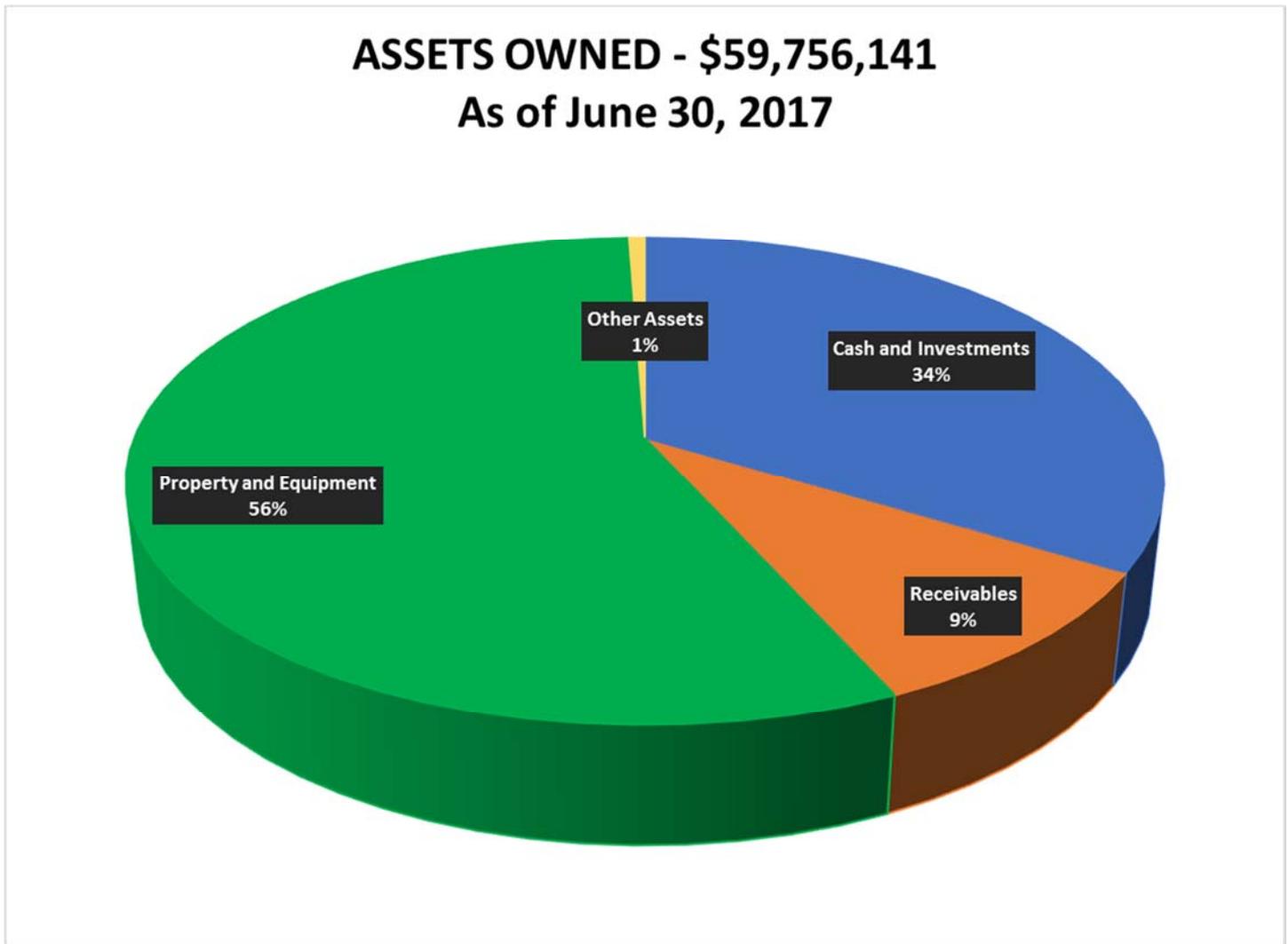
Notes to the Financial Statements ("Notes") are additional information added to the end of financial statements that help explain specific items in the statements as well as provide a more comprehensive assessment of an entity's financial condition. Notes to financial statements can include information on debt, going concern criteria, accounts, contingent liabilities or contextual information explaining the financial numbers (e.g. to indicate a lawsuit).

Required Supplementary Information consists of the, *Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual; General Fund;* and *Notes to Required Supplementary Information.*

Summary Financial Information and Analysis

Government-Wide Financial Statements

The following chart reflects the composition of total assets (percentages rounded) owned at June 30, 2017 as shown on the *Government-Wide Statement of Net Position* (governmental and business-type activities).



The following is a comparison of the summaries of financial position and changes in net position shown on the government-wide financial statements (governmental activities only) for fiscal years ended 2017 and 2016.

FINANCIAL STATEMENT SUMMARY
Governmental Activities
(in thousands)

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Current Assets	\$ 23,811	\$ 21,388
Noncurrent Assets	<u>\$ 35,644</u>	<u>\$ 37,560</u>
Total Assets	\$ 59,455	\$ 58,948
Current Liabilities	\$ 588	\$ 1,291
Noncurrent Liabilities	<u>\$ 129</u>	<u>\$ 290</u>
Total Liabilities	\$ 717	\$ 1,581
Net Investment in Capital Assets	\$ 33,159	\$ 31,900
Unrestricted	<u>\$ 25,579</u>	<u>\$ 25,466</u>
Net Position	\$ 58,738	\$ 57,366
Program Revenues	\$ 3,159	\$ 3,600
General Revenues and Transfers	<u>\$ 1,527</u>	<u>\$ 42</u>
Total Revenues	\$ 4,686	\$ 3,642
Program Expenses	<u>\$ (3,314)</u>	<u>\$ (4,230)</u>
Change in Net Position	\$ 1,372	\$ (588)
Beginning Net Position	<u>\$ 57,366</u>	<u>\$ 57,954</u>
Ending Net Position	<u>\$ 58,738</u>	<u>\$ 57,366</u>

The increase in Net Position of \$1,372,000 is primarily due to land sale revenue.

The following is a comparison of the summaries of financial position and changes in net position shown on the government-wide financial statements (business-type activities only) for fiscal years ended 2017 and 2016. This includes the Water and Sewer activities.¹

FINANCIAL STATEMENT SUMMARY
Business-Type Activities
(in thousands)

	<i>June 30, 2017</i>	<i>June 30, 2016</i>
Current Assets	\$ 112	\$ 130
Noncurrent Assets	\$ 189	\$ 196
Total Assets	\$ 301	\$ 326
Total Liabilities	\$ -	\$ 14
Net Investment in Capital Assets	\$ 189	\$ 196
Unrestricted	\$ 112	\$ 116
Net Position	\$ 301	\$ 312
Program Revenues	\$ 188	\$ 136
General Revenues and Transfers		
Transfers of Operating Allowances	\$ (100)	\$ (225)
Total Revenues	\$ 88	\$ (89)
Program Expenses	\$ 99	\$ 144
Change in Net Position	\$ (11)	\$ (233)

The increase in Change in Net Position of \$222,000 is due a decrease in transfers out to the Government-Type Activity, General Fund and Fiduciary Fund, Successor Agency.

¹ Numbers may not add due to rounding.

Categories of Net Position-Government-Wide Statement of Net Position

The Agency is required to present its net position in three categories: *Net Investment in Capital Assets, Restricted, and Unrestricted.*

Net Investment in Capital Assets

At June 30, 2017, Invested in Capital Assets, net of related debt was \$33,158,731.

Restricted

No amount is restricted from net position as of June 30, 2017.

Unrestricted

The Agency had \$25,579,267 at June 30, 2017 in unrestricted net position.

Long-Term Debt

As of June 30, 2017, the Agency's long-term debt outstanding, including the current portion, was \$129,171.

Fiduciary Funds Financial Statements

The Agency has one fiduciary fund- the Successor Agency Fund (sub-classed as a private-purpose trust fund).

The following table is a comparison of the summary of the financial position and changes in net position for fiscal years ended 2017 and 2016.

In summary, for the year ended June 30, 2017 total assets and deferred outflows of resources in the fiduciary funds total \$44.7 million and the total liability and deferred inflows of resources totaled \$257 million, which results in negative net position of \$212 million.²

² Numbers may not add due to rounding.

FINANCIAL STATEMENT SUMMARY
Fiduciary Fund
Successor Agency Fund
(in thousands)

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Total Assets+Deferred Outflows of Resources	\$ 44,737	\$ 34,209
Total Liabilities+Deferred Inflows of Resources	\$ (256,596)	\$ (256,951)
Total Net Position	\$ (211,859)	\$ (222,742)
Additions	\$ 13,780	\$ 16,978
Deductions	\$ (12,673)	\$ (24,738)
Change in Net Position	<u>\$ 1,107</u>	<u>\$ (7,760)</u>

The increase in the Change in Net Position for FY2017 of \$1,107k when compared to the Change in Net Position for FY2016 \$-7,760k is primarily due to not transferring Airport Revenue, not paying the SBCERA liability, and a reduction in capital projects spending in FY2016-17.

Budget to Actual Analysis

There was a negative \$8.61 million budget to actual variance in the agency-wide revenue due to the following:

Federal grants negative variance of \$1.31 million (budgeted in full) represents amounts we have not expended nor claimed for reimbursement.

Goods Movement Reimbursement-SANBAG negative variance of \$5.37 million (budgeted in full) represents amount we have not expended nor claimed for reimbursement.

Reimbursement Agreements with the San Bernardino Valley Municipal Water District for \$1.93 million was not received.

Additional Information and Analysis

Development Projects

The Agency has entered into a Master Disposition and Development Agreement (MDDA) with Hillwood/San Bernardino, LLC, a Delaware limited liability company, owned 100% by H. Ross Perot, Jr. The MDDA's purpose is to develop Alliance-California, a business and industrial park in and around the San Bernardino International Airport.

The Agency has also entered into an Owners Participation Agreement with Stater Bros. Markets, a California Corporation, and a Tri-Party Agreement with Stater Bros. Markets and Hillwood/San Bernardino, LLC, a Delaware limited liability company. These agreements allowed Stater Bros. Market to relocate their corporate offices and distribution facilities to the former Norton Air Force Base. This development project has been completed, and Stater Bros. Market has constructed over 2.1 million square feet of warehousing facilities, which can provide up to 3,000 jobs.

In FY2005-06, the Inland Valley Development Agency was appropriated \$36,500,000, in the Federal SAFETEA-LU bill, for the Inland Goods Movement Gateway project. This project is to build roads, bridges, and other infrastructure facilities in and around the former Norton Air Force Base. The remainder of these funds are planned to be spent in future years for improvements on 3rd Street, 5th Street, and the subsequent phases of the Mountain View project.

In FY2017-18, the Inland Valley Development Agency will continue to help develop the San Bernardino International Airport pursuant to its military base reuse joint powers authority obligations.

Pursuant to its obligations, the Agency has previously committed to support the San Bernardino International Airport Authority through and including the FY2017-18 to cover airport operations.

Going Forward

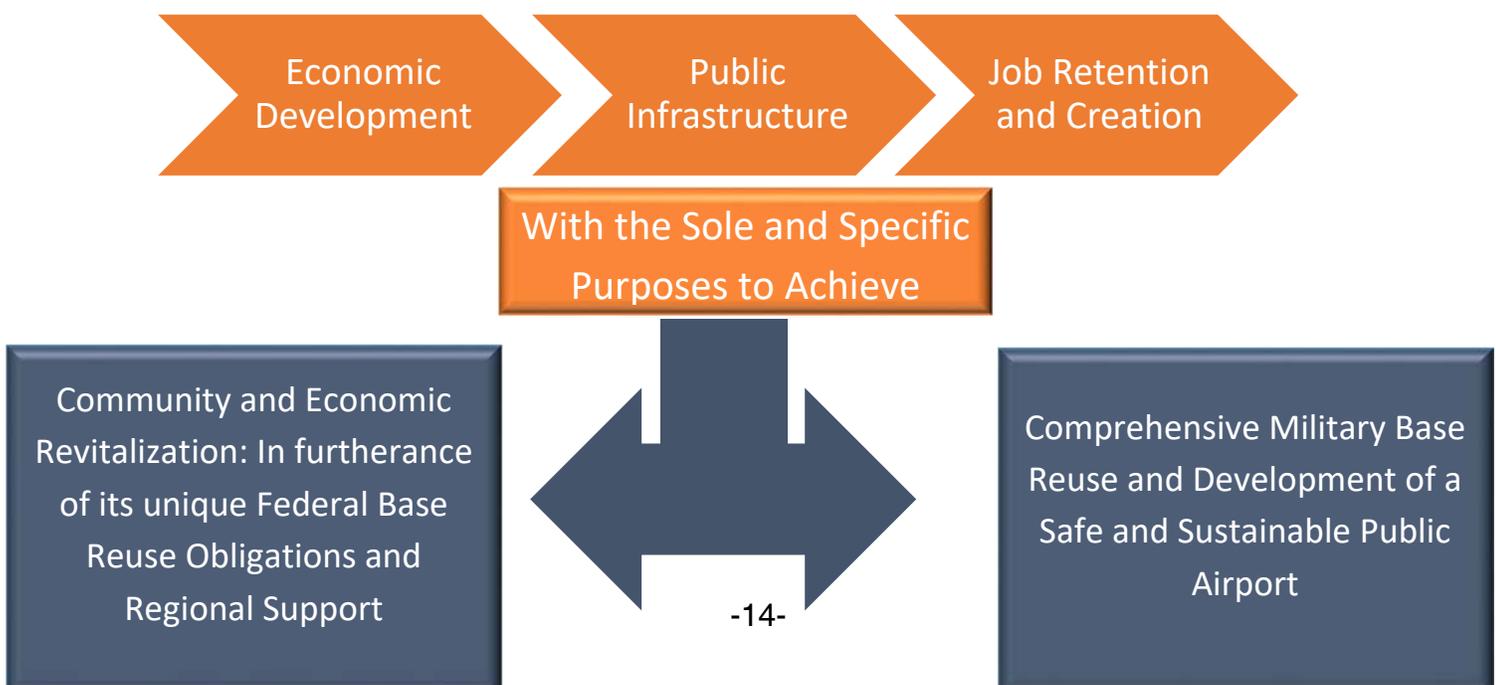
On February 27, 2014, the IVDA entered into a binding settlement agreement with the State of California, Department of Finance (DOF) and others to resolve prior litigation matters regarding the IVDA's unique formation and operation under Federal and State law. That settlement ensures that going forward, the IVDA has a Successor Agency function that serves to address the post-dissolution functions related to IVDA's exercise of California redevelopment powers. It further establishes that IVDA's existence and operation as a military base reuse joint powers authority was not dissolved and continues to function for the purposes for which it was originally established. The Successor Agency and the Joint Powers Authority are separate and distinct legal entities.

On May 15, 2014, the IVDA completed a comprehensive refinancing of all long-term debt with the issuance of its IVDA 2014 Tax Allocation Refunding Bonds Series A and Series B. This \$239m issuance provides for stable and level debt service payments through 2045.

Going forward, the IVDA military base reuse joint powers authority continues to be engaged in implementation of its base reuse plan, supporting the San Bernardino International Airport, and deploying quality public infrastructure projects, programs, and services throughout its base reuse project area (a 3-mile radius around the former base).

Going forward, the IVDA is...

"A regional joint powers authority dedicated to the reuse of the former Norton Air Force Base for the economic benefit of the East Valley."



INLAND VALLEY DEVELOPMENT AGENCY
STATEMENT OF NET POSITION
 JUNE 30, 2017

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>TOTAL</u>
ASSETS			
Cash and investments	\$ 20,099,924	\$ 112,301	\$ 20,212,225
Receivables			
Accounts, net of allowance for doubtful accounts	271,745		271,745
Grants	495,187		495,187
Loans	2,356,264		2,356,264
Interest	4,293		4,293
Prepaid expenses	38,941		38,941
Deposits held with others	312,240		312,240
Due from other government agencies	2,580,475		2,580,475
Due from Successor Agency	8,253		8,253
Capital Assets			
Land, not being depreciated	7,294,960		7,294,960
Property, equipment, and other, net of accumulated depreciation	21,798,785	188,616	21,987,401
Construction in progress	4,194,157	-	4,194,157
Total Assets	<u>59,455,224</u>	<u>300,917</u>	<u>59,756,141</u>
LIABILITIES			
Accounts payable	282,361		282,361
Accrued expenses	146,546		146,546
Retention payable	11,184		11,184
Deferred revenue	81,170		81,170
Deposits	66,794		66,794
Long-Term Liabilities			
Portion due or payable within one year	129,171	-	129,171
Total Liabilities	<u>717,226</u>	<u>-</u>	<u>717,226</u>
NET POSITION			
Net investment in capital assets	33,158,731	188,616	33,347,347
Unrestricted	25,579,267	112,301	25,691,568
TOTAL NET POSITION	<u>\$ 58,737,998</u>	<u>\$ 300,917</u>	<u>\$ 59,038,915</u>

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

INLAND VALLEY DEVELOPMENT AGENCY
STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2017

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>TOTAL</u>
PROGRAM EXPENSES			
General government	\$ 884,666		\$ 884,666
Services and supplies		\$ 92,005	92,005
Project costs	1,200,387		1,200,387
Depreciation	1,228,861	7,545	1,236,406
Total Program Expenses	<u>3,313,914</u>	<u>99,550</u>	<u>3,413,464</u>
PROGRAM REVENUES			
Charges for services	2,000,658	188,437	2,189,095
Capital grants	1,158,028	-	1,158,028
Total Program Revenues	<u>3,158,686</u>	<u>188,437</u>	<u>3,347,123</u>
NET PROGRAM REVENUES (EXPENSES)	<u>(155,228)</u>	<u>88,887</u>	<u>(66,341)</u>
GENERAL REVENUES AND TRANSFERS			
Interest	136,368		136,368
Contributions and other income	35,567		35,567
Gain on disposal of capital assets	1,255,081		1,255,081
Transfers of operating allowances	100,000	(100,000)	-
Total General Revenues and Transfers	<u>1,527,016</u>	<u>(100,000)</u>	<u>1,427,016</u>
CHANGE IN NET POSITION	1,371,788	(11,113)	1,360,675
NET POSITION, BEGINNING OF YEAR	<u>57,366,210</u>	<u>312,030</u>	<u>57,678,240</u>
NET POSITION, END OF YEAR	<u>\$ 58,737,998</u>	<u>\$ 300,917</u>	<u>\$ 59,038,915</u>

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

INLAND VALLEY DEVELOPMENT AGENCY
BALANCE SHEET
GOVERNMENTAL FUNDS
 JUNE 30, 2017

ASSETS

Cash and investments	\$ 20,099,924
Receivables	
Accounts, net of allowance for doubtful accounts	272,165
Grants	495,187
Loans	2,356,264
Prepaid expenses	38,941
Deposits held with others	312,240
Due from other government agencies	2,580,475
Due from Successor Agency	<u>8,253</u>

TOTAL ASSETS **\$ 26,163,449**

LIABILITIES

Accounts payable	\$ 282,361
Accrued expenses	103,474
Retention payable	11,184
Deferred revenue	81,170
Deposits	<u>66,794</u>

Total Liabilities **544,983**

FUND BALANCES

Nonspendable	
Prepaid item	38,941
Deposits held with others	312,240
Loans receivable	2,356,264
Assigned	5,751,572
Unassigned	<u>17,159,449</u>

Total Fund Balances **25,618,466**

TOTAL LIABILITIES AND FUND BALANCES **\$ 26,163,449**

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

INLAND VALLEY DEVELOPMENT AGENCY
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
 JUNE 30, 2017

Total fund balances of governmental funds		\$ 25,618,466
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. These assets consist of:		
Land	\$ 7,294,960	
Property, equipment, and other	34,819,990	
Construction in progress	4,194,157	
Accumulated depreciation and amortization	<u>(13,021,205)</u>	
Total Capital Assets		33,287,902
Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures.		3,873
Long-term liabilities applicable to governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities. These liabilities consist of:		
Capital lease obligation		(129,171)
Compensated absences		<u>(43,072)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES		<u>\$ 58,737,998</u>

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

INLAND VALLEY DEVELOPMENT AGENCY
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCES - GOVERNMENTAL FUNDS**
 FOR THE YEAR ENDED JUNE 30, 2017

REVENUES

Interest income	\$ 157,465
Lease income	1,659,793
Intergovernmental grants	1,158,028
Charges for services	340,865
Contributions and other income	35,567

Total Revenues 3,351,718

EXPENDITURES

General and administrative costs	703,919
Professional services	180,264
Planning, survey, and design	310,302
Operation of acquired property	580,427
Project improvement costs	309,658
Capital outlay	3,356,054
Debt Service	
Principal	149,096
Interest and fees	8,944

Total Expenditures 5,598,664

**EXCESS OF REVENUES OVER (UNDER)
 EXPENDITURES** (2,246,946)

OTHER FINANCING SOURCES (USES)

Sales of capital assets	2,285,081
Transfers of operating allowances	100,000

Total Other Financing Sources (Uses) 2,385,081

NET CHANGE IN FUND BALANCE 138,135

FUND BALANCE, BEGINNING OF YEAR 25,480,331

FUND BALANCE, END OF YEAR \$ 25,618,466

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

INLAND VALLEY DEVELOPMENT AGENCY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
JUNE 30, 2017

Net Change in Fund Balances - Total Governmental Funds	\$ 138,135
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays and project improvement costs are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense.	
Capital outlays as expenditures	3,356,054
Depreciation expense	(1,228,861)
In the statement of activities, only the gain/loss on the sale and disposal of assets is reported whereas in the governmental funds, the proceeds from the sale and disposal of assets increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of assets sold or disposed of.	(1,030,000)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(21,098)
The issuance of long-term debt (e.g., bonds and notes) provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of the principal of long-term debt consumes financial resources and is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	
Principal payments	149,096
Interest expense	12,142
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.	
Change in compensated absences	<u>(3,680)</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 1,371,788</u>

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

INLAND VALLEY DEVELOPMENT AGENCY
STATEMENT OF NET POSITION
PROPRIETARY FUND
 JUNE 30, 2017

	ENTERPRISE FUND <hr/> WATER AND SEWER <hr/>
ASSETS	
Cash	\$ 112,301
Capital Assets	
Property, equipment, and other, net	<u>188,616</u>
Total Assets	<u>300,917</u>
LIABILITIES	
Accounts payable	<u>-</u>
Total Liabilities	<u>-</u>
NET POSITION	
Invested in capital assets	188,616
Unrestricted	<u>112,301</u>
TOTAL NET POSITION	<u><u>\$ 300,917</u></u>

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

INLAND VALLEY DEVELOPMENT AGENCY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
 FOR THE YEAR ENDED JUNE 30, 2017

	ENTERPRISE FUND <u>WATER AND SEWER</u>
OPERATING REVENUE	
Charges for sales and service	\$ 188,437
Total Operating Revenue	<u>188,437</u>
OPERATING EXPENSES	
Costs of sales and services	92,005
Depreciation	<u>7,545</u>
Total Operating Expenses	<u>99,550</u>
OPERATING INCOME	<u>88,887</u>
TRANSFERS	
Transfers to other funds	<u>(100,000)</u>
TOTAL TRANSFERS	<u>(100,000)</u>
CHANGE IN NET POSITION	(11,113)
NET POSITION, BEGINNING OF YEAR	<u>312,030</u>
NET POSITION, END OF YEAR	<u><u>\$ 300,917</u></u>

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

INLAND VALLEY DEVELOPMENT AGENCY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
 FOR THE YEAR ENDED JUNE 30, 2017

	<u>ENTERPRISE FUND</u> <u>WATER AND SEWER</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 188,437
Cash paid to suppliers	<u>(105,831)</u>
Net Cash Provided By Operating Activities	<u>82,606</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfer to other funds	<u>(100,000)</u>
Net Cash Provided By (Used In) Noncapital Financing Activities	<u>(100,000)</u>
NET DECREASE IN CASH	(17,394)
BALANCE, BEGINNING OF YEAR	<u>129,695</u>
BALANCE, END OF YEAR	<u>\$ 112,301</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 88,887
Adjustments to Reconcile Operating Income to Net Cash Provided By Operating Activities	
Depreciation	7,545
Change in Assets and Liabilities Decrease in accounts payable	<u>(13,826)</u>
Net Cash Provided By Operating Activities	<u>\$ 82,606</u>

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

INLAND VALLEY DEVELOPMENT AGENCY
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2017

	<u>PRIVATE- PURPOSE TRUST FUND SUCCESSOR AGENCY</u>
ASSETS	
Cash and investments	\$ 6,082,982
Cash and investments with fiscal agents	17,490,572
Prepaid bond insurance	1,400,128
Deposits held with others	110,663
Property held for sale or disposition	<u>5,533,495</u>
Total Assets	<u>30,617,840</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred loss on refunding	<u>2,741,111</u>
Total Deferred Outflows of Resources	<u>2,741,111</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>33,358,951</u>
LIABILITIES	
Accrued expenses	4,021,053
Deposits	110,663
Due to other government agencies	8,253
Advances from Other Government Agencies	
Portion due or payable within one year	3,204,385
Bonds and Notes Payable, Net	
Portion due or payable within one year	274,349
Portion due or payable after one year	<u>247,848,669</u>
Total Liabilities	<u>255,467,372</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred gain on refunding	<u>1,128,958</u>
Total Deferred Inflows of Resources	<u>1,128,958</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	<u>256,596,330</u>
NET POSITION	<u>\$ (223,237,379)</u>

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

**INLAND VALLEY DEVELOPMENT AGENCY
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>PRIVATE- PURPOSE TRUST FUND SUCCESSOR AGENCY</u>
ADDITIONS	
Property tax increment	\$ 12,153,160
Interest income	<u>25,018</u>
Total Additions	<u>12,178,178</u>
DEDUCTIONS	
Capital improvements	95,555
Administrative costs	492,736
Interest and fees	<u>12,084,701</u>
Total Deductions	<u>12,672,992</u>
CHANGE IN NET POSITION	(494,814)
NET POSITION, BEGINNING OF YEAR	<u>(222,742,565)</u>
NET POSITION, END OF YEAR	<u><u>\$ (223,237,379)</u></u>

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

INLAND VALLEY DEVELOPMENT AGENCY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

1. ORGANIZATION

Inland Valley Development Agency (Agency) is a Joint Powers Authority (JPA) formed pursuant to the provisions of the Government Code of the State of California and is comprised of four local governmental entities. These entities are the County of San Bernardino and the Cities of San Bernardino, Colton, and Loma Linda. The Agency was initially formed pursuant to a Joint Powers Agreement dated January 24, 1990, which was subsequently amended on February 12, 1990. The Agency was created to serve as a federal base reuse authority pursuant to the requirements of the Department of Defense in the Base Realignment and Closure Act for effectuating the conversion of the former Norton Air Force Base into civilian reuse. In addition, the Agency had the ability to exercise redevelopment powers pursuant to a special legislation, which became a part of the California Community Redevelopment Law. Specifically, Health and Safety Code Section 33320.5, which became effective January 1, 1990, provides that the Agency shall have, and exclusively exercise, powers of a redevelopment agency pursuant to the California Community Redevelopment Law in connection with a redevelopment project area approved by such joint powers authority.

The Agency adopted a Redevelopment Plan for the Inland Valley Redevelopment Project Area. The Agency's prime purpose and function in the adoption of this Redevelopment Plan was to provide the mechanism and funding to (1) acquire Norton Air Force Base (Air Base) and facilitate the successful reuse of the property; (2) ensure that adequate access exists to and from the major transportation systems and the Air Base; and (3) promote economic development within the area surrounding the Air Base.

California redevelopment agencies were dissolved effective January 31, 2012 pursuant to Assembly Bill (AB)x1 26. The Agency elected to serve as the successor agency to hold the assets of the former redevelopment agency until they are distributed to other units of State and local government.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

As required by generally accepted accounting principles, these financial statements present the Agency and its component unit, an entity for which the Agency is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the Agency's operations; therefore, data from these units are combined with data of the primary government.

NOTES TO FINANCIAL STATEMENTS (Continued)

Fiduciary Type Component Unit - Pursuant to the provisions of the Redevelopment Restructuring Act, the Agency elected to become the successor agency of the former redevelopment agency. All assets and liabilities related to the former redevelopment agency were transferred to the Successor Agency as of February 1, 2012, and the activities of the Successor Agency are reported as a fiduciary fund in the accompanying financial statements. The Successor Agency operates under the auspices of a legislatively formed Oversight Board comprised of representatives of the local agencies that serve the redevelopment project area. It is tasked with fulfilling the obligations of the former redevelopment agency.

B. Government-Wide and Fund Financial Statements

The basic financial statements of the Agency are comprised of the following:

- Government-wide financial statements;
- Fund financial statements; and
- Notes to the 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. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

NOTES TO FINANCIAL STATEMENTS (Continued)

C. **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

The proprietary and private-purpose trust funds are reported using the economic resources measurement focus and the accrual basis of accounting. The agency fund has no measurement focus but utilizes the accrual basis of accounting for reporting its assets and liabilities.

The Agency reports the following major governmental funds:

General Fund - This is the Agency's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

NOTES TO FINANCIAL STATEMENTS (Continued)

The Agency reports the following major proprietary fund:

Enterprise Fund - The Enterprise Fund is used to account for those operations that are financed and operated in a manner similar to private business, where the intent of the Board of Directors is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The Agency reported the following enterprise fund:

Water and Sewer Fund - This fund accounts for the activities of the government in providing water and sewer services to retail users.

The Agency reports the following fiduciary fund types:

Private-Purpose Trust Fund - This fund is a fiduciary fund type used by the Agency to report trust arrangements under which principal and income benefit other governments. This fund reports the assets, liabilities, and activities of the Successor Agency.

Certain eliminations have been made as prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, in regards to interfund activities, payables, and receivables. All internal balances in the statement of net position have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances. In the statement of activities, internal service fund transactions have been eliminated; however, those transactions between governmental and business-type activities have not been eliminated.

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. Internally-dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

NOTES TO FINANCIAL STATEMENTS (Continued)

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the water and sewer fund consists of charges to customers for water and sewer services. Operating expenses for enterprise funds include the cost of salaries and benefits, services and supplies, administrative expenses, utilities, maintenance, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. **Budgetary Practices**

Each year, the Agency adopts a budget for all governmental funds, which provide for the general operations of the Agency. Budgets are prepared on the modified accrual basis of accounting.

E. **Cash**

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

F. **Investments**

Investments for the government are reported at fair value (generally based on quoted market prices) except for the position in Local Agency Investment Fund (LAIF), which is part of the pooled money investment account that is regulated by the California Government Code under the oversight of the State Treasurer, Director of Finance, and State Controller. The Agency's investment in this pool is reported in the accompanying financial statements at cost, which approximates fair value. Fair value is calculated based on the Agency's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio).

G. **Receivables and Payables**

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either due to/from other funds (i.e., the current portion of interfund loans) or advances to/from other funds (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as due to/from other funds. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as internal balances.

NOTES TO FINANCIAL STATEMENTS (Continued)

Accounts receivable are stated at the amount management expects to collect from outstanding balances. A receivable balance is charged off in the period in which the receivable is deemed uncollectible. All accounts receivable are shown net of an allowance for uncollectibles when applicable. Management evaluates uncollectible amounts based on its assessment of the current status of individual accounts. Accounts receivable in the General Fund are deemed to be fully collectible. In the Successor Agency, accounts receivable are presented net of an allowance for doubtful accounts of \$1,671,047 at June 30, 2017.

H. Capital Assets

Capital assets, which include property and equipment are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and have an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Capital assets of the government are depreciated using the straight-line method over the following estimated useful lives:

<u>ASSETS</u>	<u>YEARS</u>
Structures and improvements	10-35
Equipment and vehicles	5-7

I. Property Held for Sale or Disposition

Property held for sale or disposition is reported in the statement of fiduciary net position at the lower of cost or net realizable value.

NOTES TO FINANCIAL STATEMENTS (Continued)

J. **Bond Issuance Costs and Premiums/Discounts**

Bond premiums and discounts in the fiduciary funds are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are recognized as an outflow of resources in the period incurred on the statement of changes in fiduciary net position.

K. **Employee Compensated Absences**

Accumulated vacation, holiday benefits, sick pay, and compensatory time are recorded as an expense and liability as the benefits are earned. Compensated absence liabilities are recorded when incurred in the government-wide and proprietary fund financial statements.

L. **Deferred Outflows/Inflows of Resources**

A deferred outflow of resources is defined as a consumption of net position by the Agency that is applicable to a future reporting period. A deferred inflow of resources is defined as an acquisition of net position by the Agency that is applicable to a future reporting period. The Agency has two items in the statement of net position, which qualify for reporting in these categories: deferred loss on refunding and deferred gain on refunding.

M. **Net Position Classification**

In the government-wide financial statements, net position is categorized as follows:

Net Investment in Capital Assets - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted Net Position - This component of net position consists of constraints placed on net position through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

NOTES TO FINANCIAL STATEMENTS (Continued)

Unrestricted Net Position - This component of net position consists of net position that does not meet the definition of *Net Investment in Capital Assets, Net of Restricted Net Position*.

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

N. Fund Balances

In the fund financial statements, fund balances are categorized as follows:

Nonspendable - Items that cannot be spent because they are not in a spendable form (such as inventory) or items that are legally or contractually required to be maintained intact.

Restricted - Items with constraints placed on their use that are either: (1) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (2) imposed by law by constitutional provisions or by enabling legislation.

Committed - Items that encompass the portion of net fund resources, the use of which is constrained by the limitations that the government imposes upon itself at its highest level of decision-making authority (Board of Directors) through resolution and that remain binding unless removed in the same manner.

Assigned - Items that are constrained by the government's intent to be used for specific purposes. The intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority. The Board of Directors is authorized for this purpose.

Unassigned - This category is for any balances that have not been restricted, committed, or assigned to a specific purpose.

For the classification of fund balances, the Agency considers restricted amounts to have been spent before unrestricted if the expenditure meets the criteria for use of restricted funds. Unrestricted funds are used in the following order: committed, assigned, and unassigned funds.

NOTES TO FINANCIAL STATEMENTS (Continued)

O. Property Taxes

The Agency receives incremental property taxes on property within its project area over a base assessed valuation on the date the project area was established. The duties of assessing and collecting property taxes are performed by the San Bernardino County Assessor and Tax Collector, respectively. Tax levies cover the period from July 1 to June 30 of each year. All tax liens attach annually on the first day in March preceding the fiscal year for which the taxes are levied. Taxes are levied on both real and personal property as it exists on that date.

Secured property taxes are levied against real property and are due and payable in two equal installments. The first installment is due on November 1 and becomes delinquent if not paid by December 10. The second installment is due on February 1 and becomes delinquent if not paid by April 10. Unsecured personal property taxes are due on July 1 each year. These taxes become delinquent if not paid by August 31.

The Agency records incremental property tax revenues in the fiscal year to which they relate and are received, rather than at the related lien date, except that an accrual is made for revenues received within 60 days after the end of the fiscal year.

P. 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. Management believes that the estimates utilized in preparing its financial statements are reasonable and prudent. Actual results could differ from those estimates.

3. CASH AND INVESTMENTS

Cash and investments at June 30, 2017 are classified in the accompanying financial statements as follows:

	<u>AMOUNT</u>
Statement of Net Position	
Cash and investments	\$ 20,212,225
Statement of Fiduciary Net Position	
Cash and investments	6,082,982
Cash and investments with fiscal agents	<u>17,490,572</u>
TOTAL CASH AND INVESTMENTS	<u>\$ 43,785,779</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

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

	<u>AMOUNT</u>
Cash deposits with financial institutions	\$ 26,113,019
Cash with fiscal agents	17,490,572
Investments in LAIF	<u>182,188</u>
TOTAL CASH AND INVESTMENTS	<u>\$ 43,785,779</u>

A. Investments Authorized by the California Government Code and the Agency's Investment Policy

The investments authorized by the Agency's investment policy are in accordance with Section 53601 of the California Government Code. The table below identifies the investment types that are authorized:

<u>AUTHORIZED INVESTMENT TYPE</u>	<u>MAXIMUM MATURITY</u>	<u>MAXIMUM PERCENTAGE OF PORTFOLIO</u>
Securities of the United States Government or its agencies	5 years	None
Treasury notes, bonds, or legal obligations of the State of California	5 years	None
Municipal bonds rated A+ by Standard & Poor's or A-1 by Moody's Investment Service or A+ by Fitch Ratings	5 years	None
Certificates of deposit	5 years	30%
Bankers acceptances	180 days	30%
Repurchase agreements	90 days	10%
Commercial paper rated A-1 by Standard & Poor's or P-1 by Moody's Investment Service	270 days	15%
California Local Agency Investment Fund	None	None
Time deposits	5 years	20%
Money-market accounts	5 years	20%

Investments of debt proceeds held by a bond trustee are governed by provisions of the debt agreement rather than the general provisions of the California Government Code or the Agency's investment policy.

NOTES TO FINANCIAL STATEMENTS (Continued)

B. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

As of June 30, 2017, the Agency's investment in LAIF in the amount of \$182,188 had an average maturity of 8.3 months.

C. Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. LAIF does not have a rating provided by a nationally recognized statistical rating organization.

D. Concentrations of Credit Risk

With the exception of securities of the U.S. government or its agencies and LAIF, it is the investment policy of the Agency that no more than 50% of the Agency's total investment portfolio be invested in a single investment type or with a single issuer.

E. Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that in the event of the failure of the counterparty 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.

The Agency's investment policy requires that for investments in certificates of deposit and repurchase agreements, a collateral level of at least 102% of the market value of the deposit be maintained. The California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies.

NOTES TO FINANCIAL STATEMENTS (Continued)

As of June 30, 2017, \$19,754,310 of the Agency's deposits with financial institutions were in excess of federal depository insurance limits and were collateralized by securities held by the pledging financial institution's agent but not in the depositor's name.

As of June 30, 2017, \$5,832,982 of the Successor Agency's deposits with financial institutions were in excess of federal depository insurance limits and were collateralized by securities held by the pledging financial institution's agent but not in the depositor's name.

F. **Investment in State Investment Pool**

The Agency is a voluntary participant in LAIF, which is part of the pooled money investment account that is regulated by the California Government Code under the oversight of the State Treasurer, Director of Finance, and State Controller. The Agency's investment in this pool is reported in the accompanying financial statements at cost, which approximates fair value at amounts based on the Agency's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Investments in LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest. All investments with LAIF are secured by the full faith and credit of the State of California. Separate LAIF financial statements are available from the California State Treasurer's Office on the Internet at <http://www.treasurer.ca.gov>.

Investment income from the pool is allocated back to the respective funds based on each fund's equity in the pool.

At June 30, 2017, the carrying amount of the investments in LAIF amounted to \$182,188 and its fair value amounted to \$182,312.

NOTES TO FINANCIAL STATEMENTS (Continued)

4. RECEIVABLES

A. Loans Receivable

On November 19, 2014, the Agency restated and amended two loan agreements with the San Bernardino International Airport (SBIAA) into a single loan. The original loans, issued in 2004 and 2005, each carried an outstanding balance at the time of the restatement of \$1,950,000. The restated loan of \$3,900,000 is to be repaid over seven years at an interest rate of 2% or at the rate designated by LAIF, whichever is higher. Principal and interest payments of \$570,000 are payable annually on June 1 each year beginning June 1, 2015. The balance at June 30, 2017 totaled \$2,356,264.

B. SBIAA Short-Term Note Receivable

On January 28, 2016, the Agency issued a short-term promissory note in the amount of \$2,500,000. The note bears interest at the rate of 2% per annum or at the rate designated by LAIF, whichever is higher, compounded annually. The principal and interest balance of the note was due September 30, 2017. As of June 30, 2017, the outstanding principal was paid off.

C. Notes Receivable - Successor Agency

On February 26, 2009, the Successor Agency entered into an agreement with Pacific Airworks Group LLC (PAG) to advance up to \$1,800,000 in a promissory note, amortized over a period of 24 months, at an interest rate of 5% per annum. As of June 30, 2017, total advances on the promissory note were \$1,671,047. An allowance for uncollectible accounts has been recorded for the PAG note in the amount of \$1,671,047.

NOTES TO FINANCIAL STATEMENTS (Continued)

5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017 was as follows:

	BALANCE JULY 1, 2016	ADDITIONS	RETIREMENTS	BALANCE JUNE 30, 2017
GOVERNMENTAL ACTIVITIES				
Capital Assets, not Being Depreciated				
Land	\$ 8,324,960		\$ 1,030,000	\$ 7,294,960
Construction in progress	4,740,404	\$ 3,356,054	3,902,301	4,194,157
Total Capital Assets, not Being Depreciated	<u>13,065,364</u>	<u>3,356,054</u>	<u>4,932,301</u>	<u>11,489,117</u>
Capital Assets, Being Depreciated				
Buildings and improvements	30,023,046	3,902,301	-	33,925,347
Equipment and vehicles	894,643	-	-	894,643
Total Capital Assets, Being Depreciated	<u>30,917,689</u>	<u>3,902,301</u>	<u>-</u>	<u>34,819,990</u>
Less: Accumulated depreciation and amortization for:				
Buildings and improvements	10,898,279	1,228,861	-	12,127,140
Equipment and vehicles	894,065	-	-	894,065
Total Accumulated Depreciation	<u>11,792,344</u>	<u>1,228,861</u>	<u>-</u>	<u>13,021,205</u>
Total Capital Assets, Being Depreciated, Net	<u>19,125,345</u>	<u>2,673,440</u>	<u>-</u>	<u>21,798,785</u>
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	<u>\$ 32,190,709</u>	<u>\$ 6,029,494</u>	<u>\$ 4,932,301</u>	<u>\$33,287,902</u>
BUSINESS-TYPE ACTIVITIES				
Capital Assets, Being Depreciated				
Property and equipment	\$ 301,788	-	-	\$ 301,788
Less: Accumulated depreciation for:				
Property and equipment	105,627	\$ 7,545	-	113,172
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET	<u>\$ 196,161</u>	<u>\$ (7,545)</u>	<u>\$ -</u>	<u>\$ 188,616</u>

Depreciation expense charged to the primary government in the governmental activities amounted to \$1,228,861 and for business-type activities in the amount of \$7,545.

The estimated cost to complete construction in progress is \$1,066,130.

For the year ended June 30, 2017, the Successor Agency held property for sale or disposition valued at \$5,533,495, which is included as part of the Private-Purpose Trust Fund in the fiduciary funds.

NOTES TO FINANCIAL STATEMENTS (Continued)

6. CAPITAL LEASE

The Agency entered into a lease agreement with Vanir Energy, LLC on March 10, 2011 with respect to a covered parking photovoltaic electric generation system. Vanir Energy, LLC has constructed the system on the Agency's property. The Agency agreed to pay rent to Vanir Energy, LLC for the use of the system and receipt of the electric power generated by the system, commencing on May 1, 2012, and continuing for a period of 72 months thereafter. Effective upon the end of the term, the Agency has the right to purchase the system at its depreciated fair market value.

The property under capital lease is included in buildings and improvements at June 30, 2017 at a net book value of \$120,998, net of accumulated depreciation of \$750,185.

The future lease payments for this lease are as follows:

YEAR ENDING JUNE 30, <u>2018</u>	<u>AMOUNT</u>
TOTAL	<u>\$ 129,171</u>

7. LONG-TERM DEBT

A. Summary

The following is a summary of changes in long-term debt for the Successor Agency for the year ended June 30, 2017:

	<u>BALANCE JULY 1, 2016</u>	<u>ADDITIONS</u>	<u>RETIRE- MENTS/ AMORTI- ZATION</u>	<u>BALANCE JUNE 30, 2017</u>	<u>AMOUNTS DUE WITHIN ONE YEAR</u>
Tax Allocation Bond, Issue of:					
2014A	\$146,220,000	-	-	\$146,220,000	
2014A Bond Premium	9,596,089	-	\$(340,386)	9,255,703	\$ 340,386
Tax Allocation Bond, Issue of:					
2014B	93,650,000	-	-	93,650,000	
2014B Bond Discount	(1,068,722)	-	66,037	(1,002,685)	(66,037)
SBCERA withdrawal liability	3,204,385	-	-	3,204,385	3,204,385
TOTALS	<u>\$251,601,752</u>	<u>\$ -</u>	<u>\$(274,349)</u>	<u>\$251,327,403</u>	<u>\$3,478,734</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

B. Successor Agency to the Inland Valley Development Agency Tax Allocation Refunding Bonds, Series 2014A (\$146,220,000) and Series 2014B (\$93,650,000) (2014 Bonds)

The Successor Agency issued Tax Allocation Bonds, Series 2014A and Series 2014B on May 15, 2014 in the amount of \$239,870,000. The Bonds were issued to refund and defease the Tax Allocation Bonds, Series 2011A, Series 2011B, and Series 2011C, and the CMB Investment Groups B and I-V promissory notes. In addition, bond proceeds were used to fund a debt service reserve account and to pay the costs of issuance of the 2014 Bonds. The 2014 Bonds are secured by and payable from the Successor Agency's tax revenues, which consist of all monies deposited from time to time in the Redevelopment Property Tax Trust Fund.

The 2014 Bonds are subject to optional redemption and mandatory sinking account redemption prior to their stated maturity.

The net proceeds of the 2014 bonds were \$248,871,000 with a net premium of \$9,111,391. The net proceeds were placed in an escrow account to advance refund the Tax Allocation Bonds, Series 2011A, Series 2011B, and Series 2011C, and the CMB Investment Groups B and I-V promissory notes, along with other sources of funds in the amount of \$33,370,960. The debt service payments for the new bonds will exceed the debt service payments for the old bonds by \$76,411,440, and will result in an economic loss of \$72,057,623, using effective rates ranging from 4.5% to 5.5%.

The proceeds from the refunding issue were placed in escrow accounts to pay the future debt service on the bonds being refunded. As a result, refunded bonds are considered to be defeased and the liability has been removed from the statement of fiduciary net position.

The net carrying amount of the Series 2011A bonds exceeded its reacquisition price by \$1,253,278. The reacquisition price of the rest of the refunded bonds and promissory notes exceeded the net carrying amount by \$3,826,170. The amounts are reported as a deferred inflow and a deferred outflow of resources in the statement of fiduciary net position and amortized over the life of the new debt issued.

NOTES TO FINANCIAL STATEMENTS (Continued)

2014 Series A Bonds

The 2014A Bonds were issued in the aggregate principal amount of \$146,220,000 and will mature and be payable through September 1, 2044. The 2014A Bonds consist of \$48,925,000 term bonds maturing on September 1, 2037 bearing interest at 5.25% and \$97,295,000 term bonds maturing on September 1, 2044 bearing interest at 5.00%. The 2014A term bonds are subject to mandatory sinking fund redemption prior to maturity beginning March 1, 2033 equal to the sum of the principal amount plus accrued interest to the redemption date. Interest on the 2014A Bonds is payable on September 1, 2014 and semi-annually thereafter on each March 1 and September 1.

The 2014A Bonds were issued at a premium of \$10,320,691.

Debt service requirements on these bonds are as follows:

YEARS ENDING JUNE 30,	PRINCIPAL	INTEREST	TOTAL
2018	-	\$ 7,433,313	\$ 7,433,313
2019	-	7,433,313	7,433,313
2020	-	7,433,313	7,433,313
2021	-	7,433,313	7,433,313
2022	-	7,433,313	7,433,313
2023-2027	-	37,166,565	37,166,565
2028-2032	-	37,166,565	37,166,565
2033-2037	\$ 43,185,000	33,079,569	76,264,569
2038-2042	64,370,000	18,852,300	83,222,300
2043-2045	38,665,000	2,947,625	41,612,625
TOTALS	\$ 146,220,000	\$ 166,379,189	\$ 312,599,189

NOTES TO FINANCIAL STATEMENTS (Continued)

2014 Series B Bonds

The 2014B Bonds were issued in the aggregate principal amount of \$93,650,000 and will mature and be payable through March 1, 2033. The 2014B Bonds consist of \$33,185,000 Serial Bonds maturing beginning on September 1, 2018 through September 1, 2024 bearing interest from 2.745% to 4.532% and \$60,465,000 Term Bonds maturing on March 1, 2033 bearing interest at 5.50%. The 2014B term bonds are subject to mandatory sinking fund redemption prior to maturity beginning March 1, 2025 at a redemption price equal to the sum of the principal amount plus accrued interest to the redemption date. Interest on the 2014B Bonds is payable on September 1, 2014 and semi-annually thereafter on each March 1 and September 1.

The 2014B Bonds were issued at a discount of \$1,209,300.

Debt service requirements on these bonds are as follows:

YEARS ENDING JUNE 30,	PRINCIPAL	INTEREST	TOTAL
2018	-	\$ 4,629,847	\$ 4,629,847
2019	\$ 4,610,000	4,598,417	9,208,417
2020	4,750,000	4,461,042	9,211,042
2021	4,925,000	4,291,084	9,216,084
2022	5,115,000	4,095,845	9,210,845
2023-2027	29,335,000	16,732,137	46,067,137
2028-2032	38,200,000	7,859,501	46,059,501
2033	6,715,000	247,775	6,962,775
TOTALS	<u>\$ 93,650,000</u>	<u>\$ 46,915,648</u>	<u>\$ 140,565,648</u>

C. Interest Expense

Total interest expense incurred for the Successor Agency for the year ended June 30, 2017 was \$12,084,701.

NOTES TO FINANCIAL STATEMENTS (Continued)

8. FEDERAL AGENCY CAPITAL GRANTS

The Agency was awarded, in 2010-2011, a grant totaling \$3,264,000 from the United States Department of Commerce Economic Development Administration to convert the former Air Force Base Defense Finance & Accounting Service (DFAS) Building 2 into commercial and light industrial use. Grant funds may also be used for related administrative and legal expenses, architectural and engineering fees, inspection fees, and contingencies. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied. Grant proceeds of \$1,158,028 were recognized as contributions for the year ended June 30, 2017. At June 30, 2017, the Agency has \$495,187 in grant receivable and the amount available future use was \$331,199.

Federal grants are subject to review and audit by grantor agencies. Such audits could lead to requests for reimbursement to the grantor agency for any expenditure disallowed under the terms of the grant. The amount, if any, of expenditures which may be disallowed cannot be determined at this time, although based on prior experience, Agency management believes such disallowances, if any, will not be material.

9. RELATED-PARTY TRANSACTIONS

A. Operating Expenses

The Agency shares certain common expenses with SBIAA, a related party, by virtue of common control. These expenses, which include salaries, benefits, services, and supplies, are appropriately allocated between the two government agencies. The Agency's allocable share of the expenses paid by SBIAA are reported as due to other government agencies and SBIAA's allocable share of the expenses paid by the Agency are reported as due from other government agencies and are essentially short-term advances of working capital. The advances are noninterest bearing and due on demand. The net amount due from SBIAA for operating expenses at June 30, 2017 was \$2,580,475.

B. Loans

The Agency has one loan to SBIAA in the amount of \$2,356,264. The terms of the loans are described in Note 4.

C. Real Estate Transactions

The Agency is working with the San Manuel Band of Mission Indians on several real estate transactions. One of the Agency council members also has significant influence as a leading member of the San Manuel Band of Mission Indians and, as such, excuses himself from items relating to these transactions.

NOTES TO FINANCIAL STATEMENTS (Continued)

10. INTERFUND TRANSACTIONS

During the year ended June 30, 2017, the Water and Sewer Fund transferred operating allowances of \$100,000 to the General Fund. The following is a summary of interfund transfers for the year ended June 30, 2017:

	GENERAL FUND TRANSFERS IN (OUT)	WATER AND SEWER TRANSFERS IN (OUT)	SUCCESSOR AGENCY TRANSFERS IN (OUT)	TOTAL
Transfers of operating allowances	\$ 100,000	\$ (100,000)	-	-
TOTALS	<u>\$ 100,000</u>	<u>\$ (100,000)</u>	<u>\$ -</u>	<u>\$ -</u>

11. SBCERA WITHDRAWAL LIABILITY

On June 29, 2012, the Agency withdrew from participation in the County of San Bernardino's (County) retirement system and the San Bernardino County Employees' Retirement Association (SBCERA). SBCERA is a cost-sharing multiple-employer defined benefit pension plan (Plan) operating under the California County Employees' Retirement Act of 1937 (1937 Act) that covered the Agency's employees. Upon withdrawal from the Plan, the Agency assumed an unfunded liability of \$8,010,980. The total unfunded liability was transferred to the Successor Agency as of June 30, 2012 and is included on the statement of net position as advances from other government agencies. Management intends to pay the unfunded liability over a five-year period beginning with the year ended June 30, 2014 using property tax increment revenue expected to be realized through the recognized obligation payment schedule (ROPS) process.

For the 2016-17 ROPS, the Department of Finance (DOF) denied funding of the payment to SBCERA. As a result, the Successor Agency was unable to pay the installment due on August 1, 2016. SBCERA served a notice of default for the \$801,098 installment payment due on August 1, 2016. The Court issued a ruling dated May 16, 2017, which held that DOF was estopped from denying the enforceability of the payments to SBCERA. As a result of such ruling, the Successor Agency will be able to obtain the payments due under the SBCERA Settlement Agreement through the ROPS process.

Refer to Note 13 for additional information on ongoing litigation regarding this matter.

NOTES TO FINANCIAL STATEMENTS (Continued)

12. COMMITMENT TO SBIAA AIRPORT OPERATIONS

The Agency and SBIAA entered into a written agreement dated January 19, 2011 entitled "Military Base Reuse and Airport Financing Agreement" (Financing Agreement). Pursuant to the Financing Agreement, the Agency pledged tax increment revenues to SBIAA to be utilized for "Airport Related Improvements" and "Other SBIAA Contractual Obligations" as defined in the Financing Agreement. Commencing with the January 1, 2012 ROPS and continuing through the January 1, 2016 ROPS, the Successor Agency submitted funding under the Financing Agreement as an enforceable obligation and, subject to some reclassification of the amounts requested, received approval from DOF for payments to SBIAA.

On the 2016-2017 ROPS, the Successor Agency requested a payment in the amount of \$5,587,738 under the Financing Agreement for Airport Operations. Despite having previously approved the Financing Agreement as an enforceable obligation under multiple prior ROPS, the DOF initially determined the requested amount was not an enforceable obligation. Following the DOF's denial, IVDA made a timely request for meet and confer and, on April 28, 2016, met with the DOF on the matter. The DOF issued a letter dated May 17, 2016 to the Successor Agency determining that the Financing Agreement was an enforceable obligation but reducing the payment to zero, claiming it did not receive adequate documentation. IVDA again provided documentation for the payment to SBIAA under the Financing Agreement, including the same documentation that had been acceptable to DOF on prior ROPS, but DOF refused to fund the obligation to SBIAA.

On the 2017-18 ROPS, the Successor Agency requested an annual payment of \$23,777,672 to SBIAA for Airport Operations under the Financing Agreement. The DOF disallowed the ROPS items related to this payment in May 2017.

13. LITIGATION

In June 2016, the Successor Agency filed a petition for writ of mandate against Michael Cohen, in his official capacity as Director of State of California Department of Finance (DOF) in the Superior Court of California, County of Sacramento. The petition challenged the DOF's denial of the following obligations submitted by the Successor Agency on the ROPS 2016-2017 period.

In June 2017, the Successor Agency filed a second petition for writ of mandate against Michael Cohen, in his official capacity as Director of State of California Department of Finance (DOF) in the Superior Court of California, County of Sacramento. The petition challenged the DOF's continued denial of the obligations to SBCERA and SBIAA submitted by the Successor Agency on the ROPS 2017-2018 period.

NOTES TO FINANCIAL STATEMENTS (Continued)

A. **SBCERA Obligation**

Refer to Note 11 SBCERA Withdrawal Liability.

The Successor Agency, DOF, and SBCERA are currently in the process of negotiating a settlement agreement that will provide for the full payment of \$3,204,392 due SBCERA under the Settlement Agreement in a single payment rather than four (4) separate payments of \$801,098 each as provide under the Settlement Agreement. SBCERA is participating in such negotiations and has not taken any further adversarial action against the Successor Agency during court action filed by the Successor Agency; however, until the settlement agreement is finalized SBCERA retains the right to both accelerate the full outstanding balance under the settlement agreement and file an action to collect such amounts.

B. **Payment to SBIAA for Airport Operation**

Refer to Note 12 Commitments.

The Successor Agency filed the Petition challenging the DOF's reduction of the requested payment under the Financing Agreement on the 2016-2017 ROPS to zero. The Court issued a ruling dated May 16, 2017 and ordered the DOF to "...engage in a meaningful meet and confer effort concerning the amount request in the IVDAs 2016-2017 ROPS for Airport Operations."

C. **Shortfall Funding**

On the 2016-17 ROPS, the Successor Agency submitted a request for \$758,201 relating to a shortfall in funds received under a prior ROPS schedule. Under the prior ROPS period the DOF approved enforceable obligations in the total amount of \$9,995,818 but reduced the actual amount funded based upon an assertion that the Successor Agency had other available funds to pay a portion of the enforceable obligations. The DOF denied payment for the shortfall in funds despite the Successor Agency providing supporting documentation detailing the approved funding on the prior ROPS, documentation of actual Successor Agency funds available, and the erroneous reduction in funds made by the DOF. The petition challenged the DOF's denial of the short funding. The Court in its ruling dated May 16, 2017 ruled against the Successor Agency on this matter.

NOTES TO FINANCIAL STATEMENTS (Continued)

14. RPTTF APPORTIONMENT

The Agency prepared a reconciliation of RPTTF receipts from the County of San Bernardino and payments made by the Successor Agency for enforceable obligations from inception of the Successor Agency on January 31, 2012 through June 30, 2017. As a result of the study, the Successor Agency is seeking to be reimbursed approximately \$3 million in approved enforceable obligations paid by the Successor Agency in excess of amounts received from the County of San Bernardino in addition to ROPS items under litigation as described in Note 13.

**Required Supplementary
Information**

**INLAND VALLEY DEVELOPMENT AGENCY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET</u>
REVENUES				
Interest income	\$ 25,000	\$ 25,000	\$ 157,465	\$ 132,465
Lease income	1,750,831	1,750,831	1,659,793	(91,038)
Intergovernmental grants	2,468,899	2,468,899	1,158,028	(1,310,871)
Charges for services	7,635,970	7,635,970	340,865	(7,295,105)
Contributions and other income	<u>5,500</u>	<u>5,500</u>	<u>35,567</u>	<u>30,067</u>
Total Revenues	<u>11,886,200</u>	<u>11,886,200</u>	<u>3,351,718</u>	<u>(8,534,482)</u>
EXPENDITURES				
General and administrative costs	1,919,164	1,919,164	703,919	(1,215,245)
Professional services	330,000	330,000	180,264	(149,736)
Planning, survey, and design	1,050,500	1,050,500	310,302	(740,198)
Operation of acquired property	852,200	852,200	580,427	(271,773)
Project improvement costs	15,547,000	15,547,000	309,658	(15,237,342)
Capital outlay	7,225,000	7,225,000	3,356,054	(3,868,946)
Debt Service				
Principal	158,040	158,040	149,096	(8,944)
Interest and fees	<u>-</u>	<u>-</u>	<u>8,944</u>	<u>8,944</u>
Total Expenditures	<u>27,081,904</u>	<u>27,081,904</u>	<u>5,598,664</u>	<u>(21,483,240)</u>
OTHER FINANCING SOURCES (USES)				
Land sales	1,175,000	1,175,000	2,285,081	1,110,081
Transfers of operating allowances	<u>4,051,000</u>	<u>4,051,000</u>	<u>100,000</u>	<u>(3,951,000)</u>
Total Other Financing Sources (Uses)	<u>5,226,000</u>	<u>5,226,000</u>	<u>2,385,081</u>	<u>(2,840,919)</u>
NET CHANGE IN FUND BALANCE	<u>\$(9,969,704)</u>	<u>\$(9,969,704)</u>	138,135	<u>\$10,107,839</u>
FUND BALANCE, BEGINNING OF YEAR			<u>25,480,331</u>	
FUND BALANCE, END OF YEAR			<u>\$25,618,466</u>	

INLAND VALLEY DEVELOPMENT AGENCY
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017

BUDGETARY INFORMATION

The Board of Directors adopts an annual budget, submitted by the Executive Director prior to June 30. The appropriated budget is prepared by fund, function, and department. All annual appropriations lapse at the end of the fiscal year. The Board of Directors has the legal authority to amend the budget at any time during the fiscal year. The annual budget is prepared on a basis consistent with generally accepted accounting principles and is adopted for all governmental funds.