

**SAN BERNARDINO COUNTY  
FINANCING AUTHORITY  
(A COMPONENT UNIT OF THE COUNTY OF SAN BERNARDINO, CALIFORNIA)**

**INDEPENDENT AUDITORS' REPORTS AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2015**

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**SAN BERNARDINO COUNTY FINANCING AUTHORITY  
(A COMPONENT UNIT OF THE COUNTY OF SAN BERNARDINO, CALIFORNIA)**

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## INDEPENDENT AUDITORS' REPORT

Board of Directors and Audit Committee  
San Bernardino County Financing Authority  
San Bernardino, California

### Report on the Financial Statements

We have audited the accompanying financial statements of each major fund of the San Bernardino County Financing Authority (the "Authority"), a component unit of the County of San Bernardino, California, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

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

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

### *Auditors' Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority'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 Authority'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 each major fund of the San Bernardino County Financing Authority as of June 30, 2015, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Required Supplementary Information***

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The supplementary information as identified on those pages listed in the table of contents (supplementary information) is presented for purposes of additional analysis and are not required part of the basic financial statements.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2015, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

*Vavrinik, Trine, Day & Co. LLP*

Rancho Cucamonga, California  
October 15, 2015

**SAN BERNARDINO COUNTY FINANCING AUTHORITY  
STATEMENT OF NET POSITION  
JUNE 30, 2015**

	Pension Obligation	Courthouse Project	Combined
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 3,768	\$ 1,414,573	\$ 1,418,341
Cash-restricted	-	436,416	436,416
Interest receivable	-	14	14
Total current assets	3,768	1,851,003	1,854,771
Noncurrent assets			
Investments - restricted	353,326,581	-	353,326,581
Total noncurrent assets	353,326,581	-	353,326,581
Total assets	353,330,349	1,851,003	355,181,352
<b>LIABILITIES</b>			
Current liabilities			
Interest payable	-	70,932	70,932
Current portion of bonds	55,720,000	830,000	56,550,000
Current portion of bond discount	(23,884,745)	-	(23,884,745)
Total current liabilities	31,835,255	900,932	32,736,187
Noncurrent liabilities			
Bonds (net of current portion)	393,350,000	14,705,000	408,055,000
Bond discount	(70,041,368)	-	(70,041,368)
Total noncurrent liabilities	323,308,632	14,705,000	338,013,632
Total liabilities	355,143,887	15,605,932	370,749,819
<b>NET POSITION:</b>			
Unrestricted	(1,813,538)	(13,754,929)	(15,568,467)
<b>TOTAL NET POSITION:</b>	\$ (1,813,538)	\$ (13,754,929)	\$ (15,568,467)

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

**SAN BERNARDINO COUNTY FINANCING AUTHORITY  
STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2015**

	Pension Obligation	Courthouse Project	Combined
<b>NONOPERATING REVENUES</b>			
Interest and dividends	\$ 282,229	\$ 219	\$ 282,448
Accretion of interest income	26,162,469	-	26,162,469
Surcharge revenue	-	1,671,569	1,671,569
	<u>26,444,698</u>	<u>1,671,788</u>	<u>28,116,486</u>
<b>NONOPERATING EXPENSES</b>			
Interest	-	881,439	881,439
Accretion of interest expense	26,162,469	-	26,162,469
Other expenses	110	1,700	1,810
	<u>26,162,579</u>	<u>883,139</u>	<u>27,045,718</u>
Changes in net position	282,119	788,649	1,070,768
<b>Net position - Beginning of year</b>	<u>(2,095,657)</u>	<u>(14,543,578)</u>	<u>(16,639,235)</u>
<b>Net position - End of year</b>	<u>\$ (1,813,538)</u>	<u>\$ (13,754,929)</u>	<u>\$ (15,568,467)</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

**SAN BERNARDINO COUNTY FINANCING AUTHORITY  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2015**

	Pension Obligation	Courthouse Project	Combined
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Principal payments on bonds	\$ (53,120,000)	\$ (925,000)	\$ (54,045,000)
Interest paid on bonds	-	(885,552)	(885,552)
Surcharges received	-	1,671,569	1,671,569
Net cash flows provided by or (used) for noncapital financing activities	<u>(53,120,000)</u>	<u>(138,983)</u>	<u>(53,258,983)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investment income	110	219	329
Proceeds from sales of investments	53,120,000	-	53,120,000
Other expenses	<u>(110)</u>	<u>(1,700)</u>	<u>(1,810)</u>
Net cash flows provided by or (used) for investing activities	<u>53,120,000</u>	<u>(1,481)</u>	<u>53,118,519</u>
Increase (Decrease) in cash and cash equivalents	-	(140,464)	(140,464)
<b>Cash and cash equivalents - Beginning of year</b>	<u>3,768</u>	<u>1,991,453</u>	<u>1,995,221</u>
<b>Cash and cash equivalents - End of year</b>	<u>\$ 3,768</u>	<u>\$ 1,850,989</u>	<u>\$ 1,854,757</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

**SAN BERNARDINO COUNTY FINANCING AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 1: DESCRIPTION OF THE AUTHORITY AND ACCOUNTING POLICIES**

The San Bernardino County Financing Authority (the "Authority") was created pursuant to a Joint Exercise of Powers Agreement (the "Agreement") dated May 16, 1966 as amended on July 1, 1982, and May 1, 1983, as amended and restated on March 27, 1989, and as amended on February 15, 1994 and between the County of San Bernardino (the "County") and the San Bernardino County Flood Control District (the "District"). The 1994 amendment changed the name of the Authority from San Bernardino Building Authority to San Bernardino County Financing Authority to better reflect the broad purposes of the Authority. The County's Board of Directors serves as the Board of Authority.

The Agreement authorizes the Authority to provide financing for public capital improvements for the County, to acquire such public capital improvements, and to purchase certain underlying obligations issued by or on behalf of the County. Obligations may be in the form of assessment district bonds, community facilities district bonds, general obligation bonds, limited obligation bonds, revenue bonds, notes, lease-purchase agreements and other evidence of indebtedness. The financial position and results of operations of the services provided are reflected in the funds of the joint powers authority. The Authority is deemed to be a component unit of the County, although legally separate. The governing board of the Authority is the same as the County.

All activities of the Authority are presented as proprietary funds. The Authority's financial statements are presented on the accrual basis of accounting. Under this method, income is recognized when earned and expenses recorded when incurred. The Authority provides services entirely to the County. All accounts and records of the Authority's projects are held by trustee banks.

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. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

The Authority records all investments that are not actively traded in the securities market at cost or amortized cost. The Authority treats all investments with original maturities of three months or less as cash equivalents. The Authority has investments in Capital Appreciation Bonds, which are also called "zero-coupon" or "deep-discount" bonds. These investments, which are purchased at their issue price, are deeply discounted from the face value, have no regular interest payments and are payable at maturity at their face value. Since the Capital Appreciation Bonds are not actively traded in the securities market, the Authority records all investments in Capital Appreciation Bonds at the accreted value. The accreted value as of the calculation date of a capital appreciation bond is the sum of the total of principal and interest payable per the bond indenture. The Authority records the increase in the value of the investments each year as accretion of interest income.

**SAN BERNARDINO COUNTY FINANCING AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 1: DESCRIPTION OF THE AUTHORITY AND ACCOUNTING POLICIES**  
*(Continued)*

The Authority has deep-discounts associated with the bond issues. The deep-discount is being amortized based on the accreted value of the bonds at year-end. The Authority records the amortization of deep-discount as accretion of interest expense.

In accordance with generally accepted governmental accounting standards, a statement of net position, a statement of revenues, expenses, and changes in net position, and a statement of cash flows are presented. Net position can be classified into restricted and unrestricted. These classifications are defined as follows:

*Restricted* – This component of net position consists of constraints placed on net resources 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.

*Unrestricted* – This component of net position consists of net resources that do not meet the definition of “restricted” or “net investment in capital assets.”

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

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**NOTE 2: CASH AND INVESTMENTS**

Fiscal agents acting on behalf of the Authority hold all cash and investments from long-term debt issuances and Courthouse Surcharges. In accordance with the terms of the trust agreements, cash and investments are segregated and restricted for specified purposes. The trustee banks for the Authority are as follows:

<b>Bond Issue</b>	<b>Trustee</b>
1995 Pension Obligation Bonds	The Bank of New York Mellon Trust Company
2007 Courthouse Revenue Bonds	Wells Fargo Bank

**SAN BERNARDINO COUNTY FINANCING AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 2: CASH AND INVESTMENTS (continued)**

**Investments Authorized by Debt Agreements**

Investments of debt proceeds held by bond trustees are governed by provisions of the debt agreements. The Authority 1995 Pension Obligation Revenue Bonds currently outstanding were issued for the purpose of acquiring the San Bernardino County 1995 Pension Obligation Refunding Bonds and the South Coast Air Quality Management District 1995 Pension Obligation Refunding Bonds. The Courthouse Project Bonds currently outstanding were issued to provide funds to the County of San Bernardino to renovate courthouse facilities located within the County of San Bernardino. In addition to these local bonds, the debt agreements specify permitted investment types along with any related insurance, collateral, or minimum credit rating requirements. The 1995 Pension Obligation Revenue Bonds investments in money market funds are required to have a rating of A or better. The Courthouse Project Bonds investments in money market funds are required to have the highest letter and numerical rating. The Authority's 1995 Pension Obligation Revenue Bonds and the Courthouse Project Bonds met these requirements as of June 30, 2015.

**Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In general, the longer the maturity of an investment, the more sensitive its fair value is to changes in market interest rates. The Authority has managed its exposure to interest rate risk by purchasing investments with maturity dates and amounts that generally coincide with the Authority's debt service requirements. As a component unit of the County of San Bernardino, which uses weighted average maturity to monitor its interest rate risk, the Authority has elected weighted average maturity for its disclosure method.

As of June 30, 2015, the Authority's cash and cash equivalents and investments were as follows:

Description	Maturity	Fair Value	Weighted Average Maturity (Years)
Municipal Bonds	8/1/2015- 8/1/2021	\$ 353,326,581	3.259
Money Market Mutual Funds	N/A	1,854,757	N/A
Total Cash and Investments		<u>\$ 355,181,338</u>	

**SAN BERNARDINO COUNTY FINANCING AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 2: CASH AND INVESTMENTS (continued)**

**Concentration of Credit Risk**

The bond agreements place no limits on the amounts the Authority may invest in any one issuer. Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer. Investments in any one issuer that represent 5 percent or more of total investments are shown below:

Investment Type	Issuer	Fair Value
Municipal Bonds	County of San Bernardino	\$ 336,445,868
Municipal Bonds	South Coast Air Quality Management District	16,880,713
		<u>\$ 353,326,581</u>

**Credit Risk**

The Authority's investments in municipal bonds are not rated. The Authority's investments in money market funds were rated Aaa-mf by Moody's Investors Service.

**Investments**

Investments consist of Pension Obligation Refunding Bonds issued by the County and the South Coast Air Quality Management District (the AQMD). Since these investments are not actively traded in the securities market, they have been reported at amortized cost. See Note 3 for more detailed information.

**Restricted Cash**

Restricted cash of \$436,416 is held by a trustee for a special mandatory redemption of the Courthouse revenue bonds to occur on December 1, 2015, pursuant to the Trust Indenture.

**NOTE 3: LONG-TERM DEBT**

**Pension Obligation Bonds**

On December 13, 1995 the Authority issued Serial Current Interest Authority Bonds in the amount of \$298,595,000 and Serial Capital Appreciation Authority Bonds in the amount of \$121,932,487 (collectively referred to as the "Authority Bonds"). The Authority Bonds were issued to provide funds to enable the Authority to purchase the San Bernardino County 1995 Pension Obligation Refunding Bonds (the "County Bonds") and the South Coast Air Quality Management District 1995 Pension Obligation Refunding Bonds (the "AQMD Bonds") which were issued by the County and AQMD respectively, to allow them to refinance each of their unfunded accrued actuarial liability with respect to retirement benefits for their respective employees.

**SAN BERNARDINO COUNTY FINANCING AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 3: LONG-TERM DEBT (*continued*)**

The repayment of the Authority Bonds is secured by a first lien on and pledge of all amounts payable by the County and AQMD on the County Bonds and the AQMD Bonds.

The Serial Current Interest Authority Bonds matured on August 1, 2011. Interest on the Capital Appreciation Authority Bonds compounds semi-annually at interest rates from 7.56 percent to 7.72 percent payable solely at maturity.

The Authority Bonds are not subject to redemption prior to maturity.

**Courthouse Revenue Bonds**

On June 29, 2007 the Authority issued Revenue Bonds, Series 2007 in the total amount of \$18,370,000, of which \$3,100,000 is subject to an interest rate of 5.10 percent and \$15,270,000 is subject to an interest rate of 5.50 percent payable semi-annually. The bonds were issued to finance the costs of seismic retrofitting, refurbishing, improving and renovating courthouse facilities located within San Bernardino County, fund a reserve fund for the bonds, and pay costs of issuance of the bonds.

The Revenue Bonds are special, limited obligations of the Authority payable solely from and secured by a first pledge of and exclusive lien on surcharge revenues consisting of a fee not to exceed thirty-five dollars charged on certain civil court filings made in Superior Courts located in San Bernardino County. On January 14, 2003, the collection of the surcharge was imposed by County Board Resolution No. 2003-19. However, only surcharge revenue received after June 29, 2007, has been pledged. The collection of surcharge revenue shall terminate upon final payment of the Revenue Bonds or 30 years from the sale of the Revenue Bonds, whichever occurs first.

The Authority recognizes pledged surcharge revenues when they are due from the County according to the financing agreement. The financing agreement indicates the revenues are due when the County receives the surcharge revenues from the State.

The debt service schedule for the current fiscal year required principal and interest payments totaling \$1,810,552. The total surcharged revenues received during the fiscal year totaled \$1,671,569. Total principal and interest remaining on the bonds is \$26,801,113 payable through June 2037.

The \$3,100,000 and \$15,270,000 term bonds maturing on June 1, 2017 and June 1, 2037, respectively, are subject to sinking fund installments and mandatory redemption prior to maturity beginning on June 1, 2009 and June 1, 2018, respectively.

**SAN BERNARDINO COUNTY FINANCING AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 3: LONG-TERM DEBT (Continued)**

The following is a summary of changes in the Bonds for the fiscal year ended June 30, 2015:

Description	July 1, 2014	Additions	Reductions	June 30, 2015	Due Within One Year
Pension Obligation					
Capital Appreciation Authority Bonds	\$ 502,190,000	\$ -	\$ 53,120,000	\$ 449,070,000	\$ 55,720,000
Bond Discount	(120,088,582)	-	(26,162,469)	(93,926,113)	(23,884,745)
Courthouse Revenue Bonds	16,460,000	-	925,000	15,535,000	830,000
Total	<u>\$ 398,561,418</u>	<u>\$ -</u>	<u>\$ 27,882,531</u>	<u>\$ 370,678,887</u>	<u>\$ 32,665,255</u>

The annual requirements to amortize all bonds outstanding at June 30, 2015, including interest payments of \$11,266,113, and unaccrued and accrued interest of \$367,966,816, over the life of the debt, are as follows:

Description	2016	2017	2018	2019	2020
Pension Obligation					
Capital Appreciation Authority Bonds	\$ 55,720,000	\$ 58,450,000	\$ 61,315,000	\$ 64,325,000	\$ 67,485,000
Courthouse Revenue Bonds	1,669,223	1,222,116	1,195,950	1,193,400	1,199,750
Total	<u>\$ 57,389,223</u>	<u>\$ 59,672,116</u>	<u>\$ 62,510,950</u>	<u>\$ 65,518,400</u>	<u>\$ 68,684,750</u>

Description	2021-2025	2026-2030	2031-2035	2036-2037	Total
Pension Obligation					
Capital Appreciation Authority Bonds	\$ 141,775,000	\$ -	\$ -	\$ -	\$ 449,070,000
Courthouse Revenue Bonds	5,982,302	5,985,924	5,964,024	2,388,424	26,801,113
Total	<u>\$ 147,757,302</u>	<u>\$ 5,985,924</u>	<u>\$ 5,964,024</u>	<u>\$ 2,388,424</u>	<u>\$ 475,871,113</u>

Supplemental schedules one and two provide each bond schedule of debt service.

**NOTE 4: BOND AGREEMENT/DEBT COVERAGE**

In accordance with the bond agreement, if on any Surcharge Revenue Measurement Date, the debt service coverage ratio for the immediately prior bond year is equal or greater than 1.5, the Trustee shall transfer excess surcharge revenues to the Improvement Fund to pay for costs of improvements or reimburse the County directly for these costs. If it is less than 1.5, the Trustee shall transfer any remaining amounts in the Debt Service Fund to the Redemption Account for a special mandatory redemption of bonds. If on the subsequent Surcharge Revenue Measurement Date, the coverage ratio is also less than 1.5, the Trustee shall transfer all remaining amounts in the Debt Service Fund and the Improvement Fund to the Redemption Account for a special mandatory redemption of bonds.

**SAN BERNARDINO COUNTY FINANCING AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 4: BOND AGREEMENT/DEBT COVERAGE (*Continued*)**

The coverage ratio for the immediately prior bond year was 1.3, thus the remaining amount of \$436,416 in the Debt Service Fund was transferred to the Redemption account for the special mandatory redemption of the bonds to occur on December 1, 2015, which is the next scheduled interest payment date.

**NOTE 5: NET POSITION/DEFICITS**

Net position is the residual of all other elements presented in a statement of financial position (assets, deferred outflows of resources, liabilities, and deferred inflows of resources).

***Pension obligation:*** The deficit was caused primarily by accumulative accretion of interest expense exceeding its related revenue. The deficit is projected to be reduced by future years' discount amortization.

***Courthouse project:*** The deficit was mainly caused by the fact that there are no "Capital Assets" to offset the long-term debt. The deficit will continue to be reduced with future years' surcharge revenues.

**NOTE 6: NEW PRONOUNCEMENTS**

**Effective in Current Fiscal Year**

**GASB Statement No. 69** – In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term *government combinations* include a variety of transactions referred to as mergers, acquisitions, and transfers of operations. The Statement is effective for periods beginning after December 15, 2013. This statement did not have an effect on the Authority's financial statements.

**Effective in Future Years**

**GASB Statement No. 72** – In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. The objective of the statement is to address accounting and financial reporting issues related to fair value measurements. The Statement is effective for periods beginning after June 15, 2015. The Authority has not determined the effect of this Statement.

**SAN BERNARDINO COUNTY FINANCING AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 6: NEW PRONOUNCEMENTS (*Continued*)**

**GASB Statement No. 76** – In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted accounting principles (GAAP). The Statement is effective for periods beginning after June 15, 2015. The Authority has not determined the effect of this Statement.

**GASB Statement No. 77** – In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*. The objective of this Statement is to provide financial statement users with essential information about the nature and magnitude of the reduction in tax revenues through tax abatement programs. The Statement is effective for periods beginning after December 15, 2015. The Authority has not determined the effect of this Statement.

**SAN BERNARDINO COUNTY FINANCING AUTHORITY  
SCHEDULE OF DEBT SERVICE  
FOR THE YEAR ENDED JUNE 30, 2015**

**PENSION OBLIGATION  
CAPITAL APPRECIATION AUTHORITY BONDS**

<b>Fiscal Year</b>	<b>Due August 1</b>		<b>Total</b>
	<b>Initial Principal</b>	<b>Accreted Interest</b>	
2015-16	12,736,478	42,983,522	55,720,000
2016-17	12,319,506	46,130,494	58,450,000
2017-18	11,958,878	49,356,122	61,315,000
2018-19	11,608,089	52,716,911	64,325,000
2019-20	11,265,271	56,219,729	67,485,000
2020-21	10,982,496	59,817,504	70,800,000
2021-22	10,232,466	60,742,534	70,975,000
<b>TOTALS</b>	<b>\$ 81,103,184</b>	<b>\$ 367,966,816</b>	<b>\$ 449,070,000</b>

**SCHEDULE TWO**

**SAN BERNARDINO COUNTY FINANCING AUTHORITY  
SCHEDULE OF DEBT SERVICE  
FOR THE YEAR ENDED JUNE 30, 2015**

**COURTHOUSE REVENUE BONDS**

<b>Fiscal Year</b>	<b>Due December 1</b>		<b>Due June 1</b>		<b>Total</b>
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>	
2015-16	435,000	425,593	395,000	413,630	1,669,223
2016-17		403,558	415,000	403,558	1,222,116
2017-18		392,975	410,000	392,975	1,195,950
2018-19		381,700	430,000	381,700	1,193,400
2019-20		369,875	460,000	369,875	1,199,750
2020-21		357,225	480,000	357,225	1,194,450
2021-22		344,025	510,000	344,025	1,198,050
2022-23		330,000	535,000	330,000	1,195,000
2023-24		315,288	570,000	315,288	1,200,576
2024-25		299,613	595,000	299,613	1,194,226
2025-26		283,250	630,000	283,250	1,196,500
2026-27		265,925	665,000	265,925	1,196,850
2027-28		247,637	705,000	247,637	1,200,274
2028-29		228,250	740,000	228,250	1,196,500
2029-30		207,900	780,000	207,900	1,195,800
2030-31		186,450	820,000	186,450	1,192,900
2031-32		163,900	860,000	163,900	1,187,800
2032-33		140,250	910,000	140,250	1,190,500
2033-34		115,225	965,000	115,225	1,195,450
2034-35		88,687	1,020,000	88,687	1,197,374
2035-36		60,637	1,075,000	60,637	1,196,274
2036-37		31,075	1,130,000	31,075	1,192,150
<b>TOTALS</b>	<b>\$ 435,000</b>	<b>\$ 5,639,038</b>	<b>\$ 15,100,000</b>	<b>\$ 5,627,075</b>	<b>\$ 26,801,113</b>



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

Board of Directors and Audit Committee  
San Bernardino County Financing 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 each major fund of the San Bernardino County Financing Authority (the "Authority"), a component unit of the County of San Bernardino, California as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 15, 2015. Our opinion included an emphasis-of-matter paragraph because of management's omission of management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 Authority's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control 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 Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Vavrinik, Trine, Day & Co. LLP*

Rancho Cucamonga, California

October 15, 2015