

**SAN BERNARDINO PUBLIC
SAFETY AUTHORITY**

**FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITORS' REPORT**

JUNE 30, 2011

SAN BERNARDINO PUBLIC SAFETY AUTHORITY

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EDEN C. CASARENO, C.P.A.
DEBORAH L. CROWLEY, C.P.A.
TODD C. LANDRY, C.P.A.



ADRIENNE J. LINDGREN, C.P.A.
JOHN F. PRENTICE, C.P.A.
DAVID M. THAYER, C.P.A.
FRANK M. ZABAleta, C.P.A.

*Certified Public Accountants
and
Business Advisors*

INDEPENDENT AUDITORS' REPORT

Governing Board
San Bernardino Public Safety Authority
San Bernardino, California

We have audited the accompanying financial statements of the governmental activities and governmental fund of San Bernardino Public Safety Authority, a component unit of the County of San Bernardino and City of San Bernardino, as of and for the year ended June 30, 2011, which collectively comprise the San Bernardino Public Safety Authority's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of San Bernardino Public Safety Authority's management. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and governmental fund of San Bernardino Public Safety Authority as of June 30, 2011, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the San Bernardino Public Safety Authority's financial statements as a whole. The schedule of certificates of participation is presented for purposes of additional analysis and is not a required part of the financial statements. The supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

October 19, 2011

Eadie and Payne LLP

SAN BERNARDINO PUBLIC SAFETY AUTHORITY
GOVERNMENTAL FUNDS BALANCE SHEET/STATEMENT OF NET ASSETS
 JUNE 30, 2011

	TOTAL GOVERNMENTAL FUNDS	ADJUSTMENTS (NOTE 3)	STATEMENT OF NET ASSETS
ASSETS			
Investments	\$ 3,560,901		\$ 3,560,901
Interest receivable	80,765		80,765
Installment interest receivable		\$ 275,653	275,653
Installment Payments Receivable			
Due within one year		2,510,000	2,510,000
Due after one year		14,795,000	14,795,000
Deferred issuance costs and discounts	<u>85,420</u>		<u>85,420</u>
TOTAL ASSETS	<u>\$ 3,727,086</u>	<u>17,580,653</u>	<u>21,307,739</u>
LIABILITIES			
Interest payable		356,417	356,417
Accrued liability		64,775	64,775
Certificates of Participation			
Portion due within one year		2,510,000	2,510,000
Portion due after one year		<u>14,795,000</u>	<u>14,795,000</u>
Total Liabilities	<u>-</u>	<u>17,726,192</u>	<u>17,726,192</u>
FUND BALANCES			
Restricted for debt service	<u>\$ 3,727,086</u>	<u>(3,727,086)</u>	<u>-</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 3,727,086</u>		
NET ASSETS			
Restricted for debt service		<u>3,581,547</u>	<u>3,581,547</u>
TOTAL NET ASSETS		<u>\$ -</u>	<u>\$ 3,581,547</u>

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

SAN BERNARDINO PUBLIC SAFETY AUTHORITY
STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES/STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

	<u>TOTAL GOVERNMENTAL FUNDS</u>	<u>ADJUSTMENTS (NOTE 3)</u>	<u>STATEMENT OF ACTIVITIES</u>
EXPENDITURES/EXPENSES			
Principal payments on debt	\$ 2,365,000	\$ (2,365,000)	-
Interest expense	1,000,244	(49,271)	\$ 950,973
Arbitrage expense	-	21,804	21,804
Total Expenditures/Expenses	<u>3,365,244</u>	<u>(2,392,467)</u>	<u>972,777</u>
REVENUES			
Installment payments	2,365,000	(2,365,000)	-
Installment interest	779,815	(49,271)	730,544
Investment earnings	193,743	-	193,743
Total Revenues	<u>3,338,558</u>	<u>(2,414,271)</u>	<u>924,287</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(26,686)	26,686	-
CHANGE IN NET ASSETS		(48,490)	(48,490)
FUND BALANCES/NET ASSETS			
BEGINNING OF THE YEAR	<u>3,753,772</u>	<u>(123,735)</u>	<u>3,630,037</u>
END OF THE YEAR	<u>\$ 3,727,086</u>	<u>\$ (145,539)</u>	<u>\$ 3,581,547</u>

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

SAN BERNARDINO PUBLIC SAFETY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. **Introduction**

San Bernardino Public Safety Authority (Authority) was created by a Joint Exercise of Powers Agreement between the City of San Bernardino (City) and the County of San Bernardino (County) dated April 1, 1968. The agreement was made pursuant to the provisions of Article 1, Chapter 5, Division 7, Title 1 of the Government Code of the State of California, specifically, Section 6506. The purpose of the Authority is to acquire sites for, construct, and lease public safety buildings and a sanitary sewage treatment plant. The agreement was subsequently amended to provide financing for other public safety facilities.

The governing board of the Authority is comprised of four members, two members each being appointed by the City Council of the City of San Bernardino and the Board of Supervisors of the County of San Bernardino. All members serve four-year terms at the pleasure of the respective appointing bodies and until their successors are appointed and qualified.

The Authority is a public entity and is exempt from federal and state income taxes.

The accounting and reporting framework and the more significant accounting policies and practices of the Authority are discussed in subsequent sections of this note. The other notes are organized to provide explanations, including required disclosures, of the Authority's financial activities for the fiscal year ended June 30, 2011.

B. **Government-Wide and Fund Financial Statements**

The government-wide financial statements include the statement of net assets and the statement of activities. These statements report financial information for the Authority as a whole. Fund financial statements are provided for governmental funds. The Authority has no fiduciary funds or component units. The financial statements have been presented in a format that includes the fund financial statements and the government-wide financial statements on the same statement with an adjustments column reflecting the differences. Explanations of items in the adjustments column are in Note 3.

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

The Authority's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Authority applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

NOTES TO FINANCIAL STATEMENTS (Continued)

The government-wide financial statements use 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.

The governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for certificates of participation principal and interest, which are reported as expenditures in the year due. The arbitrage expenditures are recognized when the obligations are expected to be liquidated with expendable available financial resources.

The 1998 Refunding Sewer Revenue Certificates of Participation are reported with the City of San Bernardino. All accounts and records of the Authority's projects are maintained by trustee banks.

The Authority records all investments held by trustee-fiscal agents at fair value.

D. Long-Term Debt

In the government-wide financial statements, outstanding debt is reported as a liability. Bond issuance costs, bond discounts or premiums, and the difference between the reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effective interest method.

The government fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period.

The Authority is dependent on the City continuing to make its installment purchase payments in order to pay its obligations.

E. Adoption of Accounting Policy

Effective July 1, 2010, the Authority adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement establishes criteria for classifying governmental fund balances into specifically defined classifications. Classifications are hierarchical and are based primarily on the extent to which the Authority is bound to honor constraints on the specific purposes for which amounts in the funds may be spent. Application of the Statement requires the Authority to classify and report amounts in the appropriate fund balance classifications. The Authority's accounting and finance policies are used to interpret the nature and/or requirements of the funds and their corresponding assignment of nonspendable, restricted, committed, assigned, or unassigned. As of June 30, 2011, the Authority's fund balance consisted of only restricted amounts.

NOTES TO FINANCIAL STATEMENTS (Continued)

2. CERTIFICATES OF PARTICIPATION

1998 Refunding Sewer Revenue Certificates of Participation

In 1998, the City entered into an installment purchase agreement with the Authority to construct improvements to the City's sewage facilities and to refund the "San Bernardino Public Safety Authority, City of San Bernardino Municipal Water Department 1992 Sewer Certificates of Participation," dated February 1, 1992. To accomplish this, the Authority issued certificates of participation in the amount of \$36,230,000. The proceeds of the 1998 Certificates were invested and were used to pay interest on the 1998 issue until February 1, 2001. At that time, the 1992 Certificates were called and funds from the 1998 issue were used to pay off the 1992 Certificates. The City began paying installment payments to the Authority from the net revenues of the sewer system in July 2001. The City has pledged that it will budget amounts sufficient to make all installment payments due under this agreement.

3. ADJUSTMENTS

The adjustments column on the governmental funds balance sheet/statement of net assets and the statement of governmental fund revenues, expenditures, and changes in fund balances/statement of activities identify reconciling items between the fund financial statements and the government-wide financial statements. Explanations for the reconciling items are described below:

	<u>AMOUNT</u>
Governmental Funds Balance Sheet/Statement of Net Assets	
Interest on installment payments receivable will be used to pay interest on long-term debt. Therefore, accrued interest on installment payments is not reported in the funds.	\$ 275,653
Installment payments receivable are not due in the current period and, therefore, are not reported in the funds.	17,305,000
Interest payable on certificates of participation is recognized when due in the funds.	356,417
The accrued liability for arbitrage rebate is not due and payable in the current period and, therefore, is not reported in the funds.	64,775
Certificates of participation are not due and payable in the current period and, therefore, are not reported in the funds.	17,305,000

NOTES TO FINANCIAL STATEMENTS (Continued)

	<u>AMOUNT</u>
Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balances/Statement of Activities	
Repayment of principal on debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	\$ 2,365,000
Interest expense is not accrued in the governmental fund financial statements. This is the amount of the change in accrued interest.	49,271
Arbitrage rebate expense is recognized when incurred in the statement of activities, but is not reported in the funds until due and payable from current financial resources.	21,804
Installment payment revenue is recognized as the long-term liabilities in the statement of net assets are paid down.	2,365,000
Installment interest is not accrued in the governmental fund financial statements. This is the amount of the change in accrued interest	49,271

4. INVESTMENTS

As of June 30, 2011, the Authority had the following investments:

TYPE	<u>MATURITIES</u>	<u>MARKET VALUE</u>
City Portion		
Westdeutsche Landesbank Girozentrale Investment Agreement dated 8/18/1998	2/1/2017	\$ 3,473,750
First American Treasury Obligation Fund		<u>87,151</u>
TOTAL		<u><u>\$ 3,560,901</u></u>

A. Interest Rate Risk

The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

B. Concentration of Credit Risk

The Authority places no limit on the amount it may invest in any one issuer. The Authority's investments in Westdeutsche Landesbank Girozentrale corporate bonds represent 98% of the Authority's total investments.

NOTES TO FINANCIAL STATEMENTS (Continued)

C. Investments

The Authority has an investment with Westdeutsche Landesbank Girozentrale, known as WestLB, which in August 2002, split into two units - a state controlled holding company (Landesbank NRW), which serves savings banks and mid-sized companies, and a privately held subsidiary (WestLB AG), which handles international commercial banking.

These entities received ratings as of June 30, 2011 as follows:

	<u>LANDESBANK NRW</u>	<u>WESTLB AG</u>
Fitch Ratings	AAA	AAA
Moody's	Aa1	Aa1
Standard & Poor's	AA-	

Westdeutsche Landesbank Girozentrale is a foreign regional bank with headquarters in Germany, and its securities are not publicly traded in the United States of America.

5. LONG-TERM DEBT

Long-term debt consisted of City of San Bernardino Municipal Water Department 1998 Refunding Sewer Revenue Certificates of Participation. The interest rates on the remaining certificates range from 4.75% to 5.25%. The following is a summary of changes in long-term debt for the year ended June 30, 2011:

	<u>AMOUNT</u>
Balance, July 1, 2010	\$ 19,670,000
Retirements	<u>(2,365,000)</u>
BALANCE, JUNE 30, 2011	<u>\$ 17,305,000</u>

The annual debt service requirements to maturity, including principal and interest, for long-term debt as of June 30, 2011 are as follows:

<u>YEARS ENDING</u> <u>JUNE 30,</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2012	\$ 2,510,000	\$ 855,400	\$ 3,365,400
2013	2,650,000	736,176	3,386,176
2014	2,805,000	607,650	3,412,650
2015	2,965,000	474,412	3,439,412
2016	3,155,000	318,750	3,473,750
2017	<u>3,220,000</u>	<u>161,000</u>	<u>3,381,000</u>
TOTALS	<u>\$ 17,305,000</u>	<u>\$ 3,153,388</u>	<u>\$ 20,458,388</u>

SAN BERNARDINO PUBLIC SAFETY AUTHORITY
 SCHEDULE OF CERTIFICATES OF PARTICIPATION - 1998 REFUNDING SEWER
 REVENUE CERTIFICATES OF PARTICIPATION
 JUNE 30, 2011

<u>DATE DUE</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>	<u>INTEREST RATE</u>
8/1/2011		\$ 427,700	\$ 427,700	4.75 %
2/1/2012	\$ 2,510,000	427,700	2,937,700	4.75
8/1/2012		368,088	368,088	4.85
2/1/2013	2,650,000	368,088	3,018,088	4.85
8/1/2013		303,825	303,825	4.75
2/1/2014	2,805,000	303,825	3,108,825	4.75
8/1/2014		237,206	237,206	5.25
2/1/2015	2,965,000	237,206	3,202,206	5.25
8/1/2015		159,375	159,375	5.00
2/1/2016	3,155,000	159,375	3,314,375	5.00
8/1/2016		80,500	80,500	5.00
2/1/2017	3,220,000	80,500	3,300,500	5.00
TOTALS	<u>\$ 17,305,000</u>	<u>\$ 3,153,388</u>	<u>\$ 20,458,388</u>	