

**INLAND EMPIRE
PUBLIC FACILITIES CORPORATION
(A COMPONENT UNIT OF THE COUNTY OF SAN BERNARDINO, CALIFORNIA)**

INDEPENDENT AUDITORS' REPORTS AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

**INLAND EMPIRE PUBLIC FACILITIES CORPORATION
(A COMPONENT UNIT OF THE COUNTY OF SAN BERNARDINO, CALIFORNIA)**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Inland Empire Public Facilities Corporation
San Bernardino, California

We have audited the accompanying financial statements of each major fund of the Inland Empire Public Facilities Corporation (the "Corporation"), a component unit of the County of San Bernardino, California, as of and for the year ended June 30, 2012, which collectively comprise the Corporation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Inland Empire Public Facilities Corporation'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 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 provide a reasonable basis for our 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 Inland Empire Public Facilities Corporation as of June 30, 2012, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2012, on our consideration of the Corporation'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 controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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.

Management has omitted 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.

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

Vawrenick, Tami, Day, Co., LLP

Rancho Cucamonga, California
November 5, 2012

INLAND EMPIRE PUBLIC FACILITIES CORPORATION
STATEMENT OF NET ASSETS
JUNE 30, 2012

EXHIBIT A

	Construction and Improvement Project	West Valley Detention Center Project	Medical Center Project
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 5,811,100	\$ -	\$ 3,263
Restricted cash and cash equivalents	6,581,384	-	24,906,472
Interest receivable	81	-	271,255
Receivable from County	-	-	699,186
Current portion of gross lease payments receivable	6,581,000	-	42,988,701
Current portion of unearned lease interest income	(2,139,897)	-	(30,181,654)
Total Current Assets	<u>16,833,668</u>	<u>-</u>	<u>38,687,223</u>
Noncurrent Assets:			
Restricted investments	-	-	27,415,561
Gross lease payments receivable, net of current portion	19,545,000	-	684,675,509
Unearned lease interest income, net of current portion	(3,929,517)	-	(307,180,854)
Deferred Certificates of Participation issuance costs	316,029	-	4,660,890
Total Noncurrent Assets	<u>15,931,512</u>	<u>-</u>	<u>409,571,106</u>
TOTAL ASSETS	<u>32,765,180</u>	<u>-</u>	<u>448,258,329</u>
LIABILITIES			
Current Liabilities:			
Interest payable	656,100	-	10,552,329
Current portion of Certificates of Participation payable	5,155,000	-	18,140,000
Total Current Liabilities	<u>5,811,100</u>	<u>-</u>	<u>28,692,329</u>
Noncurrent Liabilities:			
Certificates of Participation payable net of current portion	23,215,000	-	466,680,000
Arbitrage payable	-	-	699,186
Deferred loss on refunding	(1,890,918)	-	(31,410,274)
Discounts, net of premium on Certificates of Participation payable	464,826	-	(4,052,895)
Total Noncurrent Liabilities	<u>21,788,908</u>	<u>-</u>	<u>431,916,017</u>
TOTAL LIABILITIES	<u>27,600,008</u>	<u>-</u>	<u>460,608,346</u>
NET ASSETS (DEFICIT)			
Restricted	5,165,172	-	-
Unrestricted	-	-	(12,350,017)
TOTAL NET ASSETS	<u>\$ 5,165,172</u>	<u>\$ -</u>	<u>\$ (12,350,017)</u>

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

INLAND EMPIRE PUBLIC FACILITIES CORPORATION
STATEMENT OF NET ASSETS
JUNE 30, 2012

EXHIBIT A

<u>Glen Helen Blockbuster Project</u>	<u>Solid Waste Financing Project</u>	<u>Combined</u>	
\$ -	\$ 13,732	\$ 5,828,095	ASSETS
-	5,777,155	37,265,011	Current Assets:
-	48	271,384	Cash and cash equivalents
-	-	699,186	Restricted cash and cash equivalents
-	-	-	Interest receivable
-	-	-	Receivable from County
-	8,164,610	57,734,311	Current portion of gross lease payments receivable
-	(1,062,238)	(33,383,789)	Current portion of unearned lease interest income
-	12,893,307	68,414,198	Total Current Assets
-	-	27,415,561	Noncurrent Assets:
-	-	-	Restricted investments
-	39,374,764	743,595,273	Gross lease payments receivable, net of current portion
-	-	-	Unearned lease interest income, net of current portion
-	(2,267,096)	(313,377,467)	Deferred Certificates of Participation issuance costs
-	301,158	5,278,077	Total Noncurrent Assets
-	37,408,826	462,911,444	
-	50,302,133	531,325,642	TOTAL ASSETS
-	-	-	LIABILITIES
-	11,599	11,220,028	Current Liabilities:
-	8,045,000	31,340,000	Interest payable
-	8,056,599	42,560,028	Current portion of Certificates of Participation payable
-	-	-	Total Current Liabilities
-	-	-	Noncurrent Liabilities:
-	39,125,000	529,020,000	Certificates of Participation payable net of current portion
-	-	699,186	Arbitrage payable
-	(717,909)	(34,019,101)	Deferred loss on refunding
-	-	(3,588,069)	Discounts, net of premium on Certificates of Participation payable
-	38,407,091	492,112,016	Total Noncurrent Liabilities
-	46,463,690	534,672,044	TOTAL LIABILITIES
-	3,838,443	9,003,615	NET ASSETS (DEFICIT)
-	-	(12,350,017)	Restricted
-	-	-	Unrestricted
\$ -	\$ 3,838,443	\$ (3,346,402)	TOTAL NET ASSETS

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

INLAND EMPIRE PUBLIC FACILITIES CORPORATION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012

EXHIBIT B

	Construction and Improvement Project	West Valley Detention Center Project	Medical Center Project
NONOPERATING REVENUES			
Lease interest	\$ 2,528,121	\$ 2,771,808	\$ 29,464,690
Investment income			
Interest and dividends	691	61	1,378,739
Net increase (decrease) in fair value of investments	-	-	2,502,466
Total Nonoperating Revenues	2,528,812	2,771,869	33,345,895
NONOPERATING EXPENSES			
Interest	1,312,200	2,267,521	25,459,414
Amortization of deferred amount on refinancing	472,730	480,679	2,378,345
Amortization of discount (premium) on Certificates of Participation	(116,206)	(219,307)	226,037
Amortization of deferred Certificates of Participation issuance costs	79,008	104,563	426,588
Premium on bond redemption	-	843,100	-
Escrow fees	-	130,548	-
Other expenses	-	60	-
Total Nonoperating Expenses	1,747,732	3,607,164	28,490,384
Income (loss) before special items	781,080	(835,295)	4,855,511
Special Items:			
Gain on early lease termination	-	6,835,523	-
Loss on early Certificates of Participation Redemption	-	(1,407,028)	-
Net Special Items	-	5,428,495	-
Changes in Net Assets	781,080	4,593,200	4,855,511
Net Assets (Deficit) - June 30, 2011	4,384,092	(4,593,200)	(17,205,528)
Net Assets (Deficit) - June 30, 2012	\$ 5,165,172	\$ -	\$ (12,350,017)

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

INLAND EMPIRE PUBLIC FACILITIES CORPORATION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012

EXHIBIT B

<u>Glen Helen Blockbuster Project</u>	<u>Solid Waste Financing Project</u>	<u>Combined</u>	
			NONOPERATING REVENUES
\$ -	\$ 429,106	\$ 35,193,725	Lease interest
-	650	1,380,141	Investment income
-	-	2,502,466	Interest and dividends
-	-	-	Net increase (decrease) in fair value of investments
-	429,756	39,076,332	Total Nonoperating Revenues
			NONOPERATING EXPENSES
-	133,393	29,172,528	Interest
-	153,838	3,485,592	Amortization of deferred amount on refinancing
-	-	(109,476)	Amortization of discount(premium) on Certificates of Participation
-	64,533	674,692	Amortization of deferred Certificates of Participation issuance costs
-	-	843,100	Premium on bond redemption
-	-	130,548	Escrow fees
-	-	60	Other expenses
-	351,764	34,197,044	Total Nonoperating Expenses
-	77,992	4,879,288	Income (loss) before special items
-	-	6,835,523	Special Items:
-	-	-	Gain on early lease termination
-	-	(1,407,028)	Loss on early Certificates of Participation Redemption
-	-	5,428,495	Net Special Items
-	77,992	10,307,783	Changes in Net Assets
-	3,760,451	(13,654,185)	Net Assets (Deficit) - June 30, 2011
<u>\$ -</u>	<u>\$ 3,838,443</u>	<u>\$ (3,346,402)</u>	Net Assets (Deficit) - June 30, 2012

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

**INLAND EMPIRE PUBLIC FACILITIES CORPORATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012**

EXHIBIT C

<u>Glen Helen Blockbuster Project</u>	<u>Solid Waste Financing Project</u>	<u>Combined</u>	
			CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:
\$ -	\$ 6,694,604	\$ 65,740,616	Lease payments received
-	(7,470,000)	(88,975,000)	Principal payments on Certificates of Participation
-	(129,264)	(29,984,969)	Interest paid
-	-	(60)	Other expenses
-	-	51,585,000	Proceeds from assignment of lease
(1,117,356)	1,117,356	-	Payment of amount due to Solid Waste Financing Project
-	-	(130,548)	Escrow fees
(1,117,356)	212,696	(1,764,961)	Net Cash Provided By (Used For) Noncapital Financing Activities
			CASH FLOWS FROM INVESTING ACTIVITIES:
-	657	1,378,312	Investment income
-	-	(843,100)	Premium on bond redemption
-	657	535,212	Net Cash Provided By (Used For) Investing Activities
(1,117,356)	213,353	(1,229,749)	Increase (Decrease) in cash and cash equivalents
<u>1,117,356</u>	<u>5,577,534</u>	<u>44,322,855</u>	Cash and cash equivalents at June 30, 2011
<u>\$ -</u>	<u>\$ 5,790,887</u>	<u>\$ 43,093,106</u>	Cash and cash equivalents at June 30, 2012

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

INLAND EMPIRE PUBLIC FACILITIES CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1: DESCRIPTION OF THE CORPORATION AND ACCOUNTING POLICIES

The Inland Empire Public Facilities Corporation (Corporation) is a nonprofit public benefit corporation, formed on May 30, 1986, to serve the County of San Bernardino (County) by financing, refinancing, acquiring, constructing, improving, leasing and selling buildings, building improvements, equipment, land, land improvements, and any other real or personal property for the benefit of residents of the County.

The Corporation's financial statements are presented on the accrual basis of accounting. The Corporation is a legally separate entity who has the same governing board as the County, has fiscal dependence on the County, and potential exclusion would result in misleading financial reporting of the County. Therefore, the Corporation is deemed to be a component unit of the County. Upon termination of the trust and lease agreements, any remaining assets of the Corporation shall become the property of the County. All projects are presented as major proprietary funds.

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. Using this definition, the Corporation has no operating revenues or expenses.

The Corporation uses the Direct Financing Lease Method to record the lease of the projects to the County. Under this method, when a project is completed, the Corporation records a lease receivable (see Note 4) and the Capital Assets are carried on the books of the lessee (County).

The Corporation treats all investments with original maturities of three months or less as cash equivalents.

Deferred charges, which consist of Certificate of Participation (COP) issuance costs, and COP premiums/discounts, are amortized over the life of the debt using the straight-line method.

The deferred loss on refunding represents the excess of the amount placed in escrow (reacquisition price) over the carrying amount of the refunded bonds and is amortized over the remaining life of the refunded or refunding bonds using the straight line method. The amortization is displayed separately on the income statement.

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

In accordance with governmental accounting standards, a statement of net assets, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows are presented. The Corporation's net assets can be classified into restricted and unrestricted. These classifications are defined as follows:

INLAND EMPIRE PUBLIC FACILITIES CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1: DESCRIPTION OF THE CORPORATION AND ACCOUNTING POLICIES (continued)

Restricted – This component of net assets consists of constraints placed on net asset use 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 assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

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

The Corporation qualifies as an Internal Revenue Code 501(c)(4) organization, and therefore, is exempt from taxation.

NOTE 2: THE PROJECTS

Construction and Improvement Project. The Corporation issued Certificates of Participation dated January 15, 1992 in the amount of \$89,905,000. The Corporation applied the proceeds of the sale of the Certificates, together with other available funds, to provide for the defeasance of \$72,760,000 of the \$111,695,000 then outstanding Certificates of Participation originally delivered in 1986 (Prior Certificates). The Corporation issued Variable Certificates of Participation dated January 20, 1995 in the amount of \$40,400,000 (1995 County Center Refinancing Certificates). The proceeds from the sale of the 1995 County Center Refinancing Certificates were used to provide for the defeasance of the remaining outstanding Prior Certificates in the amount of \$36,675,000 and to provide for reimbursement in the amount of \$1,751,174 to the County of San Bernardino. The reimbursement was to finance capital projects within the County. The Corporation issued Certificates of Participation dated July 11, 1996 in the amount of \$39,600,000 (1996 County Center Refinancing Certificates). The proceeds from the sale of the 1996 Certificates were used to provide for the defeasance of the 1995 County Center Refinancing Certificates. The Corporation issued Certificates of Participation dated March 1, 2002 in the amount of \$68,100,000 (2002 Certificates). The Corporation applied the proceeds of the Certificates for the defeasance of the \$66,130,000 outstanding Certificates of Participation originally delivered in 1992.

The Prior Certificates were delivered for a project with these three elements:

- a) The refunding of outstanding Certificates of the San Bernardino Building Authority for the construction of the County Public Government Center.

INLAND EMPIRE PUBLIC FACILITIES CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 2: THE PROJECTS (continued)

- b) The refunding of outstanding Certificates of the San Bernardino County Public Improvements Authority for the construction of the Foothill Law and Justice Center.
- c) The financing of certain improvements to the Chino Airport.

The County Government Center is a five-story office complex located at 385 North Arrowhead Avenue in San Bernardino. The Foothill Law and Justice Center is a four-story office and courtroom facility in the City of Rancho Cucamonga. Improvements to the Chino Airport include construction of four aircraft assembly buildings and appropriate site development. These facilities, known as the "Construction and Improvement Project," were leased to the County for lease payments which were designed in both time and amount to pay the principal and interest on the Certificates.

On May 13, 1997, the Corporation approved amendments to the Lease Agreement entered into in connection with the issue of the 1996 County Center Refinancing Certificates. The amendment provided for the release of property leased and the substitution of other property owned by the County. Substituted property pledged by the County as collateral for the 1996 Certificates consists of the Central Jail, Offices and Bindery, the Vehicle Services Garage, and the Coroner's Office.

The Foothill Law and Justice Center and the Victorville Law and Justice Center have been pledged by the County as collateral for the 2002 Certificates.

On July, 1, 2010, the Corporation received a lease payment from the County in the amount of \$9,700,000 to fully redeem all outstanding 1996 County Center Refinancing Certificates. The optional redemption occurred on September 1, 2010. Since the County prepaid all remaining lease payments in full, the County's obligation under the lease agreement terminated.

West Valley Detention Center Project. The Corporation issued Certificates of Participation dated May 1, 1992 in the amount of \$117,770,000 to provide for the defeasance of the \$104,745,996 outstanding Certificates of Participation which were delivered and executed in 1988. The 1988 Certificates of Participation were delivered to finance the construction of a detention center located in the City of Rancho Cucamonga and certain related facilities and equipment and acquisition of the site. In addition to providing for the defeasance, the Certificates of Participation were issued to provide for costs of additional improvements to the detention center in the amount of \$2,600,000, and to provide for reimbursement in the amount of \$8,980,336 to the County of San Bernardino. The reimbursement was for a portion of the costs relating to the acquisition of 4.13 acres of real property located in the City of San Bernardino together with a newly constructed office building situated thereon (Reimbursed Project).

The Corporation entered into a lease agreement with San Bernardino County whereby the detention center, known as the "West Valley Detention Center," was leased to the County for lease payments which were designed in both time and amount to pay the principal and interest on the Certificates. The Reimbursed Project is not subject to the lease agreement.

INLAND EMPIRE PUBLIC FACILITIES CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 2: THE PROJECTS (continued)

On May 13, 1997, the Corporation approved amendments to the Lease Agreement entered into in connection with the issue of the 1992 Certificates. The amendment provided for the release of property leased and the substitution of other property owned by the County. The Corporation issued Certificates of Participation dated October 25, 2001 in the amount of \$8,365,000 (2001 Series A) and \$42,075,000 (2001 Series B). The 2001 Series A Certificates were issued to provide funds to refund on a cross-over basis \$7,785,000 of the outstanding 1992 Certificates. The proceeds of the 2001 Series B Certificates were used to reimburse Bear, Stearns and Co., Inc. for funds advanced by it for the purchase of \$39,825,000 of the outstanding 1992 Certificates. The purchased Certificates were then cancelled. The Corporation issued Certificates of Participation dated August 6, 2002 in the amount of \$44,480,000 (2002 Series A), the proceeds of which were used to refund \$44,545,000 of the outstanding 1992 Certificates. Property pledged by the County as collateral for the 2001 and 2002 Certificates consists of portions of the West Valley Detention Center and the Courthouse and Annex located in the City of San Bernardino.

On November 1, 2011, the Corporation partially redeemed certain 2001 and 2002 outstanding Certificates of Participation. On March 1, 2012, the Corporation assigned the lease agreement with the County of San Bernardino to Banc of America Public Capital Corporation. On May 1, 2012, proceeds from Banc of America Public Capital Corporation were used to fully redeem all outstanding 2001 Series A, 2001 Series B and 2002 Series A Certificates of Participation. See note 11.

Medical Center Project. On November 4, 1991, the Board of Directors of the Corporation approved the overall financing program for the construction of the replacement County Medical Center. The project consisted of a hospital to be constructed on the site and hospital equipment. The overall financing plan for the replacement County Medical Center consists of the following phases:

1. Land acquisition financing:

The Corporation issued Certificates of Participation, Series A, dated November 1, 1991, in the amount of \$18,360,000. The proceeds from the sale of the "Series A" Certificates were used to acquire certain parcels of real property, which were used as the site of the hospital.

2. Preconstruction and first phase construction financing:

The Corporation issued Certificates of Participation, Series B, dated January 1, 1992, in the amount of \$246,100,000. The proceeds from the sale of the "Series B" Certificates were to be used to finance a portion of the costs of design, engineering, construction management and construction of the hospital, and to fund capitalized interest to August 1, 1999, and fund a reserve fund deposit.

INLAND EMPIRE PUBLIC FACILITIES CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 2: THE PROJECTS *(continued)*

On March 2, 1994, the Corporation issued Certificates of Participation dated February 1, 1994 in the amount of \$283,245,000 (1994 Certificates). The proceeds from the sale of the 1994 Certificates were used, together with remaining funds from the issuance of Series A and Series B Certificates, to provide funds for defeasance of the Series A and Series B Certificates. In addition to providing for the defeasance, the proceeds from the sale of the 1994 Certificates were used, together with remaining funds from the issuance of Series A and Series B Certificates, to provide funds to finance a portion of the costs of design, engineering, construction management and construction of the hospital and to fund capitalized interest to August 1, 1999, and fund a reserve fund deposit.

3. Principal construction financing:

On June 28, 1995, the Corporation issued Certificates of Participation dated June 1, 1995 in the amount of \$363,265,000 (1995 Certificates). The proceeds from the sale of the 1995 Certificates were used, together with some of the remaining funds from the issuance of the 1994 Certificates, to provide funds for the refunding of \$69,640,000 of the \$283,245,000 outstanding 1994 Certificates of Participation. In addition to providing for the refunding, the proceeds from the sale of the 1995 Certificates were used to provide funds to complete construction and to fund capitalized interest to and including October 1, 1999, and fund a reserve fund deposit.

On January 31, 1996, the Corporation issued Certificates of Participation dated January 1, 1996 in the amount of \$65,070,000 (1996 Certificates). The proceeds from the sale of the 1996 Certificates were used to provide for the defeasance of \$55,000,000 of the \$363,265,000 outstanding 1995 Certificates.

On October 22, 1998, the Corporation issued Certificates of Participation dated October 16, 1998 in the amount of \$176,510,000 (1998 Certificates). The proceeds from the sale of the 1998 Certificates were used to advance refund \$160,700,000 of the \$308,265,000 outstanding 1995 Certificates, to fund capitalized interest on the series 1998 Certificates to October 1, 1999, and to pay certain expenses of the transaction.

4. Major equipment acquisition financing:

On September 16, 1997, the Corporation issued Certificates of Participation dated August 1, 1997 in the amount of \$121,095,000 (1997 Certificates). The proceeds from the sale of the 1997 Certificates were used to provide funds to finance the acquisition of equipment for the replacement San Bernardino County Medical Center and to fund capitalized interest to and including August 1, 1999, and fund a reserve fund deposit.

INLAND EMPIRE PUBLIC FACILITIES CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 2: THE PROJECTS *(continued)*

The acquisition and construction of the Project was carried out by the County as the agent of the Corporation pursuant to a Master Agency Agreement, dated as of February 1, 1994. The County has leased the Site to the Corporation pursuant to the Master Site Lease, dated February 1, 1994.

The Corporation entered into a master lease agreement with the County whereby the project (i.e. the hospital) is leased to the County. The County was required under the master lease agreement to make aggregate lease payments which are designed in both time and amount to pay the principal and interest due with respect to the Series 1994 Certificates, the Series 1995 Certificates, the Series 1996 Certificates, the Series 1997 Certificates and the Series 1998 Certificates.

The master lease agreement between the County and the Corporation was amended and supplemented on December 1, 2009. The master lease agreement obligates the County to make aggregate lease payments on each Series, including the Series 2009 A lease payments and Series 2009 B lease payments.

On December 17, 2009, the Corporation issued Certificates of Participation dated December 17, 2009 in the amounts of \$243,980,000 (Arrowhead Refunding Project Series 2009A Certificates of Participation) and \$44,750,000 (Arrowhead Refunding Project Series 2009B Certificates of Participation). The proceeds from the sale of the Series 2009A Certificates were used to advance refund \$45,325,000 of the \$83,505,000 outstanding 1995 Certificates, all of the \$174,410,000 outstanding 1998 Certificates and to fund a termination payment of \$23,793,000, with respect to the termination of the Swap Agreement on the 1998 Certificates. The proceeds from the sale of the Series 2009B Certificates were used to advance refund \$44,325,000 of the \$172,040,000 outstanding 1994 Certificates.

Glen Helen Blockbuster Project: The Corporation issued Certificates of Participation dated December 22, 1994 in the amount of \$7,380,000 (Series C Certificates), Certificates of Participation dated December 6, 1995 in the amount of \$16,510,000 (Series D Certificates) and Certificates of Participation dated December 6, 1995 in the amount of \$4,430,000 (Series E Certificates). The proceeds from the sale of Series C Certificates were used to finance the acquisition, construction, installation and equipping of an interchange at I-15 and Glen Helen Parkway and related roadwork. The proceeds from the sale of the Series D Certificates were used to provide for the defeasance of the outstanding \$14,625,000 Series A Certificates originally delivered in 1994 to finance the acquisition, construction, improvement and equipping of certain public improvements related to the Glen Helen Blockbuster Pavilion (Pavilion Improvements).

The proceeds from the sale of the Series E Certificates were used to provide for the defeasance of the outstanding \$3,880,000 Series B Certificates originally delivered in 1994 to finance the acquisition, construction, improvement and equipping of certain improvements to the Glen Helen Park (Park Improvements).

INLAND EMPIRE PUBLIC FACILITIES CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 2: THE PROJECTS (continued)

The Corporation issued Certificates of Participation dated May 1, 2003 in the amounts of \$9,825,000 (Series 2003 A Certificates) and \$9,875,000 (Series 2003 B Certificates). The proceeds were used to prepay and refund the outstanding \$6,035,000 of the Series C Certificates, \$9,690,000 of the Series D Certificates and \$3,610,000 of the Series E Certificates. On May 1, 2003, the Corporation approved amendments to the previous Lease Agreements entered into in connection with the issues of Series C, Series D and Series E. The amendments provided for the release of property leased and the substitution of other property owned by the County.

The Corporation issued Certificates of Participation dated April 16, 2008 in the amounts of \$8,860,000 (Series 2008 A Certificates) and \$5,695,000 (Series 2008 B Certificates). The proceeds were used to prepay and refund the outstanding \$8,100,000 (Series 2003 A Certificates) and \$5,200,000 (Series 2003 B Certificates). The Corporation entered into a lease agreement with the County whereby the Mid-Valley Landfill is leased to the County for the lease payments which are designed in both time and amount to pay the principal and interest on the Series 2008 A and Series 2008 B Certificates. The Landfill is located along the western boundary of the City of Rialto, and currently serves the cities of Rialto, Fontana, Montclair, Ontario, Rancho Cucamonga and Upland, and the unincorporated western valley area of San Bernardino County.

The Corporation received lease payments from the County in the amount of \$7,660,000 and \$5,475,000 on July 31, 2010 to fully redeem the 2008 A Certificates of Participation and partially redeem the 2008 Series B Certificates of Participation, respectively. The optional redemption occurred on September 1, 2010. The remaining Series 2008 B Certificates pertain to the Solid Waste Financing Project. Since the County prepaid all remaining lease payments in full, the County's obligation under the lease agreement terminated.

Solid Waste Financing Project. The Corporation issued Certificates of Participation dated May 1, 2003 in the amount of \$93,875,000 (2003 B Solid Waste Financing Certificates). The proceeds were used to transfer funds to Inland Empire Solid Waste Financing Authority, a joint powers authority of San Bernardino County and San Bernardino County Flood Control District, which were used to refund \$92,120,000 of outstanding Certificates of Participation issued by the Inland Empire Solid Waste Financing Authority.

The Corporation issued Certificates of Participation dated April 16, 2008 in the amount of \$74,390,000 (Series 2008 B Certificates). The proceeds were used to prepay and refund the outstanding \$67,975,000 (Series 2003 B Certificates). The Corporation entered into a lease agreement with the County whereby the Mid-Valley Landfill is leased to the County for the lease payments which are designed in both time and amount to pay the principal and interest on the Series 2008 B Certificates. The Landfill is located along the western boundary of the City of Rialto, and currently serves the cities of Rialto, Fontana, Montclair, Ontario, Rancho Cucamonga and Upland, and the unincorporated western valley area of San Bernardino County.

INLAND EMPIRE PUBLIC FACILITIES CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 3: CASH AND INVESTMENTS

Fiscal agents acting on behalf of the Corporation held all cash and investments from long-term debt issuances. In accordance with the terms of the trust agreements, cash and investments are segregated and restricted for specified purposes. The trustee banks for the corporation's projects are as follows:

<u>Project</u>	<u>Trustee</u>
Construction and Improvement Project	Bank of New York Mellon and Wells Fargo Bank, Corporate Trust Services
Medical Center Project	Wells Fargo Bank, Corporate Trust Services
Solid Waste Financing Project	Wells Fargo Bank, Corporate Trust Services

As of June 30, 2012, cash and investments consist of the following:

Statement of Net Assets (combined):

Cash and cash equivalents	\$ 43,093,106
Investments	27,415,561
Total Cash and Investments	<u>\$ 70,508,667</u>

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustees are governed by provisions of the trust agreements, created in connection with the issuance of debt (see Note 5) rather than the general provisions of the California Government Code. Certificates of Participation indentures specify the types of securities in which proceeds may be invested as well as any related insurance, collateral, or minimum credit rating requirements. Although requirements may vary between debt issues, money market funds are all required to be investment grade. Guaranteed investment contracts are required to be acceptable to the municipal bond insurer. The fair value of investments is based on the valuation provided by trustee banks.

Interest Rate Risk

Interest rate risk is the measurement of how changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the more sensitive its fair value is to changes in market interest rates. As a component unit of the County of San Bernardino which uses weighted average maturity to monitor its interest rate risk, the Corporation has elected weighted average maturity for its disclosure method.

INLAND EMPIRE PUBLIC FACILITIES CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 3: CASH AND INVESTMENTS (continued)

As of June 30, 2012, the Corporation's cash and investments, including cash equivalents, were as follows:

<u>Investments (Item Count)</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
U. S. Treasury Bonds (2)	11/15/2022	\$ 22,664,710	10.3781
Guaranteed Investment Contracts (1)	07/14/08 - 07/27/28	4,750,851	16.074
Money Market Funds (1)	N/A	43,093,106	N/A
Total cash and investments		<u>\$ 70,508,667</u>	

Concentration of Credit Risk

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 for the Medical Center Project:

<u>Issuer - Guaranteed Investment Contracts</u>	<u>Fair Value</u>
MBIA Investment Management Corp.	\$ 4,750,851

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker, dealer, or trustee) to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

As of June 30, 2012, the Corporation had investments held by Wells Fargo Bank for the Medical Center Project where the underlying securities are not insured or registered in the name of the Corporation, shown below:

<u>Investment Type</u>	<u>Trustee</u>	<u>Fair Value</u>
U. S. Treasury Bonds	Wells Fargo	\$ 22,664,710

Credit Risk

The Corporation's investments in money market funds were rated Aaa by Moody's Investors Service. The company with whom the Corporation has a guaranteed investment contract received long-term ratings of B2 / B- from Moody's / Standard & Poor's. This investment agreement is collateralized and guarantees payment of principal and interest as the same becomes due.

INLAND EMPIRE PUBLIC FACILITIES CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 4: LEASE RECEIVABLE

The Corporation entered into an agreement with the County whereby the Projects are leased to the County for lease payments that are equal to the debt service due on the Certificates of Participation.

The County may, pursuant to the lease agreement, abate the lease payments by the amount of investment interest income earned by the trustee in the lease payment and reserve accounts.

The future minimum lease/installment payments to be received for each of the five succeeding fiscal years, and in five year increments thereafter are summarized as follows:

Description	2012-13	2013-14	2014-15
Construction and Improvement Project	\$ 6,581,000	\$ 6,472,000	\$ 6,557,750
Medical Center Project	42,988,701	42,958,014	43,038,289
Solid Waste Financing Project	8,164,610	8,805,902	9,463,364
	<u>\$ 57,734,311</u>	<u>\$ 58,235,916</u>	<u>\$ 59,059,403</u>

Description	2015-16	2016-17	2017-2022
Construction and Improvement Project	\$ 6,515,250	\$ -	\$ -
Medical Center Project	42,981,332	42,919,829	214,940,750
Solid Waste Financing Project	10,168,815	10,936,683	-
	<u>\$ 59,665,397</u>	<u>\$ 53,856,512</u>	<u>\$ 214,940,750</u>

INLAND EMPIRE PUBLIC FACILITIES CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 4: LEASE RECEIVABLE (continued)

Description	2022-27	2027-30	Total Lease Payments
Construction and Improvement Project	\$ -	\$ -	\$ 26,126,000
Medical Center Project	216,674,413	81,162,882	727,664,210
Solid Waste Financing Project	-	-	47,539,374
	<u>\$ 216,674,413</u>	<u>\$ 81,162,882</u>	<u>\$ 801,329,584</u>

Description	Unearned Interest	Net Lease Receivable
Construction and Improvement Project	\$ (6,069,414)	\$ 20,056,586
Medical Center Project	(337,362,508)	\$ 390,301,702
Solid Waste Financing Project	(3,329,334)	\$ 44,210,040
	<u>\$ (346,761,256)</u>	<u>\$ 454,568,328</u>

INLAND EMPIRE PUBLIC FACILITIES CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 5: LONG-TERM DEBT

The following is a summary of changes in the Certificates of Participation for the fiscal year ended June 30, 2012:

Description	July 1, 2011	Additions	Reductions	June 30, 2012	Due Within One Year
Construction and Improvement Project					
Regular Certificates (Series 2002)	\$ 33,395,000	\$ -	\$ 5,025,000	\$ 28,370,000	\$ 5,155,000
West Valley Detention Center Project					
2001 Series A	5,870,000	-	5,870,000	-	-
2001 Series B	10,760,000	-	10,760,000	-	-
2002 Series A	42,480,000	-	42,480,000	-	-
Medical Center Project					
Series 1994	124,145,000	-	3,775,000	120,370,000	3,990,000
Series 1995	27,915,000	-	3,245,000	24,670,000	3,465,000
Series 1996	64,345,000	-	360,000	63,985,000	380,000
Series 2009 A	241,905,000	-	9,990,000	231,915,000	10,305,000
Series 2009 B	43,880,000	-	-	43,880,000	-
Solid Waste Financing Project (2008 B)	54,640,000	-	7,470,000	47,170,000	8,045,000
	<u>\$ 649,335,000</u>	<u>\$ -</u>	<u>\$ 88,975,000</u>	<u>\$ 560,360,000</u>	<u>\$ 31,340,000</u>

INLAND EMPIRE PUBLIC FACILITIES CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 5: LONG-TERM DEBT (continued)

The annual requirements to amortize all long-term debt outstanding June 30, 2012, including interest payments of \$246,780,685 over the life of the debt, are summarized as follows:

Description	2012-13	2013-14	2014-15
Construction and Improvement Project			
Regular Certificates (Series 2002)	\$ 6,364,100	\$ 6,471,500	\$ 6,332,375
Medical Center Project			
Series 1994	10,339,325	10,328,963	10,331,088
Series 1995	4,955,938	4,962,913	4,963,963
Series 1996	3,574,551	3,574,076	3,572,551
Series 2009 A	21,869,569	21,842,744	21,921,369
Series 2009 B	2,249,318	2,249,318	2,249,318
Solid Waste Financing Project*	8,164,610	8,805,902	9,463,364
	<u>\$ 57,517,411</u>	<u>\$ 58,235,416</u>	<u>\$ 58,834,028</u>
Description	2015-16	2016-17	2017-22
Construction and Improvement Project			
Regular Certificates (Series 2002)	\$ 6,409,000	\$ 6,360,125	\$ -
Medical Center Project			
Series 1994	10,329,738	10,334,088	53,227,517
Series 1995	4,968,113	4,964,386	4,971,486
Series 1996	3,574,844	3,570,956	17,862,500
Series 2009 A	21,859,319	21,801,081	114,756,186
Series 2009 B	2,249,318	2,249,318	24,123,060
Solid Waste Financing Project*	10,168,815	10,936,683	-
	<u>\$ 59,559,147</u>	<u>\$ 60,216,637</u>	<u>\$ 214,940,749</u>

*Interest is paid monthly, computed at a variable interest rate set weekly. Interest is based on the June 30, 2012 interest rate.

INLAND EMPIRE PUBLIC FACILITIES CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 5: LONG-TERM DEBT (continued)

Description	2022-27	2027-2030	Total
Construction and Improvement Project			
Regular Certificates (Series 2002)	\$ -	\$ -	\$ 31,937,100
Medical Center Project			
Series 1994	52,466,480	29,356,137	186,713,336
Series 1995	-	-	29,786,799
Series 1996	24,055,625	51,806,745	111,591,848
Series 2009 A	108,507,998	-	332,558,266
Series 2009 B	31,644,311	-	67,013,961
Solid Waste Financing Project*	-	-	47,539,374
	<u>\$ 216,674,414</u>	<u>\$ 81,162,882</u>	<u>\$ 807,140,684</u>

Note: Principal and interest for each fiscal year is displayed in the supplementary information.

INLAND EMPIRE PUBLIC FACILITIES CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 5: LONG-TERM DEBT (continued)

Source of Payment. The ability of the Corporation to pay its obligations is dependent upon receipt of lease payments from the County of San Bernardino in accordance with various Lease Agreements. Under the Lease Agreements the County is required to make lease payments each year, from any source of legally available funds, in an amount sufficient to pay the annual principal and interest with respect to the Certificates of Participation. The obligation of the County to make lease payments does not constitute an obligation of the County for which the County is obligated to levy or pledge any form of taxation, or for which the County has levied or pledged any form of taxation. Neither the Certificates, nor the obligation of the County to make such lease payments, constitutes any indebtedness of the County.

Construction and Improvement Project. The Corporation issued Certificates of Participation in the amount of \$68,100,000, consisting of \$61,575,000 Series 2002 A Certificates and \$6,525,000 Taxable Series 2002 A-T the "2002 Certificates," dated March 1, 2002. Interest rates range from 3.00 percent to 5.00 percent with a July 1, 2016 final maturity date. The 2002 Certificates are not subject to optional prepayment prior to maturity.

West Valley Detention Center Project. On October 25, 2001, the Corporation issued "2001 Series A" Certificates of Participation in the amount of \$8,365,000 and "2001 Series B" Certificates of Participation in the amount of \$42,075,000. 2001 Series A Certificates bear interest rates from 4.00 percent to 4.60 percent. The 2001 Series B Certificates bear interest rates from 3.50 percent to 4.00 percent.

On August 6, 2002 the Corporation issued "2002 Series A" Certificates of Participation in the amount of \$44,480,000 which bear interest rates from 4.50 percent to 5.25 percent.

The County paid the Corporation monies to redeem certain outstanding Certificates of Participation. The optional redemption occurred on November 1, 2011. On May 1, 2012, funds from the Banc of America Public Capital Corporation were used to fully redeem all outstanding 2001 Series A, 2001 Series B and 2002 Series A Certificates of Participation. See Note 11.

Medical Center Project. The Medical Center Series 1994 Certificates of Participation were issued by the Corporation dated February 1, 1994, in the amount of \$283,245,000, with interest rates from 4.60 percent to 7.00 percent.

The Series 1994 Certificates maturing on August 1, 2019, August 1, 2024, August 1, 2026, and August 1, 2028, are subject to optional redemption in whole or in part on any date in such order of maturity as the Corporation shall determine and by lot within a maturity, plus interest accrued to the redemption date.

INLAND EMPIRE PUBLIC FACILITIES CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 5: LONG-TERM DEBT (continued)

On December 17, 2009 the Corporation issued the Arrowhead Refunding Project Series 2009B Certificates and used the proceeds of the Series 2009B Certificates along with other available funds to refund \$44,325,000 of the Series 1994 Certificates.

The Medical Center Series 1995 Certificates of Participation were issued by the Corporation dated June 1, 1995, in the amount of \$363,265,000, with interest rates from 4.80 percent to 7.00 percent.

On December 17, 2009 the Corporation issued the Arrowhead Refunding Project Series 2009A Certificates and used the proceeds of the Series 2009A Certificates along with other available funds to refund \$45,065,000 of the Series 1995 Certificates.

The Medical Center Series 1996 Certificates of Participation were issued by the Corporation dated January 1, 1996, in the amount of \$65,070,000, with interest rates from 5 percent to 5.25 percent.

The Series 1996 Certificates are subject to optional redemption in whole or in part on any date in such order of maturity as the Corporation shall determine and by lot within a maturity, plus interest accrued to the redemption date.

The Arrowhead Refunding Project Series 2009A Certificates of Participation were issued by the Corporation, dated December 17, 2009, in the amount of \$243,980,000, with interest rates from 3 percent to 5.50 percent.

The Arrowhead Refunding Project Series 2009B Certificates of Participation were issued by the Corporation, dated December 17, 2009, in the amount of \$44,750,000, with interest rates from 3 percent to 5.25 percent.

Each series of the 2009 Arrowhead Refunding Project Certificates of Participation is subject to optional redemption in whole or in part on any date in such order of maturity as the County determines and by lot within a maturity, on or after August 1, 2019, at the redemption price equal to the principal amount thereof to be redeemed, together with interest accrued and unpaid to the date fixed for redemption, without premium, from the proceeds of optional prepayments of Lease Payments made by the County pursuant to the Lease Agreement.

INLAND EMPIRE PUBLIC FACILITIES CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 5: LONG-TERM DEBT (continued)

Glen Helen Blockbuster Project. On April 16, 2008 the Corporation issued Certificates of Participation in the amount of \$14,555,000, consisting of \$8,860,000 (Series 2008 A Certificates) and \$5,695,000 (Series 2008 B Certificates) with a March 1, 2024 final maturity date. Interest with respect to the Series 2008 A and Series 2008 B Certificates was initially payable at an adjustable weekly rate mode and was due on the first business day of each month beginning on May 1, 2008.

At the option of the Corporation, all or part of either Series of Certificates may be converted to bear interest at a Daily Rate, Extended Rate, or a Fixed Rate. On the Conversion Date, such Certificates shall be subject to mandatory tender for purchase at the applicable purchase price on effective date of the New Mode equal to 100% of the principal amount thereof, plus accrued interest.

The Series 2008 A and Series 2008 B Certificates were also subject to mandatory prepayment prior to their stated maturity in part from mandatory sinking account payments established pursuant to the Trust Agreement on any March 1 or September 1 on or after September 1, 2008, at the principal amount thereof together with interest accrued thereon to the date fixed for payment, without premium.

The Corporation received lease payments from the County in the amount of \$7,660,000 and \$5,475,000 on July 31, 2010 to fully redeem the 2008 A Certificates of Participation and partially redeem the 2008 Series B Certificates of Participation, respectively. The optional redemption occurred on September 1, 2010. The remaining Series 2008 B Certificates pertain to the Solid Waste Financing Project.

Solid Waste Financing Project. On April 16, 2008 the Corporation issued Certificates of Participation in the amount of \$74,390,000 (the "Series 2008 B Certificates") with March 1, 2017 final maturity date. The descriptions pertaining to Series 2008 B Certificates (Glen Helen Blockbuster Project) are applicable to these Series 2008 B as they were issued together as the 2008 Refunding Certificates, Series B. The variable interest rate at June 30, 2012 was .300 percent for the Series 2008 B Certificates.

NOTE 6: PRIOR YEARS' DEFEASANCE OF DEBT

In prior years, the Corporation defeased certain Certificates of Participation by placing proceeds of new certificates in an irrevocable trust to provide for all future debt service payments on the Certificates of Participation. Accordingly, the trust account assets and liability for the defeased certificates are not included in the Corporation's financial statements. At June 30, 2012, Certificates of Participation outstanding considered defeased are as follows:

<u>Defeased Debt</u>	<u>Amount</u>	<u>Refunded By</u>
1992 Medical Center	\$ 61,070,000	1994 Medical Center

INLAND EMPIRE PUBLIC FACILITIES CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 7: ARBITRAGE PAYABLE

The exclusion, under Section 103(a) of the Internal Revenue Code of 1986, from gross income for federal income tax purposes of the interest component of Lease Payments (and the interest payable with respect to the Certificates) is based on compliance with certain requirements of the Code. Included among such requirements of Section 148(f) of the Code is that certain excess investment earnings be rebated to the federal government.

Rebatable arbitrage (if any) is required to be paid to the federal government following the end of each period of five bond years during the term of the Lease Agreement (and Certificates of Participation). As of June 30, 2012, the estimated arbitrage payable, relating to the Medical Center Project, is \$699,186.

NOTE 8: NET ASSETS/DEFICITS

Medical Center Project: The deficit was caused by a previous restatement of net assets to record the June 30, 2009 fair value of an interest rate swap as required by the implementation of GASB 53 and by the costs associated with the 2009 Arrowhead Refunding Project Series A and B Certificates.

The net deficit will be reduced over time with lease payments received from the County's Medical Center Enterprise Fund.

NOTE 9: INVESTMENT AGREEMENT TERMINATIONS

The agreement with Lehman Bros. Special Financing Inc. (Lehman) for the 2002 Justice Center/Airport reserve fund requires Lehman to deliver securities to the trustee periodically at a guaranteed rate of 4.56 percent. The most recent delivery occurred on July 1, 2008. On September 17, 2008, the County elected to terminate the agreement, pursuant to applicable agreement provisions, as a result of the downgrade of Lehman Bros. Holdings. Under the terms of the agreement, Lehman owed the County a termination payment in an amount not yet determined. In order to protect the County's interest the County filed a claim in bankruptcy court. This claim sought to provide the County relief for the loss of the 4.56 percent investment rate that was guaranteed in the Lehman agreement. Pursuant to the Entry of Order Confirming the Modified Third Amended Joint Chapter 11 Plan of Lehman Brothers Holdings Inc. received by the County, executory contracts have been rejected with few exceptions. The County has not been notified it qualifies for any of these exceptions.

INLAND EMPIRE PUBLIC FACILITIES CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 10: AGREEMENTS WITH LIQUIDITY FACILITIES

Solid Waste Financing Project: As of June 30, 2012, \$47,170,000 of the 2008 Certificates of Participation (2008 Refunding Program) Series B (Taxable) remain outstanding. These Certificates of Participation have an optional tender provision for bondholders, on seven days notice, to tender their certificates at par value. In connection with the issuance of the 2008 Certificates of Participation, the County executed a Letter of Credit and Reimbursement Agreement between the County and Bank of America, N.A. (Bank). The term of this Agreement expires on April 1, 2013.

As of June 30, 2012, there were no outstanding certificates that have been tendered but failed to be remarketed. In accordance with the Agreement, in the event any certificates are tendered and are not remarketed, interest is required to be paid to the Bank at the higher of a) Prime Rate or b) Federal Funds plus 0.5 percent, which was 3.25 percent and .62 percent respectively at June 30, 2012.

NOTE 11: REDEMPTION OF CERTIFICATES OF PARTICIPATION

West Valley Detention Center Project: In October 2011, the County paid the Corporation monies to redeem certain outstanding Certificates of Participation. The optional redemption occurred on November 1, 2011. An Optional Redemption of \$220,000 of outstanding principal occurred on the 2001 West Valley Detention Center Refinancing Project Series A Certificates. An optional redemption of \$235,000 of outstanding principal occurred on the 2001 West Valley Detention Center Refinancing Project Series B Certificates. An optional redemption of \$1,790,000 of outstanding principal occurred on the 2002 West Valley Detention Center Refinancing Project Series A Certificates and a premium of \$35,800 for early redemption.

On March 29, 2012, the Corporation assigned the future lease revenues from this Project to Banc of America Public Capital Corp (Banc) in exchange for \$51,585,000. These funds were used to redeem the \$50,640,000 of outstanding Certificates of Participation, pay financing costs of \$130,548, pay a 2% premium on the early redemption of the Certificates of \$807,300 and return an escrow account overpayment of \$7,152 to the County. Total lease payments of \$56,529,939 will be paid to the Banc by the County in semiannual installments beginning November 1, 2012 through November 1, 2018 representing \$51,585,000 in principal and \$4,944,939 in interest for an effective interest rate of 2.59%.

The assignment of the lease revenue and the redemption of the debt resulted in a \$1,407,028 loss on early redemption of the certificates and a gain of \$6,835,523 on the early termination of the lease with the County for a net gain to the Corporation of \$5,428,495 and have been classified as special items in the Statement of Revenues, Expenses and Changes in Net Assets.

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**INLAND EMPIRE PUBLIC FACILITIES CORPORATION
SCHEDULE OF LEASE PAYMENTS RECEIVABLE
FOR THE YEAR ENDED JUNE 30, 2012**

**CONSTRUCTION AND IMPROVEMENT PROJECT
SERIES 2002**

<u>Fiscal Year</u>	<u>Due December 15</u>	<u>Due June 15</u>	<u>Total Payment</u>
2012-13	\$ 553,000	\$ 6,028,000	\$ 6,581,000
2013-14	443,500	6,028,500	6,472,000
2014-15	303,875	6,253,875	6,557,750
2015-16	155,125	6,360,125	6,515,250
	<u>\$ 1,455,500</u>	<u>\$ 24,670,500</u>	<u>\$ 26,126,000</u>

**INLAND EMPIRE PUBLIC FACILITIES CORPORATION
SCHEDULE OF LEASE PAYMENTS RECEIVABLE
FOR THE YEAR ENDED JUNE 30, 2012**

MEDICAL CENTER PROJECT – SERIES 1994

<u>Fiscal Year</u>	<u>Due July 15</u>	<u>Due January 15</u>	<u>Total</u>
2012-13	\$ 7,219,525	\$ 3,119,800	\$ 10,339,325
2013-14	7,324,800	3,004,163	10,328,963
2014-15	7,449,163	2,881,925	10,331,088
2015-16	7,576,925	2,752,813	10,329,738
2016-17	7,717,813	2,616,275	10,334,088
2017-18	7,851,275	2,472,313	10,323,588
2018-19	2,472,313	2,472,313	4,944,626
2019-20	2,472,313	2,472,313	4,944,626
2020-21	14,652,313	2,046,013	16,698,326
2021-22	14,616,013	1,700,338	16,316,351
2022-23	14,990,338	1,334,863	16,325,201
2023-24	1,334,863	1,334,863	2,669,726
2024-25	1,334,863	1,334,863	2,669,726
2025-26	14,394,863	1,008,363	15,403,226
2026-27	14,733,363	665,238	15,398,601
2027-28	14,340,238	340,450	14,680,688
2028-29	14,675,449	-	14,675,449
	<u>\$ 155,156,430</u>	<u>\$ 31,556,906</u>	<u>\$ 186,713,336</u>

**INLAND EMPIRE PUBLIC FACILITIES CORPORATION
SCHEDULE OF LEASE PAYMENTS RECEIVABLE
FOR THE YEAR ENDED JUNE 30, 2012**

MEDICAL CENTER PROJECT - SERIES 1995

<u>Fiscal Year</u>	<u>Due July 15</u>	<u>Due January 15</u>	<u>Total</u>
2012-13	\$ 4,266,775	\$ 689,163	\$ 4,955,938
2013-14	4,394,163	568,750	4,962,913
2014-15	4,523,750	440,213	4,963,963
2015-16	4,665,213	302,900	4,968,113
2016-17	4,807,900	156,486	4,964,386
2017-18	4,971,486	-	4,971,486
	<u>\$ 27,629,287</u>	<u>\$ 2,157,512</u>	<u>\$ 29,786,799</u>

**INLAND EMPIRE PUBLIC FACILITIES CORPORATION
SCHEDULE OF LEASE PAYMENTS RECEIVABLE
FOR THE YEAR ENDED JUNE 30, 2012**

MEDICAL CENTER PROJECT - SERIES 1996

<u>Fiscal Year</u>	<u>Due July 15</u>	<u>Due January 15</u>	<u>Total</u>
2012-13	\$ 1,982,263	\$ 1,592,288	\$ 3,574,551
2013-14	1,992,288	1,581,788	3,574,076
2014-15	2,001,788	1,570,763	3,572,551
2015-16	2,015,763	1,559,081	3,574,844
2016-17	2,024,081	1,546,875	3,570,956
2017-18	2,036,875	1,534,625	3,571,500
2018-19	2,049,625	1,521,750	3,571,375
2019-20	2,066,750	1,508,125	3,574,875
2020-21	2,078,125	1,493,875	3,572,000
2021-22	2,093,875	1,478,875	3,572,750
2022-23	2,108,875	1,463,125	3,572,000
2023-24	2,128,125	1,446,500	3,574,625
2024-25	2,141,500	1,429,125	3,570,625
2025-26	2,164,125	1,410,750	3,574,875
2026-27	8,530,750	1,232,750	9,763,500
2027-28	25,262,750	631,998	25,894,748
2028-29	25,911,997	-	25,911,997
	<u>\$ 88,589,555</u>	<u>\$ 23,002,293</u>	<u>\$ 111,591,848</u>

**INLAND EMPIRE PUBLIC FACILITIES CORPORATION
SCHEDULE OF LEASE PAYMENTS RECEIVABLE
FOR THE YEAR ENDED JUNE 30, 2012**

MEDICAL CENTER PROJECT - SERIES 2009 SERIES A

<u>Fiscal Year</u>	<u>Due July 15</u>	<u>Due January 15</u>	<u>Total</u>
2012-13	\$ 16,209,572	\$ 5,659,997	\$ 21,869,569
2013-14	16,449,997	5,392,747	21,842,744
2014-15	16,797,747	5,123,622	21,921,369
2015-16	17,028,622	4,830,697	21,859,319
2016-17	17,275,697	4,525,384	21,801,081
2017-18	17,615,384	4,198,134	21,813,518
2018-19	21,193,134	3,773,259	24,966,393
2019-20	21,673,260	3,326,928	25,000,188
2020-21	18,341,928	2,914,016	21,255,944
2021-22	19,244,016	2,476,128	21,720,144
2022-23	19,641,128	2,038,878	21,680,006
2023-24	20,423,878	1,567,763	21,991,641
2024-25	20,917,763	1,071,919	21,989,682
2025-26	24,006,919	469,875	24,476,794
2026-27	18,369,874	-	18,369,874
	<u>\$ 285,188,919</u>	<u>\$ 47,369,347</u>	<u>\$ 332,558,266</u>

**INLAND EMPIRE PUBLIC FACILITIES CORPORATION
SCHEDULE OF LEASE PAYMENTS RECEIVABLE
FOR THE YEAR ENDED JUNE 30, 2012**

MEDICAL CENTER PROJECT – 2009 SERIES B

<u>Fiscal Year</u>	<u>Due July 15</u>	<u>Due January 15</u>	<u>Total</u>
2012-13	\$ 1,124,659	\$ 1,124,659	\$ 2,249,318
2013-14	1,124,659	1,124,659	2,249,318
2014-15	1,124,659	1,124,659	2,249,318
2015-16	1,124,659	1,124,659	2,249,318
2016-17	1,124,659	1,124,659	2,249,318
2017-18	1,124,659	1,124,659	2,249,318
2018-19	8,534,659	939,409	9,474,068
2019-20	8,724,409	735,053	9,459,462
2020-21	735,053	735,053	1,470,106
2021-22	735,053	735,053	1,470,106
2022-23	735,053	735,053	1,470,106
2023-24	14,705,053	377,076	15,082,129
2024-25	15,092,076	-	15,092,076
	<u>\$ 56,009,310</u>	<u>\$ 11,004,651</u>	<u>\$ 67,013,961</u>

**INLAND EMPIRE PUBLIC FACILITIES CORPORATION
SCHEDULE OF LEASE PAYMENTS RECEIVABLE
FOR THE YEAR ENDED JUNE 30, 2012**

**SOLID WASTE FINANCING PROJECT
SERIES 2008 B**

<u>Fiscal Year</u>	<u>Total Payment</u>
2012-13	\$ 8,164,610
2013-14	8,805,902
2014-15	9,463,364
2015-16	10,168,815
2016-17	10,936,683
	<u>\$ 47,539,374</u>

**INLAND EMPIRE PUBLIC FACILITIES CORPORATION
SCHEDULE OF DEBT SERVICE - CERTIFICATES OF PARTICIPATION
FOR THE YEAR ENDED JUNE 30, 2012**

**CONSTRUCTION AND IMPROVEMENT PROJECT
SERIES 2002**

Fiscal Year	Due July 1		Due January 1	Total
	Principal	Interest	Interest	
2012-13	\$ 5,155,000	\$ 656,100	\$ 553,000	\$ 6,364,100
2013-14	5,475,000	553,000	443,500	6,471,500
2014-15	5,585,000	443,500	303,875	6,332,375
2015-16	5,950,000	303,875	155,125	6,409,000
2016-17	6,205,000	155,125	-	6,360,125
	<u>\$ 28,370,000</u>	<u>\$ 2,111,600</u>	<u>\$ 1,455,500</u>	<u>\$ 31,937,100</u>

**INLAND EMPIRE PUBLIC FACILITIES CORPORATION
SCHEDULE OF DEBT SERVICE - CERTIFICATES OF PARTICIPATION
FOR THE YEAR ENDED JUNE 30, 2012**

MEDICAL CENTER PROJECT - SERIES 1994

Fiscal Year	Due August 1		Due February 1	Total
	Principal	Interest	Interest	
2012-13	\$ 3,990,000	\$ 3,229,525	\$ 3,119,800	\$ 10,339,325
2013-14	4,205,000	3,119,800	3,004,163	10,328,963
2014-15	4,445,000	3,004,163	2,881,925	10,331,088
2015-16	4,695,000	2,881,925	2,752,813	10,329,738
2016-17	4,965,000	2,752,813	2,616,275	10,334,088
2017-18	5,235,000	2,616,275	2,472,313	10,323,588
2018-19	-	2,472,313	2,472,313	4,944,626
2019-20	-	2,472,313	2,472,313	4,944,626
2020-21	12,180,000	2,472,313	2,046,013	16,698,326
2021-22	12,570,000	2,046,013	1,700,338	16,316,351
2022-23	13,290,000	1,700,338	1,334,863	16,325,201
2023-24	-	1,334,863	1,334,863	2,669,726
2024-25	-	1,334,863	1,334,863	2,669,726
2025-26	13,060,000	1,334,863	1,008,363	15,403,226
2026-27	13,725,000	1,008,363	665,238	15,398,601
2027-28	13,675,000	665,238	340,450	14,680,688
2028-29	14,335,000	340,449	-	14,675,449
	<u>\$ 120,370,000</u>	<u>\$ 34,786,430</u>	<u>\$ 31,556,906</u>	<u>\$ 186,713,336</u>

**INLAND EMPIRE PUBLIC FACILITIES CORPORATION
SCHEDULE OF DEBT SERVICE - CERTIFICATES OF PARTICIPATION
FOR THE YEAR ENDED JUNE 30, 2012**

MEDICAL CENTER PROJECT - SERIES 1995

Fiscal Year	Due August 1		Due February 1	Total
	Principal	Interest	Interest	
2012-13	\$ 3,465,000	\$ 801,775	\$ 689,163	\$ 4,955,938
2013-14	3,705,000	689,163	568,750	4,962,913
2014-15	3,955,000	568,750	440,213	4,963,963
2015-16	4,225,000	440,213	302,900	4,968,113
2016-17	4,505,000	302,900	156,486	4,964,386
2017-18	4,815,000	156,486	-	4,971,486
	<u>\$ 24,670,000</u>	<u>\$ 2,959,287</u>	<u>\$ 2,157,512</u>	<u>\$ 29,786,799</u>

**INLAND EMPIRE PUBLIC FACILITIES CORPORATION
SCHEDULE OF DEBT SERVICE - CERTIFICATES OF PARTICIPATION
FOR THE YEAR ENDED JUNE 30, 2012**

MEDICAL CENTER PROJECT - SERIES 1996

Fiscal Year	Due August 1		Due February 1		Total
	Principal	Interest	Interest		
2012-13	\$ 380,000	\$ 1,602,263	\$ 1,592,288	\$ 3,574,551	
2013-14	400,000	1,592,288	1,581,788	3,574,076	
2014-15	420,000	1,581,788	1,570,763	3,572,551	
2015-16	445,000	1,570,763	1,559,081	3,574,844	
2016-17	465,000	1,559,081	1,546,875	3,570,956	
2017-18	490,000	1,546,875	1,534,625	3,571,500	
2018-19	515,000	1,534,625	1,521,750	3,571,375	
2019-20	545,000	1,521,750	1,508,125	3,574,875	
2020-21	570,000	1,508,125	1,493,875	3,572,000	
2021-22	600,000	1,493,875	1,478,875	3,572,750	
2022-23	630,000	1,478,875	1,463,125	3,572,000	
2023-24	665,000	1,463,125	1,446,500	3,574,625	
2024-25	695,000	1,446,500	1,429,125	3,570,625	
2025-26	735,000	1,429,125	1,410,750	3,574,875	
2026-27	7,120,000	1,410,750	1,232,750	9,763,500	
2027-28	24,030,000	1,232,750	631,998	25,894,748	
2028-29	25,280,000	631,997	-	25,911,997	
	<u>\$ 63,985,000</u>	<u>\$ 24,604,555</u>	<u>\$ 23,002,293</u>	<u>\$ 111,591,848</u>	

**INLAND EMPIRE PUBLIC FACILITIES CORPORATION
SCHEDULE OF DEBT SERVICE - CERTIFICATES OF PARTICIPATION
FOR THE YEAR ENDED JUNE 30, 2012**

MEDICAL CENTER PROJECT – 2009 SERIES A

Fiscal Year	Due August 1		Due February 1	Total
	Principal	Interest	Interest	
2012-13	\$ 10,305,000	\$ 5,904,572	\$ 5,659,997	\$ 21,869,569
2013-14	10,790,000	5,659,997	5,392,747	21,842,744
2014-15	11,405,000	5,392,747	5,123,622	21,921,369
2015-16	11,905,000	5,123,622	4,830,697	21,859,319
2016-17	12,445,000	4,830,697	4,525,384	21,801,081
2017-18	13,090,000	4,525,384	4,198,134	21,813,518
2018-19	16,995,000	4,198,134	3,773,259	24,966,393
2019-20	17,900,000	3,773,259	3,326,928	25,000,187
2020-21	15,015,000	3,326,928	2,914,016	21,255,944
2021-22	16,330,000	2,914,016	2,476,128	21,720,144
2022-23	17,165,000	2,476,128	2,038,878	21,680,006
2023-24	18,385,000	2,038,878	1,567,763	21,991,641
2024-25	19,350,000	1,567,763	1,071,919	21,989,682
2025-26	22,935,000	1,071,919	469,875	24,476,794
2026-27	17,900,000	469,875	-	18,369,875
	<u>\$ 231,915,000</u>	<u>\$ 53,273,919</u>	<u>\$ 47,369,347</u>	<u>\$ 332,558,266</u>

**INLAND EMPIRE PUBLIC FACILITIES CORPORATION
SCHEDULE OF DEBT SERVICE - CERTIFICATES OF PARTICIPATION
FOR THE YEAR ENDED JUNE 30, 2012**

MEDICAL CENTER PROJECT – 2009 SERIES B

Fiscal Year	Due August 1		Due February 1	Total
	Principal	Interest	Interest	
2012-13	\$ -	\$ 1,124,659	\$ 1,124,659	\$ 2,249,318
2013-14	-	1,124,659	1,124,659	2,249,318
2014-15	-	1,124,659	1,124,659	2,249,318
2015-16	-	1,124,659	1,124,659	2,249,318
2016-17	-	1,124,659	1,124,659	2,249,318
2017-18	-	1,124,659	1,124,659	2,249,318
2018-19	7,410,000	1,124,659	939,409	9,474,068
2019-20	7,785,000	939,409	735,053	9,459,462
2020-21	-	735,053	735,053	1,470,106
2021-22	-	735,053	735,053	1,470,106
2022-23	-	735,053	735,053	1,470,106
2023-24	13,970,000	735,053	377,076	15,082,129
2024-25	14,715,000	377,076	-	15,092,076
	<u>\$ 43,880,000</u>	<u>\$ 12,129,310</u>	<u>\$ 11,004,651</u>	<u>\$ 67,013,961</u>

Schedule Fourteen

**INLAND EMPIRE PUBLIC FACILITIES CORPORATION
SCHEDULE OF DEBT SERVICE - CERTIFICATES OF PARTICIPATION
FOR THE YEAR ENDED JUNE 30, 2012**

SOLID WASTE FINANCING PROJECT – SERIES 2008 B

<u>Fiscal Year</u>	<u>Principal</u>		<u>Interest**</u>	<u>Total</u>
	<u>Due September 1</u>	<u>Due March 1</u>		
2012-13	\$ 3,915,000	\$ 4,130,000	\$ 119,610	\$ 8,164,610
2013-14	4,265,000	4,435,000	105,902	8,805,902
2014-15	4,630,000	4,755,000	78,364	9,463,364
2015-16	5,010,000	5,110,000	48,815	10,168,815
2016-17	5,410,000	5,510,000	16,683	10,936,683
	<u>\$ 23,230,000</u>	<u>\$ 23,940,000</u>	<u>\$ 369,374</u>	<u>\$ 47,539,374</u>

**Fiscal year interest in this schedule is based on June 30, 2012 interest rate, which was 0.300%.



**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
Inland Empire Public Facilities Corporation
San Bernardino, California

We have audited the financial statements of each major fund of the Inland Empire Public Facilities Corporation (the "Corporation"), a component unit of the County of San Bernardino, California, as of and for the year ended June 30, 2012, and have issued our report thereon dated November 5, 2012. 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.

Internal Control Over Financial Reporting

Management of the Corporation is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Corporation's internal control over financial reporting as a basis for designing our auditing procedures 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 Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free of 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*.

This report is intended solely for the information and use of the Board of Directors and management of the Corporation and is not intended to be and should not be used by anyone other than these specified parties.

Vawter, Tami, Day, Co., LLP

Rancho Cucamonga, California

November 5, 2012