

**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, 2017**

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

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**VAVRINEK, TRINE, DAY & CO., LLP**  
Certified Public Accountants

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## INDEPENDENT AUDITORS' REPORT

Board of Supervisors 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 (Authority), a component unit of the County of San Bernardino, California, as of and for the year ended June 30, 2017, 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of the Authority as of June 30, 2017, and the respective changes in financial position, and its cash flows 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 schedules of debt service are presented for purposes of additional analysis and are not a 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 December 8, 2017, 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.

*Varrinik, Trine, Day & Co. LLP*

Rancho Cucamonga, California  
December 8, 2017

**SAN BERNARDINO COUNTY FINANCING AUTHORITY  
STATEMENT OF NET POSITION  
JUNE 30, 2017**

	Pension Obligation	Courthouse Project	Combined
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 6,219	\$ 1,533,697	\$ 1,539,916
Cash and cash equivalents-restricted	-	484,613	484,613
Interest receivable	-	1,204	1,204
Receivables:			
Due from County	57,890,015	-	57,890,015
Due from AQMD	3,046,059	-	3,046,059
Total current assets	60,942,293	2,019,514	62,961,807
Noncurrent assets			
Receivables:			
Due from County	213,807,175	-	213,807,175
Due from AQMD	10,056,898	-	10,056,898
Total noncurrent assets	223,864,073	-	223,864,073
Total assets	284,806,366	2,019,514	286,825,880
<b>LIABILITIES</b>			
Current liabilities			
Interest payable	-	64,396	64,396
Current portion of bonds	61,315,000	870,000	62,185,000
Current portion of bond discount	(18,071,558)	-	(18,071,558)
Total current liabilities	43,243,442	934,396	44,177,838
Noncurrent liabilities			
Bonds (net of current portion)	273,585,000	13,180,000	286,765,000
Bond discount	(30,771,434)	-	(30,771,434)
Total noncurrent liabilities	242,813,566	13,180,000	255,993,566
Total liabilities	286,057,008	14,114,396	300,171,404
<b>NET POSITION:</b>			
Unrestricted	(1,250,642)	(12,094,882)	(13,345,524)
<b>TOTAL NET POSITION (DEFICIT):</b>	<b>\$ (1,250,642)</b>	<b>\$ (12,094,882)</b>	<b>\$ (13,345,524)</b>

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, 2017**

	<u>Pension Obligation</u>	<u>Courthouse Project</u>	<u>Combined</u>
<b>NONOPERATING REVENUES</b>			
Interest and dividends	\$ 284,484	\$ 8,201	\$ 292,685
Accretion of interest income	21,198,376	-	21,198,376
Surcharge revenue	<u>-</u>	<u>1,703,723</u>	<u>1,703,723</u>
Total nonoperating revenues	<u>21,482,860</u>	<u>1,711,924</u>	<u>23,194,784</u>
<b>NONOPERATING EXPENSES</b>			
Interest	-	797,651	797,651
Accretion of interest expense	21,198,376	-	21,198,376
Administrative expense	<u>-</u>	<u>1,700</u>	<u>1,700</u>
Total nonoperating expenses	<u>21,198,376</u>	<u>799,351</u>	<u>21,997,727</u>
Changes in net position	284,484	912,573	1,197,057
<b>Net position (deficit) - Beginning of year</b>	<u>(1,535,126)</u>	<u>(13,007,455)</u>	<u>(14,542,581)</u>
<b>Net position (deficit) - End of year</b>	<u><u>\$ (1,250,642)</u></u>	<u><u>\$ (12,094,882)</u></u>	<u><u>\$ (13,345,524)</u></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, 2017**

	Pension Obligation	Courthouse Project	Combined
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Principal payments on bonds	\$ (58,450,000)	\$ (655,000)	\$ (59,105,000)
Interest paid on bonds	-	(800,515)	(800,515)
Surcharges received	-	1,703,723	1,703,723
Net cash flows provided by or (used) for noncapital financing activities	<u>(58,450,000)</u>	<u>248,208</u>	<u>(58,201,792)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investment income	2,364	7,259	9,623
Payments received from County and AQMD for maturities of financial securities	58,450,000	-	58,450,000
Administrative expense	-	(1,700)	(1,700)
Net cash flows provided by or (used) for investing activities	<u>58,452,364</u>	<u>5,559</u>	<u>58,457,923</u>
Increase (Decrease) in cash and cash equivalents	2,364	253,767	256,131
<b>Cash and cash equivalents - Beginning of year</b>	<u>3,855</u>	<u>1,764,543</u>	<u>1,768,398</u>
<b>Cash and cash equivalents - End of year</b>	<u>\$ 6,219</u>	<u>\$ 2,018,310</u>	<u>\$ 2,024,529</u>

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

**SAN BERNARDINO COUNTY FINANCING AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 1: DESCRIPTION OF THE AUTHORITY AND SUMMARY OF SIGNIFICANT 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 the 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 treats all investments with original maturities of three months or less as cash equivalents.

On December 1, 1995, The Authority used the proceeds of its pension obligation bonds to purchase all the outstanding San Bernardino County (County) 1995 Pension Obligation Refunding Bonds and the South Coast Air Quality Management District (AQMD) 1995 Pension Obligation Refunding Bonds. The timing and cash flows of the debt issues are identical in effect creating receivables from the County and AQMD to the Authority. Because the service capacity of the outstanding County and AQMD bonds is not based solely on the bond's ability to generate cash, these bonds would not meet the definition of an investment in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Accordingly, the classification of such assets is reported as receivables.

**SAN BERNARDINO COUNTY FINANCING AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 1: DESCRIPTION OF THE AUTHORITY AND SUMMARY OF SIGNIFICANT 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, 2017**

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

**Fair Value Measurements**

The valuation of 2a7 money market mutual funds are at one-dollar net asset value (NAV) per share. The total fair value of these at June 30, 2017 was \$2,024,529, with \$0 unfunded commitments. The redemption frequency is daily and redemption notice period of intra-daily. This type of investment primarily invests in short term U.S Treasury, government securities (including repurchase agreements collateralized by U.S. Treasury and government agency securities).

**Investments Authorized by Debt Agreements**

Investments of debt proceeds held by bond trustees are governed by provisions of the debt agreements. 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 Courthouse Project Bonds investments in money market funds are required to have the highest letter and numerical rating. The Courthouse Project Bonds met these requirements as of June 30, 2017.

**Credit Risk**

The Authority's investments in money market mutual funds were rated Aaa-mf by Moody's Investors Service.

**Restricted Cash**

Restricted cash of \$484,613 is held by a trustee for a special mandatory redemption of the Courthouse revenue bonds to occur on December 1, 2017, pursuant to the Trust Indenture.

**NOTE 3: RECEIVABLES**

The receivable is the result of the Authority purchasing San Bernardino County 1995 Pension Obligation Refunding Bonds and the South Coast Air Quality Management District 1995 Pension Obligation Refunding Bonds which were issued by the County and AQMD. Proceeds from the County and AQMD are then used to pay the Authority Pension Obligation Bonds as they come due.

At June 30, 2017, the total receivables balance was \$284,800,147. Of this amount, \$60,936,074 is due in one year.

**SAN BERNARDINO COUNTY FINANCING AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 4: 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.

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.

**SAN BERNARDINO COUNTY FINANCING AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 4: LONG-TERM DEBT (continued)**

The debt service schedule for the current fiscal year required principal and interest payments totaling \$1,455,515. The total surcharged revenues received during the fiscal year totaled \$1,703,723. Total principal and interest remaining on the bonds is \$23,194,025 payable through June 2037.

The \$3,100,000 and the \$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. Total principal of \$1,220,000 has been early redeemed.

The following is a summary of changes in the Bonds for the fiscal year ended June 30, 2017:

<u>Description</u>	<u>July 1, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2017</u>	<u>Due Within One Year</u>
Pension Obligation					
Capital Appreciation Authority Bonds	\$ 393,350,000	\$ -	\$ 58,450,000	\$ 334,900,000	\$ 61,315,000
Bond Discount	(70,041,368)	-	(21,198,376)	(48,842,992)	(18,071,558)
Courthouse Revenue Bonds	14,705,000	-	655,000	14,050,000	870,000
Total	<u>\$ 338,013,632</u>	<u>\$ -</u>	<u>\$ 37,906,624</u>	<u>\$ 300,107,008</u>	<u>\$ 44,113,442</u>

The annual requirements to amortize all bonds outstanding at June 30, 2017, including interest payments of \$9,144,025, and unaccrued and accrued interest of \$278,852,800, over the life of the debt, are as follows:

<u>Description</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Pension Obligation					
Capital Appreciation Authority Bonds	\$ 61,315,000	\$ 64,325,000	\$ 67,485,000	\$ 70,800,000	\$ 70,975,000
Courthouse Revenue Bonds	1,629,550	1,134,900	1,137,350	1,133,425	1,133,400
Total	<u>\$ 62,944,550</u>	<u>\$ 65,459,900</u>	<u>\$ 68,622,350</u>	<u>\$ 71,933,425</u>	<u>\$ 72,108,400</u>

<u>Description</u>	<u>2023 - 2027</u>	<u>2028 - 2032</u>	<u>2033 - 2037</u>	<u>Total</u>
Pension Obligation				
Capital Appreciation Authority Bonds	\$ -	\$ -	\$ -	\$ 334,900,000
Courthouse Revenue Bonds	5,684,650	5,692,125	5,648,625	23,194,025
Total	<u>\$ 5,684,650</u>	<u>\$ 5,692,125</u>	<u>\$ 5,648,625</u>	<u>\$ 358,094,025</u>

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

**SAN BERNARDINO COUNTY FINANCING AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 5: 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.

The coverage ratio for the immediately prior bond year was 1.394, thus the remaining amount of \$484,613 in the Debt Service Fund was transferred to the Redemption account for the special mandatory redemption of the bonds to occur on December 1, 2017, which is the next scheduled interest payment date.

**NOTE 6: 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 long-term debt not being offset with the related capital assets, which are recorded in the San Bernardino County financial statements. The deficit will continue to be reduced with future years' surcharge revenues.

**NOTE 7: NEW PRONOUNCEMENTS**

**Effective in Current Fiscal Year**

**GASB Statement No. 74** – In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The Statement is effective for periods beginning after June 15, 2016. The statement did not have an effect on the Authority's financial statements.

**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 statement did not have an effect on the Authority's financial statements.

**SAN BERNARDINO COUNTY FINANCING AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 7: NEW PRONOUNCEMENTS (*Continued*)**

**GASB Statement No. 78** – In December 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The Statement is effective for periods beginning after December 15, 2015. The Statement did not have an effect on the Authority's financial statements.

**GASB Statement No. 80** – In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units — an amendment of GASB Statement No. 14*. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. The Statement is effective for reporting periods beginning after June 15, 2016. The statement did not have an effect on the Authority's financial statements.

**GASB Statement No. 82** – In March 2016, GASB issued Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to GASB 67, *Financial Reporting for Pension Plans*, GASB 68, *Accounting and Financial Reporting for Pensions*, and GASB 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and Amendments to Certain Provisions of GASBs 67 and 68. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. The statement did not have an effect on the Authority's financial statements.

**Effective in Future Fiscal Years**

**GASB Statement No. 75** – In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of this Statement is to improve accounting and financial reporting by state and local governments for OPEB. This Statement replaces the requirements of Statements No. 45 and No. 57. The Statement is effective for periods beginning after June 15, 2017. The Authority has not determined the effect of this Statement.

**SAN BERNARDINO COUNTY FINANCING AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 7: NEW PRONOUNCEMENTS (*Continued*)**

**GASB Statement No. 81** – In January 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The requirements of this Statement are effective for periods beginning after December 15, 2016. The Authority has not determined the effect of this Statement.

**GASB Statement No. 83** – In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. The objective of this Statement is to provide financial statement users with information about asset retirement obligations that were not addressed in GASB standards by establishing uniform accounting and financial reporting requirements for these obligations. The requirements of this Statement are effective for periods beginning after June 15, 2018. The Authority has not determined the effect of this Statement.

**GASB Statement No. 84** – In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for periods beginning after December 15, 2018. The Authority has not determined the effect of this Statement.

**GASB Statement No. 85** – In March 2017, GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. The requirements of this Statement are effective for periods beginning after June 15, 2017. The Authority has not determined the effect of this Statement.

**GASB Statement No. 86** – In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – recourses other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. The requirements of this Statement are effective for periods beginning after June 15, 2017. The Authority has not determined the effect of this Statement.

**GASB Statement No. 87** – In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The requirements of this Statement are effective for periods beginning after December 15, 2019. The Authority has not determined the effect of this Statement.

SCHEDULE ONE

SAN BERNARDINO COUNTY FINANCING AUTHORITY  
 SCHEDULE OF DEBT SERVICE  
 FOR THE YEAR ENDED JUNE 30, 2017

PENSION OBLIGATION  
 CAPITAL APPRECIATION AUTHORITY BONDS

Fiscal Year	Due August 1		Total
	Initial Principal	Accreted Interest	
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
TOTALS	<u>\$ 56,047,200</u>	<u>\$ 278,852,800</u>	<u>\$ 334,900,000</u>

**SCHEDULE TWO**

**SAN BERNARDINO COUNTY FINANCING AUTHORITY  
SCHEDULE OF DEBT SERVICE  
FOR THE YEAR ENDED JUNE 30, 2017**

**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>	
2017-18	\$ 480,000	\$ 386,375	\$ 390,000	\$ 373,175	\$ 1,629,550
2018-19		362,450	410,000	362,450	1,134,900
2019-20		351,175	435,000	351,175	1,137,350
2020-21		339,213	455,000	339,212	1,133,425
2021-22		326,700	480,000	326,700	1,133,400
2022-23		313,500	505,000	313,500	1,132,000
2023-24		299,613	540,000	299,612	1,139,225
2024-25		284,762	565,000	284,763	1,134,525
2025-26		269,225	600,000	269,225	1,138,450
2026-27		252,725	635,000	252,725	1,140,450
2027-28		235,263	675,000	235,262	1,145,525
2028-29		216,700	710,000	216,700	1,143,400
2029-30		197,175	745,000	197,175	1,139,350
2030-31		176,688	780,000	176,687	1,133,375
2031-32		155,237	820,000	155,238	1,130,475
2032-33		132,687	865,000	132,688	1,130,375
2033-34		108,900	915,000	108,900	1,132,800
2034-35		83,738	965,000	83,737	1,132,475
2035-36		57,200	1,015,000	57,200	1,129,400
2036-37		29,287	1,065,000	29,288	1,123,575
<b>TOTALS</b>	<b>\$ 480,000</b>	<b>\$ 4,578,613</b>	<b>\$ 13,570,000</b>	<b>\$ 4,565,412</b>	<b>\$ 23,194,025</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 Supervisors and Audit Committee  
San Bernardino County Financing Authority  
San Bernardino, California

We have audited, in accordance with the 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 (Authority), a component unit of the County of San Bernardino, California, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 8, 2017.

**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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vavrinik, Trine, Day & Co. LLP

Rancho Cucamonga, California

December 8, 2017