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, 2012

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

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FOR THE YEAR ENDED JUNE 30, 2012

INDEPENDENT AUDITORS' REPORT

Board of Directors
San Bernardino County Financing Authority
San Bernardino, California

We have audited the accompanying financial statements of each major fund of the San Bernardino County Financing Authority (the "Authority"), a component unit of the County of San Bernardino, California, as of and for the year ended June 30, 2012, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the San Bernardino County Financing Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 Authority'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 financial position of each major fund of the San Bernardino County Financing Authority 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 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 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.

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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the San Bernardino County Financing Authority'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.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
November 5, 2012

Exhibit A

SAN BERNARDINO COUNTY FINANCING AUTHORITY
STATEMENT OF NET ASSETS
JUNE 30, 2012

	Pension Obligation	Courthouse Project	Combined
ASSETS			
Current assets			
Cash and cash equivalents	$ 7,557	$ 5,429,160	$ 5,436,717
Interest receivable	-	43	43
Total current assets	7,557	5,429,203	5,436,760
Noncurrent assets			
Investments - restricted	420,633,713	-	420,633,713
Deferred bond issuance costs	2,588,494	361,990	2,950,484
Total noncurrent assets	423,222,207	361,990	423,584,197
Total assets	423,229,764	5,791,193	429,020,957
LIABILITIES			
Current liabilities			
Interest payable	-	78,020	78,020
Current portion of bonds	48,285,000	340,000	48,625,000
Due to other government	-	900,000	900,000
Total current liabilities	48,285,000	1,318,020	49,603,020
Noncurrent liabilities			
Bonds (net of current portion)	552,835,000	16,820,000	569,655,000
Bond discount	(177,818,834)	-	(177,818,834)
Total noncurrent liabilities	375,016,166	16,820,000	391,836,166
Total liabilities	423,301,166	18,138,020	441,439,186
NET ASSETS:			
Unrestricted	$ (71,402)	$ (12,346,827)	$ (12,418,229)

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

Exhibit B

SAN BERNARDINO COUNTY FINANCING AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012

	Pension Obligation	Courthouse Project	Combined
NONOPERATING REVENUES			
Interest and dividends	$ 518,414	$ 524	$ 518,938
Accretion of interest income	30,665,367	-	30,665,367
Surcharge revenue	-	2,216,152	2,216,152
Total nonoperating revenues	31,183,781	2,216,676	33,400,457
NONOPERATING EXPENSES			
Interest	262,714	951,434	1,214,148
Accretion of interest expense	30,665,367	-	30,665,367
Amortization of bond issuance costs	284,972	14,528	299,500
Contributions to other government	-	900,000	900,000
Other expenses	106	1,701	1,807
Total nonoperating expenses	31,213,159	1,867,663	33,080,822
Changes in net assets	(29,378)	349,013	319,635
Net Assets - June 30, 2011	(42,024)	(12,695,840)	(12,737,864)
Net Assets - June 30, 2012	$ (71,402)	$ (12,346,827)	$ (12,418,229)

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, 2012

	Pension Obligation	Courthouse Project	Combined
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Principal payments on bonds	$ (44,465,000)	$ (325,000)	$ (44,790,000)
Interest paid on bonds	(1,576,284)	(952,815)	(2,529,099)
Surcharges received	-	2,216,152	2,216,152
Net cash flows provided by or (used) by noncapital financing activities	(46,041,284)	938,337	(45,102,947)
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment income	1,549,865	521	1,550,386
Proceeds from sales of investments	44,465,000	-	44,465,000
Other expenses	(106)	(1,701)	(1,807)
Net cash flows provided by or (used) by investing activities	46,014,759	(1,180)	46,013,579
Increase (decrease) in cash and cash equivalents	(26,525)	937,157	910,632
Cash and cash equivalents at June 30, 2011	34,082	4,492,003	4,526,085
Cash and cash equivalents at June 30, 2012	$ 7,557	$ 5,429,160	$ 5,436,717

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

NOTE 1: DESCRIPTION OF THE AUTHORITY AND ACCOUNTING POLICIES

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

The 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.

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 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. The Authority provides services entirely to the County. All accounts and records of the Authority's projects are held by trustee banks.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

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

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

The Authority has capitalized deferred issuance costs and bond discount and deep-discounts associated with the bond issues. The deferred issuance costs and bond discount are being amortized over the term of the respective bonds using the straight-line method. 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 assets, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows are presented. Net assets can be classified into restricted and unrestricted. These classifications are defined as follows:

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 Authority’s policy to use restricted resources first, then unrestricted resources as they are needed.

The Pension Obligation Bonds allowed the San Bernardino County and South Coast Air Quality Management District to refinance their unfunded accrued actuarial liabilities with respect to retirement benefits. The Courthouse Project Bonds provided funds to renovate courthouse facilities located within the County of San Bernardino.

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 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 Authority are as follows:

Bond Issue	Trustee
Pension Obligation Bonds	The Bank of New York Mellon Trust Company
Courthouse Revenue Bonds	Wells Fargo Bank

Investments Authorized by Debt Agreements

Investments of debt proceeds held by bond trustees are governed by provisions of the debt agreements. The Financing Authority 1995 Pension Obligation Revenue Bonds currently outstanding were issued for the purpose of acquiring the San Bernardino County 1995 Pension Obligation Refunding Bonds and the South Coast Air Quality Management District 1995 Pension Obligation Refunding Bonds. In addition to these local bonds, the debt agreements specify permitted investment types along with any related insurance, collateral, or minimum credit rating requirements. Investments in money market funds are required to have a rating of A or better for the Financing Authority 1995 Pension Obligation Revenue Bonds.

Interest Rate Risk

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

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

Description	Maturity	Fair Value	Weighted Average Maturity (Years)
Municipal Bonds	8/1/2012 - 8/1/2021	$ 420,633,713	4.958
Money Market Mutual Funds	N/A	5,436,717	N/A
Total Cash and Investments		$ 426,070,430	

NOTE 2: CASH AND INVESTMENTS (*Continued*)

Concentration of Credit Risk

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

Investment Type	Issuer	Fair Value
Municipal Bonds	County of San Bernardino	$ 399,186,376
Municipal Bonds	South Coast Air Quality Management District	21,447,337
		$ 420,633,713

Credit Risk

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

Investments

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

NOTE 3: LONG-TERM DEBT

Pension Obligation Bonds

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

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.

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

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 to 5.50 percent payable semi-annually. The bonds were issued to finance the costs of seismic retrofitting, refurbishing, improving and renovating courthouse facilities located within San Bernardino County, fund a reserve fund for the bonds, and pay costs of issuance of the bonds.

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

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

The debt service schedule for the current fiscal year required principal and interest payments totaling $1,277,815. The total Surcharged Revenues received during the fiscal year totaled $2,216,152. Surcharge Revenues are projected to produce 150 percent of the debt service requirements over the life of the bonds. Total principal and interest remaining on the bonds is $31,941,480 payable through June 2037.

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

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

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

Description	July 1, 2011	Additions	Reductions	June 30, 2012	Due Within One Year
Pension Obligation					
Current Interest Authority Bonds	$ 44,465,000	$ -	$ 44,465,000	$ -	$ -
Capital Appreciation Authority Bonds	601,120,000	-	-	601,120,000	48,285,000
Bond Discount	(208,484,201)	-	(30,665,367)	(177,818,834)	N/A
Courthouse Revenue Bonds	17,485,000	-	325,000	17,160,000	340,000
Total	$ 454,585,799	$ -	$ 14,124,633	$440,461,166	$ 48,625,000

The annual requirements to amortize all bonds outstanding at June 30, 2012, including interest payments of $14,781,480, and unaccreted and accreted interest of $479,187,513, over the life of the debt, are as follows:

Description	2012-13	2013-14	2014-15	2015-16	2016-17
Pension Obligation					
Capital Appreciation Authority Bonds	$ 48,285,000	$ 50,645,000	$ 53,120,000	$ 55,720,000	$ 58,450,000
Courthouse Revenue Bonds	1,276,240	1,278,900	1,280,540	1,276,160	1,276,015
Total	$ 49,561,240	$ 51,923,900	$ 54,400,540	$ 56,996,160	$ 59,726,015

Description	FY18- FY22	FY23 - FY27	FY28 - FY32	FY33 - FY37	Total
Pension Obligation					
Capital Appreciation Authority Bonds	$334,900,000	$ -	$ -	$ -	$ 601,120,000
Courthouse Revenue Bonds	6,394,325	6,383,575	6,388,200	6,387,525	$ 31,941,480
Total	$341,294,325	$ 6,383,575	$ 6,388,200	$ 6,387,525	$ 633,061,480

Please refer to the supplemental schedules to review the principal and interest payment breakdown for each of the bonds.

NOTE 4: CONTRIBUTIONS TO OTHER GOVERNMENT

On August 22, 2006, the San Bernardino County Board of Supervisors adopted Resolution No. 2006-295 to redirect funding in the amount of $8.8 million from the seismic retrofit and remodel project for the Central Courthouse to the new courthouse to be constructed by the State of California (State) on the 7.12-acre site owned by the City of San Bernardino on the southeast corner of 3rd Street and Arrowhead Avenue in San Bernardino. A transfer agreement was approved on June 19, 2007 with the Judicial Council of California, Administrative Office of the Courts which included a provision for the County's contribution of $8.8 million. However, no time frame for the payment was provided.

On December 16, 2008 the San Bernardino County Board of Supervisors adopted resolution No. 2008-322 to show intent to make every reasonable effort to make contributions to the State in the total amount of $8.8 million. Through June 30, 2012, the County has made contributions totaling $3,900,000. The final contribution of $4,900,000 is scheduled to be made on December 31, 2012.

The County's ability to make these payments when planned is dependent on a number of factors. One of those factors is maintaining surcharge filing fee revenues at current levels and that they are at least 1.5 times the annual debt service the Authority is paying on the revenue bonds issued to fund the Seismic Retrofit Project. The coverage ratio is measured as of the end of the fiscal year preceding the payment date. The coverage ratio exceeded the 1.5 requirement for the preceding year ended June 30, 2011. The County makes the determination of whether or not to make the contribution to the State each December when they review the cash flows for the Central Courthouse project and all the factors dependent on making the contribution.

It is the County's, not the Authority's, obligation to make the above contributions. The Authority will not use bond proceeds and will only reimburse the County for future contributions from excess surcharge revenue if the excess surcharge revenue exceeds the 1.5 annual debt service coverage ratio in accordance with the bond agreement. Since the coverage ratio exceeded the 1.5 annual debt service requirement, the Authority recognized $900,000 as due to other government for its liability to reimburse the County for the County's contribution to the State on January 23, 2012.

NOTE 5: CONDUIT DEBT

Pursuant to State Legislation ABX1 26 and AB 1484, the San Bernardino County Redevelopment Agency (RDA) dissolved as of February 1, 2012. The San Bernardino County (County) agreed to serve as the Successor Agency, a separate legal entity from the County, to the former RDA and retained all rights, powers, assets, liabilities, duties, and obligations previously vested with the former RDA.

The Authority issued a series of tax allocation bonds on behalf of the former RDA, totaling $58,275,000, to provide funds to finance and refinance the former RDA's redevelopment activities in the San Sevaine Redevelopment Project Area, including the advance refunding of the 2000 bonds, fund the reserve account, and provide for the costs of issuing the 2005 Bonds on December 13, 2005.

NOTE 5: CONDUIT DEBT (*Continued*)

A portion of the proceeds of the 2005 Bonds were used to finance redevelopment and low and moderate income housing activities within or for the benefit of the project area. The activities include, but are not limited to: construction of a fire station, reconstruction and widening of Cherry Avenue, construction of the San Sevaine and West Fontana flood control channel, and design of the interstate 10/Cherry Avenue interchange. These bonds are special obligations of the former RDA payable solely from and secured by tax revenues, and amounts in certain funds and accounts held under the indenture.

In order to continue the efforts of the former RDA to implement certain development projects and programs in the San Sevaine Redevelopment Project Area, the Authority issued a series of tax allocation bonds (the San Sevaine 2010 Bonds), totaling $30,550,000, on behalf of the former RDA on November 22, 2010 to fund certain rail crossing improvements, a reconstruction of the Cherry Avenue/Interstate 10 Interchange, programs for economic development and a housing fund loan repayment. The 2010 Bonds are special obligations of the former RDA payable solely from the tax revenue and bond tax subsidy payments, and amounts in certain funds and accounts maintained under the indenture.

Additionally, on November 4, 2010, the Authority issued the Cedar Glen Disaster Recovery Project Area Tax Allocation Bonds, Series 2010, totaling $5,750,000, on behalf of the former RDA to finance redevelopment activities, establish a reserve fund and pay the cost of issuance. The activities to be financed will assist in the repair of the damages caused by the 2003 Old Fire and eliminate and prevent the expansion of blight in the project area and will include improvements to the water and road system in the Cedar Glen community. The bonds are payable exclusively from tax revenues, and certain other funds, in accordance with the indenture.

The San Sevaine Redevelopment Project Area 2005 and 2010 tax allocation bonds, and the Cedar Glen Disaster Recovery Project Area tax allocation bonds do not constitute a debt or pledge of the faith and credit of the Authority or the County, and accordingly have not been reported in the accompanying financial statements. At June 30, 2012, tax allocation bonds outstanding totaled $88,095,000.

NOTE 6: NET ASSETS/DEFICITS

Pension obligation: The deficit was caused primarily by the amortization of bond issuance costs and a decrease in interest and dividend revenue.

Courthouse project: The deficit was caused primarily by the drawdown of bond proceeds to reimburse the County for construction expenditures and by the contributions to other governments. The deficit will be reduced with future years' Surcharge Revenues.

SAN BERNARDINO COUNTY FINANCING AUTHORITY
SCHEDULE OF DEBT SERVICE
FOR THE YEAR ENDED JUNE 30, 2012

PENSION OBLIGATION
CAPITAL APPRECIATION AUTHORITY BONDS

	Due August 1		
Fiscal Year	Initial Principal	Accreted Interest	Total
2012-13	$ 14,052,384	$ 34,232,616	$ 48,285,000
2013-14	13,615,908	37,029,092	50,645,000
2014-15	13,161,011	39,958,989	53,120,000
2015-16	12,736,478	42,983,522	55,720,000
2016-17	12,319,506	46,130,494	58,450,000
2017-18	11,958,878	49,356,122	61,315,000
2018-19	11,608,089	52,716,911	64,325,000
2019-20	11,265,271	56,219,729	67,485,000
2020-21	10,982,496	59,817,504	70,800,000
2021-22	10,232,466	60,742,534	70,975,000
TOTALS	$ 121,932,487	$ 479,187,513	$ 601,120,000

SCHEDULE TWO

SAN BERNARDINO COUNTY FINANCING AUTHORITY
SCHEDULE OF DEBT SERVICE
FOR THE YEAR ENDED JUNE 30, 2012

COURTHOUSE REVENUE BONDS

Fiscal Year	Due December 1 Interest	Due June 1 Principal	Due June 1 Interest	Total
2012-13	$ 468,120	$ 340,000	$ 468,120	$ 1,276,240
2013-14	459,450	360,000	459,450	1,278,900
2014-15	450,270	380,000	450,270	1,280,540
2015-16	440,580	395,000	440,580	1,276,160
2016-17	430,507	415,000	430,508	1,276,015
2017-18	419,925	440,000	419,925	1,279,850
2018-19	407,825	460,000	407,825	1,275,650
2019-20	395,175	490,000	395,175	1,280,350
2020-21	381,700	515,000	381,700	1,278,400
2021-22	367,538	545,000	367,537	1,280,075
2022-23	352,550	570,000	352,550	1,275,100
2023-24	336,875	605,000	336,875	1,278,750
2024-25	320,238	635,000	320,237	1,275,475
2025-26	302,775	670,000	302,775	1,275,550
2026-27	284,350	710,000	284,350	1,278,700
2027-28	264,825	750,000	264,825	1,279,650
2028-29	244,200	790,000	244,200	1,278,400
2029-30	222,475	830,000	222,475	1,274,950
2030-31	199,650	880,000	199,650	1,279,300
2031-32	175,450	925,000	175,450	1,275,900
2032-33	150,013	975,000	150,012	1,275,025
2033-34	123,200	1,030,000	123,200	1,276,400
2034-35	94,875	1,090,000	94,875	1,279,750
2035-36	64,900	1,150,000	64,900	1,279,800
2036-37	33,275	1,210,000	33,275	1,276,550
TOTALS	$ 7,390,741	$ 17,160,000	$ 7,390,739	$ 31,941,480

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
San Bernardino County Financing Authority
San Bernardino, California

We have audited the financial statements of each major fund of the San Bernardino County Financing Authority (the "Authority"), a component unit of the County of San Bernardino, California, as of and for the year ended June 30, 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 Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority'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 Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority'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.*

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

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
November 5, 2012