SAN BERNARDINO COUNTY TREASURY

STATEMENT OF ASSETS WITH INDEPENDENT AUDITORS' REPORT

For the Fiscal Year Ended
June 30, 2017

SAN BERNARDINO COUNTY TREASURY
For the Fiscal Year Ended June 30, 2017
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INDEPENDENT AUDITORS' REPORT

Board of Supervisors
San Bernardino, California

Report on the Financial Statements
We have audited the accompanying special purpose Statement of Assets of the San Bernardino County (County) Auditor-Controller/Treasurer/Tax Collector (Treasury), as of June 30, 2017, and the related notes to the Statement of Assets.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of the financial statement 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 an opinion on the financial statement 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 statement is 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 opinion.

Opinion
In our opinion, the statement of assets referred to above presents fairly, in all material respects, the assets of the County Treasury, as of June 30, 2017, in accordance with accounting principles generally accepted in the United States of America.

Jeff Nigro, CPA, CFE | Elizabeth Nigro, CPA | Kevin Brejnak, CPA, CFE | CJ Gaunder Singh, CPA
Peter Glenn, CPA | Michael Klein, CPA, CMA, EA

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Emphasis of Matter

We draw attention to Note 1 to the Statement of Assets, which describes that the accompanying Statement of Assets was prepared for the purpose of complying with California Government Code Section 26920 and is not intended to be a complete presentation of the County Treasury's financial position and the changes in financial position. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated January 18, 2018, on our consideration of the County Treasury'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 County Treasury's internal control over financial reporting and compliance.

Nigro & Nigro, PC

Murrieta, California
January 18, 2018

SAN BERNARDINO COUNTY TREASURY
Statement of Assets
June 30, 2017

Assets		
Cash	$	569,056,625
Investments:		
U.S. Treasury Securities		674,162,250
U.S. Government Agencies		1,664,110,116
Negotiable Certificates of Deposit		1,432,646,150
Commercial Paper		1,117,821,798
Medium-Term Corporate Notes		84,746,350
Insured Placement Service Accounts		50,000,000
JPA Investment Pools		192,000,000
Money Market Mutual Funds		2,000,000
Supranationals		830,009,009
Total Investments		6,047,495,673
Accrued Interest		10,994,026
Total Assets	$	6,627,546,324

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The Financial Reporting Entity

The San Bernardino County (County) Auditor-Controller/Treasurer/Tax Collector (Treasury) is responsible for the management of the County Investment Pool (Pool) and investment of pooled monies held on behalf of the County, school districts, community college districts, and certain special districts within the County.

The County Treasury is under the oversight of a County Treasury Oversight Committee (Committee), which was established pursuant to Sections 27130-27137 of the California Government Code (CGC) to review and approve the County Treasury's Investment Policy (Investment Policy). The Committee membership includes the Board of Supervisors' representative, Superintendent of Schools, and two general public members. The County Investment Pool is not registered with the Securities and Exchange Commission (SEC) as an investment company.

B. The Investment Policy

The Investment Policy's objective is to invest public funds in a manner which will preserve the safety and liquidity of all investments within the Pool while obtaining a reasonable return within established investment guidelines. Accordingly, pursuant to the Investment Policy, the County Treasury is guided by the following principles, in order of importance:

- Safeguarding investment principal
- Maintenance of sufficient liquidity to meet daily cash flow requirements
- Achieve a reasonable rate of return or yield consistent with the above objectives

The Pool is actively managed in accordance with the CGC and the Investment Policy. The Investment Policy is reviewed annually by the Committee and approved by the County Board of Supervisors.

The objectives of the Pool are pursued by investing in a diversified portfolio of high-quality securities in accordance with the State Law and the Investment Policy, which includes U.S. Treasury and government agency securities, negotiable certificates of deposit, commercial paper, repurchase agreements, medium-term notes, and money market mutual funds. All financial institutions must be approved by the County Treasury before they receive County funds or are able to conduct business with the County Treasury. The Pool seeks to maintain a duration to maturity of 1.5 years or less, which is accomplished by laddering maturities to both meet cash flow needs and generate a reasonable rate of return.

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

The accompanying Statement of Assets was prepared using the economic resources measurement focus and the accrual basis of accounting and for the purpose of presenting the assets of the County Treasury pursuant to CGC Section 26920 and is not intended to be a complete presentation of the County Treasury's financial position and the changes in its financial position. The County Treasury records investment purchases and sales on the trade date.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, the accompanying financial statements reflect the fair value of instruments. Fair value is determined monthly. Special disclosures related to GASB Statement No. 31 appear in Note 2. The County Treasury has prepared its deposit and investment disclosures in accordance with the provision of GASB Statement No. 40, *Deposit and Investment Risk Disclosures, an amendment to GASB Statement No. 3.* The related disclosures appear in Note 2.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Use of Estimates

The preparation of the special-purpose Statement of Assets, as required by CGC Section 26920, requires management to make estimates and assumptions that affect the reported amounts in the special-purpose Statement of Assets. Actual results could differ from the estimates.

NOTE 2 – CASH AND INVESTMENTS

The County Treasury's investments are governed by the CGC (Sections 53600 et. Seq.) and the Investment Policy. The approved investment types, per the CGC, include U.S. Treasury and agency securities; supranational securities; state and/or local agency obligations; bankers' acceptances; commercial paper; negotiable certificates of deposit; bank/time deposits; collateralized bank deposits; mortgage pass-through securities; medium-term notes; mutual funds and money market mutual funds; repurchase agreements; reverse repurchase agreements; and joint powers authority pools.

The following table presents the authorized investment types, per the CGC and Investment Policy, as of June 30, 2017, along with their respective requirements and restrictions:

Investment Type	Maximum Maturity		Maximum % of Pool		Maximum % per issuer		Minimum Rating [1, 2]	
	CGC	Investment Policy	CGC	Investment Policy	CGC	Investment Policy	CGC	Investment Policy
U.S. Treasury Securities	5 Years	5 Years	None	None	None	None	None	None
U.S. Government Agencies	5 Years	5 Years	None	None	None	None	None	None
Negotiable Certificates of Deposit	5 Years	3 Years	30%	30%	None	5%	None	A-1/P-1/F1/A-/A3
Collateralized Certificates of Deposit	5 Years	1 Year	None	10%	None	None	None	None
Bankers Acceptances	180 Days	180 Days	40%	30%	30%	100MM/5%	None	A-1/P-1/F1
Commercial Paper	270 Days	270 Days	40%	40%	10%	5%	A-1/A	A-1/P-1/F1
Repurchase Agreements	1 Year	180 Days	None	40%	None	None	None	None
Reverse Repurchase Agreements	92 Days	92 Days	20%	10%	None	None	None	None
Municipal Debt	5 Years	5 Years	None	10%	None	None	None	AAA
Medium-Term Corporate Notes	5 Years	3 Years	30%	10%	None	100MM/5%	A	A-/A3
Insured Placement Service Accounts [3]	5 Years	Immediate Liquidity	30%	5%	None	50MM/100MM	None	None
JPA Investment Pools	N/A	Immediate Liquidity	None	5%	None	200MM	None	AAA
Money Market Mutual Funds	N/A	Immediate Liquidity	20%	15%	None	10%	AAAm	AAAm
Supranationals	5 Years	5 Years	30%	30%	None	None	AA	AA

Footnote:
(1) Minimum credit rating categories are without regard to ratings modifiers (+/-)
(2) Standard & Poor's Ratings (quoted) or the equivalent NRSRO rating
(3) FICA accounts balances are fully covered by FDIC Insurance. Maximum $50MM per selected depository institution. Maximum $100MM per placement service.

Fair Value Measurements

The County categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the County has the ability to access.

NOTE 2 – CASH AND INVESTMENTS (continued)

Fair Value Measurements (continued)

Level 2 – Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Unobservable inputs reflect the County's own assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs are developed based on the best information available in the circumstances and may include the County's own data.

The asset's level within the hierarchy is based on the lowest level of input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The determination of what constitutes observable requires judgment by the County's management. County management considers observable data to be that market data, which is readily available, regularly distributed or updated, reliable, and verifiable, not proprietary, and provided by multiple independent sources that are actively involved in the relevant market. The categorization of an investment within the hierarchy is based upon the relative observability of the inputs to its fair value measurement and does not necessarily correspond to County management's perceived risk of that investment.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The County's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

Deposits and withdrawals in governmental investment pools, such as LAIF and JPA Investment Pools, Guaranteed Investment Contracts, insured placement service accounts and money market funds are made on the basis of one dollar and not fair value. Accordingly, the County's proportionate share in these types of investments is an uncategorized input not defined as a Level 1, Level 2, or Level 3 input.

The following is a description of the valuation methods and assumptions used by the County to estimate the fair value of its investments. There have been no changes in the methods and assumptions used at June 30, 2017. The methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. County management believes its valuation methods are appropriate and consistent with other market participants. The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The County's treasury pool's asset market prices are derived from closing bid prices as of the last business day of the month as supplied by Interactive Data, Bloomberg, or Telerate. Where prices are not available from generally recognized sources, the securities are priced using a yield-based matrix system to arrive at an estimated market value. Prices that fall between data points are interpolated. Non-negotiable FDIC-insured bank certificates of deposit are priced at par. When available, quoted prices are used to determine fair value. When quoted prices in active markets are available, investments are classified within Level 1 of the fair value hierarchy.

NOTE 2 – CASH AND INVESTMENTS (continued)

Fair Value Measurements (continued)
For investments classified within Level 2 of the fair value hierarchy, the County's custodians generally use a multi-dimensional relational model. Inputs to their pricing models are based on observable market inputs in active markets. The inputs to the pricing models are typically benchmark yields, reported trades, broker-dealer quotes, issuer spreads, and benchmark securities, among others.

Investments classified at Level 3 represent securities that are entirely owned by the County and have not traded publicly. The securities are priced using a yield-based matrix system to arrive at an estimated market value. Prices that fall between data points are interpolated.

The valuation of 2a7 Money Market Mutual funds held by the pool is at one-dollar net asset value (NAV) per share. The total fair value of these at June 30, 2017, was $2 million, 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 and government securities (including repurchase agreements collateralized by U.S. Treasury and government agency securities).

As of June 30, 2017, the County has the following recurring fair value measurements (in thousands):

		Fair Value Measurements Using		
Investments by Fair Value Level	**Balance at June 30, 2017**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
U.S. Treasury Securities	$ 674,162	$ 674,162	$ -	$ -
U.S. Government Agencies	1,664,110	24,955	1,639,155	-
Negotiable Certificates of Deposit	1,432,646	-	1,432,646	-
Commercial Paper	1,117,822	-	1,117,822	-
Medium-Term Corporate Notes	84,747	-	84,747	-
Supranationals	830,009	-	780,327	49,682
Total Investments by Fair Value Level	5,803,496	$ 699,117	$ 5,054,697	$ 49,682
Uncategorized Investments				
Uncategorized Investments Held in County's Pool:				
Insured Placement Service Accounts FDIC/FICA	50,000			
JPA Investment Pools	192,000			
Total Uncategorized Investments	242,000			
Investments Measured at the Net Asset Value (NAV)				
County's Pooled Investments Measured at the Net Asset Value (NAV):				
Money Market Mutual Funds	2,000			
Total County's Pooled Investments	$ 6,047,496			

State law requires that all operating monies of the County, school districts, and board-governed special districts be held by the County Treasury. The net position value associated with legally mandated participants outside the County's reporting entity in the asset pool was $3.14 billion at June 30, 2017.

NOTE 2 – CASH AND INVESTMENTS (continued)

Fair Value Measurements (continued)
As of June 30, 2017, the fair value of investments in the Pool was $6.0 billion. The cash in the Pool totaled $569.1 million and accrued interest was $11 million, for total Pool assets of $6.6 billion. Approximately 14% of the Pool is attributable to the County General Fund, with the remainder of the balance comprised of other county funds, school districts, and special districts. Additionally, as of June 30, 2017, $267 million of the amounts deposited in the Pool was attributable to depositors who are not required to, but choose to, invest in the Pool. These include independent special districts, State Trial Court, and other governmental agencies. The deposits held for both involuntary and voluntary entities are reported in the Investment Trust Fund.

The fair value of the Pool is determined monthly, and depends on, among other factors, the maturities and types of investments and general market conditions. The fair value of each participant's position including both voluntary and involuntary participants is the same as the value of the Pool share. The method used to determine participants' equity withdrawn is based on the daily average book value of the participants' percentage of participation in the Pool.

The County Treasury has not produced or provided any letters of credit or legal binding guarantees as supplemental support of the Pool values during the year ended June 30, 2017. The Pool provides monthly reporting to both the Committee, who reviews the investment policy, and the County Board of Supervisors, who reviews and approves the Investment Policy.

The County Treasury pools its external participants' investments with the Pool. The average rate of return on investments in the Pool during fiscal year 2016-17 was 0.97%.

Risk Disclosures
A summary of the investments held by the County Treasury as of June 30, 2017, is as follows (in thousands):

Investment Type	Amortized Cost	Fair Value	Interest Rate Range	Maturity Range	Average Maturity (in days)
U.S. Treasury Securities	$ 673,369	$ 674,162	0.89-2.10%	08/31/17 - 01/31/22	897
U.S. Government Agencies	1,667,532	1,664,110	0.73-1.62%	07/14/17 - 05/08/20	417
Negotiable Certificates of Deposit	1,433,001	1,432,646	0.66-1.50%	07/03/17 - 06/28/18	142
Commercial Paper	1,116,186	1,117,822	0.93-1.49%	07/03/17 - 12/29/17	55
Medium-Term Corporate Notes	85,004	84,747	0.82-1.87%	01/12/18 - 02/06/20	524
Insured Placement Service Accounts	50,000	50,000	0.45%	7/1/17	1
JPA Investment Pools	192,000	192,000	1.09%	7/1/17	1
Money Market Mutual Funds	2,000	2,000	0.53-0.82%	7/1/17	1
Supranationals	833,798	830,009	0.94-1.90%	07/19/17 - 05/12/20	561
Total Investments	$ 6,052,890	$ 6,047,496			

Investment Credit Risk
Investment credit risk exists when there is a possibility the issuer or other counterparty to an investment may be unable to fulfill its obligations. GASB Statement No. 40 requires the disclosure of credit quality rates for investments in debt securities as well as investments in external investment pools, money market mutual funds, and other pooled investments of fixed income securities.

NOTE 2 – CASH AND INVESTMENTS (continued)

Investment Credit Risk (continued)
California Law and the San Bernardino County Treasury Pool Investment Policy (where more restrictive) place limitations on the purchase of investments in the Pool. Purchases of commercial paper, bankers acceptances, and negotiable certificates of deposit are restricted to issuers rated in the top three long term letter ratings by a minimum of two of three nationally recognized statistical rating organizations (NRSRO's). For an issuer of short-term debt, the rating must be no less than A-1 (S&P), P-1 (Moody's), or F-1 (Fitch) while an issuer of medium term corporate notes must have a minimum letter rating of "A". Purchases of Supranational issuer securities must have a minimum long-term letter rating of "AA" from one NRSRO. Municipal notes and bonds and money market mutual funds must have a minimum letter rating of "AAA" from two of three NRSRO's (if rated). JPA Pools must have a minimum letter rating of "AAA" from one NRSRO. Letter ratings are stated without regard to rating modifiers (+/-). Limits are also placed on the maximum percentage investment by type and by individual issuer.

As of June 30, 2017, all investments held by the Pool were within the Investment Policy Limits.

Investment Type	S&P Rating	Moody's Rating	Fitch Rating	Maximum Allowed % of Portfolio	Individual Issuer Limitations	Weighted % of Pool 6/30/17
U.S. Treasury Securities	AA+	Aaa	AAA	None	None	11.14%
U.S. Government Agencies	AA+	Aaa	AAA	None	None	17.19%
U.S. Government Agencies	AA+	Aaa	NR	None	None	9.91%
U.S. Government Agencies	A1+	P1	NR	None	None	0.41%
Negotiable Certificates of Deposit	A+	A1	F1+	30%	5%	0.83%
Negotiable Certificates of Deposit	A1	P1	F1+	30%	5%	6.20%
Negotiable Certificates of Deposit	A1+	P1	F1+	30%	5%	15.42%
Negotiable Certificates of Deposit	A1+	P1	AA-	30%	5%	0.83%
Negotiable Certificates of Deposit	AA-	Aa3	AA-	30%	5%	0.41%
Commercial Paper	A1	P1	F1	40%	5%	7.32%
Commercial Paper	A1	P1	F1+	40%	5%	5.28%
Commercial Paper	A1+	P1	F1	40%	5%	4.08%
Commercial Paper	A1+	P1	F1+	40%	5%	1.82%
Medium-Term Corporate Notes	AA	Aa2	AA-	10%	100MM/5%	0.41%
Medium-Term Corporate Notes	AAA	Aaa	AA+	10%	100MM/5%	0.99%
Insured Placement Service Accounts	NR	NR	NR	5%	50MM/100MM	0.83%
JPA Investment Pools	NR	NR	NR	5%	200MM	3.17%
Money Market Mutual Funds	AAAm	Aaa	AAA	15%	10%	0.02%
Money Market Mutual Funds	AAAm	Aaa	NR	15%	10%	0.02%
Supranationals	AAA	Aaa	AAA	30%	None	12.98%
Supranationals	A1+	P1	F1+	30%	None	0.74%
						100.00%

Concentration of Credit Risk
An increased risk of loss occurs as more investments are acquired from one issuer (i.e. lack of diversification). This results in a *concentration of credit risk.*

GASB Statement No. 40 requires disclosure of investments by amount and issuer that represent five percent or more of total investments held. This requirement excludes investments issued or explicitly guaranteed by the United States Government, investments in mutual funds, external investment pools, and other pooled investments.

NOTE 2 – CASH AND INVESTMENTS (continued)

Concentration of Credit Risk (continued)
As of June 30, 2017, the following issuers represented more than five percent of the Pool's investments:

Investment Type	Fair Value (In Thousands)	% of Investments
Federal Home Loan Banks	$ 624,064	10.02%
International Bank of Reconstruction and Development	606,780	9.74%
Freddie Mac	407,033	6.54%
Fannie Mae	363,925	5.84%

Interest Rate Risk
Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment's fair value. Generally, the longer the maturity of an investment, the greater the investment rate risk associated with that investment.

GASB Statement No. 40 requires that an interest rate risk be disclosed using a minimum of one of five approved methods which are: segmented time distribution, specific identification, weighted average maturity, duration, and simulated model.

The County Treasury manages its exposure to interest rate risk by carefully matching cash flows and maturing positions to meet expenditures, limiting 40% of the Pool to maturities of one year or less, and by maintaining an overall Duration-to-Maturity of 1.5 years or less. Modified Duration is a measure of a fixed income's cash flow using present values, weighted for cash flows as a percentage of the investments full price. The modified duration of the total pooled investment at June 30, 2017, is 0.84 years. Effective Duration makes assumptions based on current market conditions regarding the most likely timing and amounts of variable cash flows arising from such investments as callable bonds. Duration-to-Maturity assumes that all securities in the portfolio, including callable and floating rate notes, are held to final maturity.

California Law and where more restrictive, the Investment Policy, place limitations on the maximum maturity of investments to be purchased by type (see schedule on page 5). As of June 30, 2017, all investments held by the Pool were within the Investment Policy limits.

A summary of investments for Maturity Range, Limits, and Modified Duration is as follows:

Investment Type	Fair Value (In Thousands)	Maturity Range (in days)	Maturity Limits	Modified Duration (in years)
U.S. Treasury Securities	$ 674,162	62 - 1,676	1,825 Days	2.38
U.S. Government Agencies	1,664,110	14 - 1,043	1,825 Days	1.12
Negotiable Certificates of Deposit	1,432,646	3 - 363	1,095 Days	0.38
Commercial Paper	1,117,822	3 - 182	270 Days	0.14
Medium-Term Corporate Notes	84,747	196 - 951	1,095 Days	1.41
Insured Placement Service Accounts	50,000	1	Daily Liquidity	0.01
JPA Investment Pools	192,000	1	Daily Liquidity	0.01
Money Market Mutual Funds	2,000	1	Daily Liquidity	0.01
Supranationals	830,009	19 - 1,047	1,825 Days	1.51
	$ 6,047,496			

NOTE 2 – CASH AND INVESTMENTS (continued)

Custodial Credit Risk
Custodial Credit Risk for Deposits exists when, in the event of a depository financial institution failure, a government may be unable to recover deposits, or recover collateral securities that are in the possession of an outside party.

GASB Statement No. 40 Requires the disclosure of deposits with a financial institution that are not covered by Federal Deposit Insurance Corporation (FDIC) depository insurance and are uncollateralized.

California Law requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2017, the carrying amount of the Pool's deposits was $569.1 million and the corresponding bank balance was $568.9 million. The difference of $0.2 million was primarily due to reconciling items, such as returned items, warrants not on database, bank settlement adjustments, and e-pay returns. Of the bank balance, $750 thousand was insured by FDIC depository insurance and the remainder was collateralized, as required by CGC Section 53652.

Custodial Credit Risk for Investments exists when, in the event of a failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investments or collateral securities that are in the possession of another party.

In order to limit *Custodial Credit Risk for Investments,* the Investment Policy requires that all investments and investment collateral be transacted on a delivery versus payment basis with a third-party custodian and registered in the County Treasury's name. All counterparties to repurchase agreements must sign a Securities Industry and Financial Markets Association (SIFMA) Global Master Repurchase Agreement and/or Tri-Party Repurchase Agreement before engaging in repurchase agreement transactions.

Other Independent Auditors' Report

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
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 statement of assets of the San Bernardino County (County) Auditor-Controller/Treasurer/Tax Collector (Treasury) as of June 30, 2017, and the related notes to the financial statement, and have issued our report thereon dated January 18, 2018. Our report includes an emphasis of a matter paragraph describing that the Statement of Assets was prepared for the purpose of complying with California Government Code Section 26920, and is not intended to be a complete presentation of the County Treasury's financial position and the changes in its financial position.

Internal Control Over Financial Reporting
In planning and performing our audit of the financial statement, we considered the County Treasury'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 statement, but not for the purpose of expressing an opinion on the effectiveness of the County Treasury's internal control. Accordingly, we do not express an opinion on the effectiveness of the County Treasury'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 County Treasury'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.

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Compliance and Other Matters
As part of obtaining reasonable assurance about whether the County Treasury's Statement of Assets is 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*.

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 County Treasury'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 County Treasury's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Nigro & Nigro, PC

Murrieta, California
January 18, 2018