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

INDEPENDENT AUDITORS' REPORTS AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

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

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For The Year Ended June 30, 2018

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

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

VALUE THE *difference*

INDEPENDENT AUDITORS' REPORT

Board of Supervisors and Audit Committee
Inland Empire Public Facilities Corporation
San Bernardino, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Inland Empire Public Facilities Corporation (Corporation), a component unit of the County of San Bernardino, California as of and for the year ended June 30, 2018, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

The Corporation'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 an opinion 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 opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of June 30, 2018, 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 Corporation's basic financial statements. The schedules of lease payments receivable and 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 November 15, 2018, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of the Corporation's 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 Corporation's internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California
November 15, 2018

INLAND EMPIRE PUBLIC FACILITIES CORPORATION
STATEMENT OF NET POSITION
JUNE 30, 2018

	Medical Center Project
ASSETS	
Current Assets:	
Cash and cash equivalents	$ 6,201
Restricted cash and cash equivalents	25,218,456
Interest receivable	307,389
Receivable from County	80,529
Current portion of gross lease payments receivable	42,956,462
Current portion of unearned lease interest income	(22,777,461)
Total Current Assets	45,791,576
Noncurrent Assets:	
Restricted investments	22,236,741
Gross lease payments receivable, net of current portion	426,892,178
Unearned lease interest income, net of current portion	(115,930,866)
Total Noncurrent Assets	333,198,053
TOTAL ASSETS	378,989,629
DEFERRED OUTFLOWS OF RESOURCES	
Deferred loss on refunding	17,440,187
LIABILITIES	
Current Liabilities:	
Interest payable	7,722,943
Current portion of Certificates of Participation payable	24,920,000
Current portion of (discount) premium on Certificates of Participation payable, net	(180,459)
Total Current Liabilities	32,462,484
Noncurrent Liabilities:	
Certificates of Participation payable net of current portion	335,155,000
Arbitrage payable	80,529
(Discount) premium on Certificates of Participation payable, net	(2,557,993)
Total Noncurrent Liabilities	332,677,536
TOTAL LIABILITIES	365,140,020
NET POSITION	
Restricted for debt service	31,289,796
TOTAL NET POSITION	$ 31,289,796

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

INLAND EMPIRE PUBLIC FACILITIES CORPORATION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018

	Medical Center Project
NONOPERATING REVENUES	
Lease interest	$ 22,588,742
Investment income:	
Interest and dividends	1,666,682
Net increase (decrease) in fair value of investments	(1,229,540)
Total Nonoperating Revenues	23,025,884
NONOPERATING EXPENSES	
Interest	18,769,675
Amortization of deferred amount on refunding	2,078,359
Amortization of discount (premium) on Certificates of Participation	184,257
Total Nonoperating Expenses	21,032,291
Income Before Transfers	1,993,593
Transfer to the County	(2,076)
Changes in Net Position	1,991,517
Net Position - Beginning of year	29,298,279
Net Position - End of year	$ 31,289,796

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

INLAND EMPIRE PUBLIC FACILITIES CORPORATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018

	Medical Center Project
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Lease payments received	$ 41,269,027
Principal payments on Certificates of Participation	(23,630,000)
Interest paid	(19,299,413)
Return of reserve balance to County	(2,076)
Net Cash Provided by (Used for) Noncapital Financing Activities	(1,662,462)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Investment income	1,650,895
Proceeds from sales and maturities of investments	6,215,000
Net Cash Provided by Investing Activities	7,865,895
Increase (decrease) in cash and cash equivalents	6,203,433
Cash and cash equivalents - Beginning of year	19,021,224
Cash and cash equivalents - End of year	$ 25,224,657

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

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NOTE 1: DESCRIPTION OF THE CORPORATION AND ACCOUNTING POLICIES

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Using this definition, the Corporation has no operating revenues or expenses.

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

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

Certificate of Participation (COP) premiums/discounts and deferred loss on refunding are deferred and amortized over the life of the debt using the straight-line method.

The deferred outflows of resources is defined as a consumption of net position by the government that is applicable to a future reporting period. A deferred inflows of resources is defined as an acquisition of net position by the government that is applicable to a future reporting period.

The deferred loss on refunding, classified as deferred outflows of resources, represents the excess of the amount placed in escrow (reacquisition price) over the carrying amount of the refunded bonds and is amortized over the remaining life of the refunded or refunding bonds using the straight line method. The amortization is displayed separately on the statement of revenues, expenses, and change in net position.

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

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

In accordance with 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 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). The Corporation's 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 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 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 Corporation's policy to use restricted resources first, then unrestricted resources as they are needed.

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

NOTE 2: THE PROJECTS

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

1. Land acquisition financing:

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

2. Preconstruction and first phase construction financing:

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

NOTE 2: THE PROJECTS *(continued)*

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

3. Principal construction financing:

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

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

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

4. Major equipment acquisition financing:

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

NOTE 2: THE PROJECTS *(continued)*

The acquisition and construction of the Project was carried out by the County as the agent of the Corporation pursuant to a Master Agency Agreement, dated as of February 1, 1994. The County has leased the Site to the Corporation pursuant to the Master Site Lease, dated February 1, 1994. The Corporation entered into a master lease agreement with the County whereby the project (i.e. the hospital) is leased to the County. The County was required under the master lease agreement to make aggregate lease payments which are designed in both time and amount to pay the principal and interest due with respect to the Series 1994 Certificates, the Series 1995 Certificates, the Series 1996 Certificates, the Series 1997 Certificates and the Series 1998 Certificates.

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

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

NOTE 3: CASH AND INVESTMENTS

Fiscal agents acting on behalf of the Corporation held all cash and investments from long-term debt issuances. In accordance with the terms of the trust agreements, cash and investments are segregated and restricted for specified purposes. The trustee bank for the Corporation's Medical Center project is Wells Fargo Bank, Corporate Trust Services.

As of June 30, 2018, cash and investments consist of the following:

Statement of Net Position (combined):		
Cash and cash equivalents	$	6,201
Restricted cash and cash equivalents		25,218,456
Restricted investments		22,236,741
Total Cash and Investments	$	47,461,398

Fair Value Measurements

GASB Statement No. 72, *Fair Value Measurement and Application,* requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. This Statement also establishes a hierarchy of inputs to valuation techniques used to measure fair value. The hierarchy has three levels.

- Level 1 Inputs - Quoted prices (unadjusted) in active markets for identical assets
- Level 2 Inputs - Inputs-other than quoted prices included in Level 1-that are observable for an asset, either directly or indirectly
- Level 3 Inputs - Unobservable inputs for an asset

The determination of what constitutes observable requires judgement by management. The Corporation 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.

Fair value pricing for Level 2 investments is obtained primarily from Interactive Data (IDC) Institutional Bond Pricing and is derived from market sources, credit information, observed market movements, dealer quotes, secondary trading, and sector news.

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, 2018 was $25,224,657, 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).

NOTE 3: CASH AND INVESTMENTS (*Continued*)

As of June 30, 2018, investments are classified in the fair value hierarchy as follows:

		Fair Value Measurements on a Recurring Basis Using		
Investments by Fair Value Level	**Balance at June 30, 2018**	**Quoted Prices (Unadjusted) in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
U. S. Treasury Bonds	$ 17,485,890	$ -	$ 17,485,890	$ -
Total Leveled Cash and Investments	$ 17,485,890	$ -	$ 17,485,890	$ -
Investments Not Measured at Fair Value				
Guaranteed Investment Contracts	4,750,851			
Investments Measured at the Net Asset Value				
Money Market Funds	25,224,657			
Total Cash and Investments	$ 47,461,398			

Investments Authorized by Debt Agreements

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

Interest Rate Risk

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

As of June 30, 2018, the Corporation's cash and investments, including cash equivalents, were as follows:

Investments	Maturity	Fair Value	Weighted Average Maturity (Years)
U. S. Treasury Bonds	11/15/2022	$ 17,485,890	4.3808
Guaranteed Investment Contracts	7/27/2028	4,750,851	10.0822
Money Market Mutual Funds	N/A	25,224,657	N/A
Total cash and investments		$ 47,461,398	

NOTE 3: CASH AND INVESTMENTS (*Continued*)

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer. Investments in any one issuer that represent 5 percent or more of total investments are shown below for the Medical Center Project:

Issuer	Fair Value	Investment Type
MBIA Investment Management Corp.	$ 4,750,851	Guaranteed Investment Contract

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker, dealer, or trustee) to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. As of June 30, 2018, the Corporation had investments held by Wells Fargo Bank for the Medical Center Project where the underlying securities are not insured or registered in the name of the Corporation, shown below:

Investment Type	Trustee	Fair Value
U. S. Treasury Bonds	Wells Fargo	$ 17,485,890

Credit Risk

The Corporation's investments in money market funds were rated Aaa by Moody's Investors Service. The company with whom the Corporation has a guaranteed investment contract received long-term ratings of Ba3 from Moody's Investors Service. This investment agreement is collateralized and guarantees payment of principal and interest as the same becomes due.

NOTE 4: LEASE RECEIVABLE

The Corporation entered into an agreement with the County whereby the Projects are leased to the County for lease payments that are equal to the debt service due on the Certificates of Participation less any amount held in reserve. The County may, pursuant to the lease agreement, abate the lease payments by the amount of investment interest income earned by the trustee in the lease payment and reserve accounts.

The future minimum lease/installment payments to be received for each of the five succeeding fiscal years, and in five year increments thereafter are summarized as follows for fiscal years ending June 30:

	Medical Center
2019	$ 42,956,462
2020	42,979,150
2021	42,996,376
2022	43,079,351
2023	43,047,313
2024-28	214,202,537
2029	40,587,451
Total Lease Payments Receivable	469,848,640
Less: Unearned Interest	(138,708,327)
Net Lease Receivable	$ 331,140,313

NOTE 5: LONG-TERM DEBT

The following is a summary of changes in the Certificates of Participation for the fiscal year ended June 30, 2018:

Description	July 1, 2017	Additions	Reductions	June 30, 2018	Due Within One Year
Medical Center Project					
Series 1994	$ 98,070,000	$ -	$ 5,235,000	$ 92,835,000	$ -
Series 1995	4,815,000	-	4,815,000	-	-
Series 1996	61,875,000	-	490,000	61,385,000	515,000
Series 2009 A	175,065,000	-	13,090,000	161,975,000	16,995,000
Series 2009 B	43,880,000	-	-	43,880,000	7,410,000
Subtotal bonds	383,705,000	-	23,630,000	360,075,000	24,920,000
Issuance discount	(5,147,140)	-	(471,611)	(4,675,529)	(467,812)
Issuance premium	2,224,430	-	287,353	1,937,077	287,353
Total bonds	$ 380,782,290	-	$ 23,445,742	$ 357,336,548	$ 24,739,541

NOTE 5: LONG-TERM DEBT *(continued)*

The annual requirements to amortize all long-term debt outstanding as of June 30, 2018, including interest payments of $109,773,640 over the life of the debt, are summarized as follows for fiscal years ending June 30:

Description	2019	2020	2021
Medical Center Project			
Series 1994	$ 4,944,626	$ 4,944,626	$ 16,698,326
Series 1996	3,571,375	3,574,875	3,572,000
Series 2009 A	24,966,393	25,000,187	21,255,944
Series 2009 B	9,474,068	9,459,462	1,470,106
	$ 42,956,462	$ 42,979,150	$ 42,996,376

Description	2022	2023	2024-28
Medical Center Project			
Series 1994	$ 16,316,351	$ 16,325,201	$ 50,821,967
Series 1996	3,572,750	3,572,000	46,378,373
Series 2009 A	21,720,144	21,680,006	86,827,992
Series 2009 B	1,470,106	1,470,106	30,174,205
	$ 43,079,351	$ 43,047,313	$ 214,202,537

Description	2029	Total
Medical Center Project		
Series 1994	$ 14,675,454	$ 124,726,551
Series 1996	25,911,997	90,153,370
Series 2009 A	-	201,450,666
Series 2009 B	-	53,518,053
Total Long-Term Debt	$ 40,587,451	469,848,640
Less: Total Interest		(109,773,640)
Total Principal		$ 360,075,000

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

NOTE 5: LONG-TERM DEBT *(continued)*

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

Medical Center Project: The Medical Center Series 1994 Certificates of Participation were issued by the Corporation dated February 1, 1994, in the amount of $283,245,000, with interest rates from 4.60 percent to 7.00 percent. The Series 1994 Certificates maturing on August 1, 2019, August 1, 2024, August 1, 2026, and August 1, 2028, are subject to optional redemption in whole or in part on any date in such order of maturity as the Corporation shall determine and by lot within a maturity, plus interest accrued to the redemption date. On December 17, 2009 the Corporation issued the Arrowhead Refunding Project Series 2009 B Certificates and used the proceeds of the Series 2009 B Certificates along with other available funds to refund $44,325,000 of the Series 1994 Certificates.

The Medical Center Series 1995 Certificates of Participation were issued by the Corporation dated June 1, 1995, in the amount of $363,265,000, with interest rates from 4.80 percent to 7.00 percent. On December 17, 2009 the Corporation issued the Arrowhead Refunding Project Series 2009 A Certificates and used the proceeds of the Series 2009 A Certificates along with other available funds to refund $45,065,000 of the Series 1995 Certificates. On August 1, 2017, the Corporation made the final debt service payment for the Medical Center Series 1995 Certificates of Participation in the amount of $4,971,488. This amount consisted of $4,815,000 in principal and $156,488 in interest. On October 11, 2017, the Corporation transferred to the County the remaining balance in the 1995 Lease Payment Fund of $2,076.

The Medical Center Series 1996 Certificates of Participation were issued by the Corporation dated January 1, 1996, in the amount of $65,070,000, with interest rates from 5 percent to 5.25 percent. The Series 1996 Certificates are subject to optional redemption in whole or in part on any date in such order of maturity as the Corporation shall determine and by lot within a maturity, plus interest accrued to the redemption date.

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

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

NOTE 5: LONG-TERM DEBT *(continued)*

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

NOTE 6: PRIOR YEARS' DEFEASANCE OF DEBT

In prior years, the Corporation defeased certain Certificates of Participation by placing proceeds of new certificates in an irrevocable trust to provide for all future debt service payments on the Certificates of Participation. Accordingly, the trust account assets and liability for the defeased certificates are not included in the Corporation's financial statements. At June 30, 2018, Certificates of Participation outstanding considered defeased are as follows:

Defeased Debt	Amount	Refunded By
Medical Center Series 1992	$ 61,070,000	Medical Center Series 1994

NOTE 7: ARBITRAGE PAYABLE

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

Rebatable arbitrage (if any) is required to be paid to the federal government following the end of each period of five bond years during the term of the Lease Agreement (and Certificates of Participation). As of June 30, 2018, the estimated arbitrage payable, relating to the Medical Center Project, is $80,529.

NOTE 8: PRIOR YEAR LEASE ASSIGNMENT

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

NOTE 9: NEW ACCOUNTING PRONOUNCEMENTS

Effective in Current Fiscal Year

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 Statement did not have an effect on the Corporation's financial statements.

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 Statement did not have an effect on the Corporation's financial statements.

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 Statement did not have an effect on the Corporation's financial statements.

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 Statement did not have an effect on the Corporation's financial statements.

Effective in Future Fiscal Years

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 Corporation has not determined the effect of this Statement.

NOTE 9: NEW ACCOUNTING PRONOUNCEMENTS *(continued)*

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 Corporation 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 Corporation has not determined the effect of this Statement.

GASB Statement No. 88 – In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements.* The objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. The requirements of this Statement are effective for periods beginning after June 15, 2018. The Corporation has not determined the effect of this Statement.

GASB Statement No. 89 – In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before then End of a Construction Period.* The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The requirement of this Statement are effective for periods beginning after December 15, 2019. The Corporation has not determined the effect of this Statement.

GASB Statement No. 90 – In August 2018, GASB issued Statement No. 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61*. The primary objectives of this Statement are to improve consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. The Corporation has not determined the effect of this Statement.

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INLAND EMPIRE PUBLIC FACILITIES CORPORATION
SCHEDULE OF LEASE PAYMENTS RECEIVABLE
FOR THE YEAR ENDED JUNE 30, 2018

MEDICAL CENTER PROJECT – SERIES 1994

Fiscal Year	Due July 15	Due January 15	Total
2018-19	$ 2,472,313	$ 2,472,313	$ 4,944,626
2019-20	2,472,313	2,472,313	4,944,626
2020-21	14,652,313	2,046,013	16,698,326
2021-22	14,616,013	1,700,338	16,316,351
2022-23	14,990,338	1,334,863	16,325,201
2023-24	1,334,863	1,334,863	2,669,726
2024-25	1,334,863	1,334,863	2,669,726
2025-26	14,394,863	1,008,363	15,403,226
2026-27	14,733,363	665,238	15,398,601
2027-28	14,340,238	340,450	14,680,688
2028-29	14,675,454	-	14,675,454
	$ 110,016,934	$ 14,709,617	$ 124,726,551

INLAND EMPIRE PUBLIC FACILITIES CORPORATION
SCHEDULE OF LEASE PAYMENTS RECEIVABLE
FOR THE YEAR ENDED JUNE 30, 2018

MEDICAL CENTER PROJECT - SERIES 1996

Fiscal Year	Due July 15	Due January 15	Total
2018-19	$ 2,049,625	$ 1,521,750	$ 3,571,375
2019-20	2,066,750	1,508,125	3,574,875
2020-21	2,078,125	1,493,875	3,572,000
2021-22	2,093,875	1,478,875	3,572,750
2022-23	2,108,875	1,463,125	3,572,000
2023-24	2,128,125	1,446,500	3,574,625
2024-25	2,141,500	1,429,125	3,570,625
2025-26	2,164,125	1,410,750	3,574,875
2026-27	8,530,750	1,232,750	9,763,500
2027-28	25,262,750	631,998	25,894,748
2028-29	25,911,997	-	25,911,997
	$ 76,536,497	$ 13,616,873	$ 90,153,370

INLAND EMPIRE PUBLIC FACILITIES CORPORATION
SCHEDULE OF LEASE PAYMENTS RECEIVABLE
FOR THE YEAR ENDED JUNE 30, 2018

MEDICAL CENTER PROJECT - SERIES 2009 SERIES A

Fiscal Year	Due July 15	Due January 15	Total
2018-19	$ 21,193,134	$ 3,773,259	$ 24,966,393
2019-20	21,673,259	3,326,928	25,000,187
2020-21	18,341,928	2,914,016	21,255,944
2021-22	19,244,016	2,476,128	21,720,144
2022-23	19,641,128	2,038,878	21,680,006
2023-24	20,423,878	1,567,763	21,991,641
2024-25	20,917,763	1,071,919	21,989,682
2025-26	24,006,919	469,875	24,476,794
2026-27	18,369,875	-	18,369,875
	$ 183,811,900	$ 17,638,766	$ 201,450,666

INLAND EMPIRE PUBLIC FACILITIES CORPORATION
SCHEDULE OF LEASE PAYMENTS RECEIVABLE
FOR THE YEAR ENDED JUNE 30, 2018

MEDICAL CENTER PROJECT – 2009 SERIES B

Fiscal Year	Due July 15	Due January 15	Total
2018-19	$ 8,534,659	$ 939,409	$ 9,474,068
2019-20	8,724,409	735,053	9,459,462
2020-21	735,053	735,053	1,470,106
2021-22	735,053	735,053	1,470,106
2022-23	735,053	735,053	1,470,106
2023-24	14,705,053	377,076	15,082,129
2024-25	15,092,076	-	15,092,076
	$ 49,261,356	$ 4,256,697	$ 53,518,053

INLAND EMPIRE PUBLIC FACILITIES CORPORATION
SCHEDULE OF DEBT SERVICE - CERTIFICATES OF PARTICIPATION
FOR THE YEAR ENDED JUNE 30, 2018

MEDICAL CENTER PROJECT - SERIES 1994

Fiscal Year	Due August 1 Principal	Due August 1 Interest	Due February 1 Interest	Total
2018-19	$ -	$ 2,472,313	$ 2,472,313	$ 4,944,626
2019-20	-	2,472,313	2,472,313	4,944,626
2020-21	12,180,000	2,472,313	2,046,013	16,698,326
2021-22	12,570,000	2,046,013	1,700,338	16,316,351
2022-23	13,290,000	1,700,338	1,334,863	16,325,201
2023-24	-	1,334,863	1,334,863	2,669,726
2024-25	-	1,334,863	1,334,863	2,669,726
2025-26	13,060,000	1,334,863	1,008,363	15,403,226
2026-27	13,725,000	1,008,363	665,238	15,398,601
2027-28	13,675,000	665,238	340,450	14,680,688
2028-29	14,335,000	340,454	-	14,675,454
	$ 92,835,000	$ 17,181,934	$ 14,709,617	$ 124,726,551

INLAND EMPIRE PUBLIC FACILITIES CORPORATION
SCHEDULE OF DEBT SERVICE - CERTIFICATES OF PARTICIPATION
FOR THE YEAR ENDED JUNE 30, 2018

MEDICAL CENTER PROJECT - SERIES 1996

Fiscal Year	Due August 1 Principal	Due August 1 Interest	Due February 1 Interest	Total
2018-19	$ 515,000	$ 1,534,625	$ 1,521,750	$ 3,571,375
2019-20	545,000	1,521,750	1,508,125	3,574,875
2020-21	570,000	1,508,125	1,493,875	3,572,000
2021-22	600,000	1,493,875	1,478,875	3,572,750
2022-23	630,000	1,478,875	1,463,125	3,572,000
2023-24	665,000	1,463,125	1,446,500	3,574,625
2024-25	695,000	1,446,500	1,429,125	3,570,625
2025-26	735,000	1,429,125	1,410,750	3,574,875
2026-27	7,120,000	1,410,750	1,232,750	9,763,500
2027-28	24,030,000	1,232,750	631,998	25,894,748
2028-29	25,280,000	631,997	-	25,911,997
	$ 61,385,000	$ 15,151,497	$ 13,616,873	$ 90,153,370

INLAND EMPIRE PUBLIC FACILITIES CORPORATION
SCHEDULE OF DEBT SERVICE - CERTIFICATES OF PARTICIPATION
FOR THE YEAR ENDED JUNE 30, 2018

MEDICAL CENTER PROJECT – 2009 SERIES A

Fiscal Year	Due August 1 Principal	Due August 1 Interest	Due February 1 Interest	Total
2018-19	$ 16,995,000	$ 4,198,134	$ 3,773,259	$ 24,966,393
2019-20	17,900,000	3,773,259	3,326,928	25,000,187
2020-21	15,015,000	3,326,928	2,914,016	21,255,944
2021-22	16,330,000	2,914,016	2,476,128	21,720,144
2022-23	17,165,000	2,476,128	2,038,878	21,680,006
2023-24	18,385,000	2,038,878	1,567,763	21,991,641
2024-25	19,350,000	1,567,763	1,071,919	21,989,682
2025-26	22,935,000	1,071,919	469,875	24,476,794
2026-27	17,900,000	469,875	-	18,369,875
	$ 161,975,000	$ 21,836,900	$ 17,638,766	$ 201,450,666

Schedule Eight

INLAND EMPIRE PUBLIC FACILITIES CORPORATION
SCHEDULE OF DEBT SERVICE - CERTIFICATES OF PARTICIPATION
FOR THE YEAR ENDED JUNE 30, 2018

MEDICAL CENTER PROJECT – 2009 SERIES B

Fiscal Year	Due August 1 Principal	Due August 1 Interest	Due February 1 Interest	Total
2018-19	$ 7,410,000	$ 1,124,659	$ 939,409	$ 9,474,068
2019-20	7,785,000	939,409	735,053	9,459,462
2020-21	-	735,053	735,053	1,470,106
2021-22	-	735,053	735,053	1,470,106
2022-23	-	735,053	735,053	1,470,106
2023-24	13,970,000	735,053	377,076	15,082,129
2024-25	14,715,000	377,076	-	15,092,076
	$ 43,880,000	$ 5,381,356	$ 4,256,697	$ 53,518,053

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
Inland Empire Public Facilities Corporation
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 the Inland Empire Public Facilities Corporation (Corporation), a component unit of the County of San Bernardino, California, as of and for the year ended June 30, 2018, and the related notes to the financial statements, , and have issued our report thereon dated November 15, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation'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.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation'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.

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California
November 15, 2018