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, 2018

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

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

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Board of Supervisors and Audit Committee
San Bernardino County Financing Authority
San Bernardino, California

Report on the Financial Statements

We have audited the accompanying financial statements of each major fund of the San Bernardino County Financing Authority (Authority), a component unit of the County of San Bernardino, California, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The Authority's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of the Authority as of June 30, 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 Authority's basic financial statements. The schedules of debt service are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2018, 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 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 Authority'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 Authority's internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California
November 15, 2018

Exhibit A

SAN BERNARDINO COUNTY FINANCING AUTHORITY
STATEMENT OF NET POSITION
JUNE 30, 2018

	Pension Obligation	Courthouse Project	Combined
ASSETS			
Current assets			
Cash and cash equivalents	$ 13,634	$ 1,484,415	$ 1,498,049
Interest receivable	-	2,425	2,425
Receivables:			
Due from County	60,881,006	-	60,881,006
Due from AQMD	3,046,038	-	3,046,038
Total current assets	63,940,678	1,486,840	65,427,518
Noncurrent assets			
Receivables:			
Due from County	170,091,096	-	170,091,096
Due from AQMD	7,820,684	-	7,820,684
Total noncurrent assets	177,911,780	-	177,911,780
Total assets	241,852,458	1,486,840	243,339,298
LIABILITIES			
Current liabilities			
Interest payable	-	60,408	60,408
Current portion of bonds	64,325,000	410,000	64,735,000
Current portion of bond discount	(14,456,891)	-	(14,456,891)
Total current liabilities	49,868,109	470,408	50,338,517
Noncurrent liabilities			
Bonds (net of current portion)	209,260,000	12,770,000	222,030,000
Bond discount	(16,314,543)	-	(16,314,543)
Total noncurrent liabilities	192,945,457	12,770,000	205,715,457
Total liabilities	242,813,566	13,240,408	256,053,974
NET POSITION:			
Unrestricted	(961,108)	(11,753,568)	(12,714,676)
TOTAL NET POSITION (DEFICIT):	$ (961,108)	$ (11,753,568)	$ (12,714,676)

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

SAN BERNARDINO COUNTY FINANCING AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018

	Pension Obligation	Courthouse Project	Combined
NONOPERATING REVENUES			
Interest and dividends	$ 291,894	$ 26,262	$ 318,156
Accretion of interest income	18,071,558	-	18,071,558
Surcharge revenue	-	1,861,063	1,861,063
Total nonoperating revenues	18,363,452	1,887,325	20,250,777
NONOPERATING EXPENSES			
Interest	-	755,562	755,562
Accretion of interest expense	18,071,558	-	18,071,558
Contributions to other government	-	788,749	788,749
Other expense	2,360	-	2,360
Administrative expense	-	1,700	1,700
Total nonoperating expenses	18,073,918	1,546,011	19,619,929
Changes in net position	289,534	341,314	630,848
Net position (deficit) - Beginning of year	(1,250,642)	(12,094,882)	(13,345,524)
Net position (deficit) - End of year	$ (961,108)	$ (11,753,568)	$ (12,714,676)

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, 2018

	Pension Obligation	Courthouse Project	Combined
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Principal payments on bonds	$ (61,315,000)	$ (870,000)	$ (62,185,000)
Interest paid on bonds	-	(759,550)	(759,550)
Surcharges received	-	1,861,063	1,861,063
Contribution to other government	-	(788,749)	(788,749)
Net cash flows provided by or (used) for noncapital financing activities	(61,315,000)	(557,236)	(61,872,236)
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment income	9,775	25,041	34,816
Payments received from County and AQMD for maturities of financial securities	61,315,000	-	61,315,000
Other Expense	(2,360)	-	(2,360)
Administrative expense	-	(1,700)	(1,700)
Net cash flows provided by or (used) for investing activities	61,322,415	23,341	61,345,756
Increase (Decrease) in cash and cash equivalents	7,415	(533,895)	(526,480)
Cash and cash equivalents - Beginning of year	6,219	2,018,310	2,024,529
Cash and cash equivalents - End of year	$ 13,634	$ 1,484,415	$ 1,498,049

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

NOTE 1: DESCRIPTION OF THE AUTHORITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The Agreement authorizes the Authority to provide financing for public capital improvements for the County, to acquire such public capital improvements, and to purchase certain underlying obligations issued by or on behalf of the County. Obligations may be in the form of assessment district bonds, community facilities district bonds, general obligation bonds, limited obligation bonds, revenue bonds, notes, lease-purchase agreements and other evidence of indebtedness. The financial position and results of operations of the services provided are reflected in the funds of the joint powers authority. The Authority is deemed to be a component unit of the County, although legally separate. The governing board of the Authority is the same as the County.

All activities of the Authority are presented as proprietary funds. The Authority's financial statements are presented on the accrual basis of accounting. Under this method, income is recognized when earned and expenses recorded when incurred. The Authority provides services entirely to the County. All accounts and records of the Authority's projects are held by trustee banks.

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

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

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

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

The Authority has deep-discounts associated with the bond issues. The deep-discount is being amortized based on the accreted value of the bonds at year-end. The Authority records the amortization of deep-discount as accretion of interest expense.

In accordance with generally accepted governmental accounting standards, a statement of net position, a statement of revenues, expenses, and changes in net position, and a statement of cash flows are presented. Net position can be classified into restricted and unrestricted. These classifications are defined as follows:

Restricted – This component of net position consists of constraints placed on net resources through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted – This component of net position consists of net resources that do not meet the definition of “restricted” or “net investment in capital assets.”

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

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

NOTE 2: CASH AND INVESTMENTS

Fiscal agents acting on behalf of the Authority hold all cash and investments from long-term debt issuances and Courthouse surcharges. In accordance with the terms of the trust agreements, cash and investments are segregated and restricted for specified purposes. The trustee banks for the Authority are as follows:

Bond Issue	Trustee
1995 Pension Obligation Bonds	The Bank of New York Mellon Trust Company
2007 Courthouse Revenue Bonds	Wells Fargo Bank

NOTE 2: CASH AND INVESTMENTS (*continued*)

Fair Value Measurements

The valuation of 2a7 money market mutual funds are at one-dollar net asset value (NAV) per share. The total fair value of these at June 30, 2018 was $1,498,049, with $0 unfunded commitments. The redemption frequency is daily and redemption notice period of intra-daily. This type of investment primarily invests in short term U.S Treasury, government securities (including repurchase agreements collateralized by U.S. Treasury and government agency securities).

Investments Authorized by Debt Agreements

Investments of debt proceeds held by bond trustees are governed by provisions of the debt agreements. The Courthouse Project Bonds currently outstanding were issued to provide funds to the County of San Bernardino to renovate courthouse facilities located within the County of San Bernardino. In addition to these local bonds, the debt agreements specify permitted investment types along with any related insurance, collateral, or minimum credit rating requirements. The Courthouse Project Bonds investments in money market funds are required to have the highest letter and numerical rating. The Courthouse Project Bonds met these requirements as of June 30, 2018.

Credit Risk

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

NOTE 3: RECEIVABLES

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

At June 30, 2018, the total receivables balance was $241,838,824. Of this amount, $63,927,044 is due in one year.

NOTE 4: LONG-TERM DEBT

Pension Obligation Bonds

On December 13, 1995 the Authority issued Serial Current Interest Authority Bonds in the amount of $298,595,000 and Serial Capital Appreciation Authority Bonds in the amount of $121,932,487 (collectively referred to as the "Authority Bonds").

The Authority Bonds were issued to provide funds to enable the Authority to purchase the San Bernardino County 1995 Pension Obligation Refunding Bonds (the "County Bonds") and the South Coast Air Quality Management District 1995 Pension Obligation Refunding Bonds (the "AQMD Bonds") which were issued by the County and AQMD respectively, to allow them to refinance each of their unfunded accrued actuarial liability with respect to retirement benefits for their respective employees.

The repayment of the Authority Bonds is secured by a first lien on and pledge of all amounts payable by the County and AQMD on the County Bonds and the AQMD Bonds.

The Serial Current Interest Authority Bonds matured on August 1, 2011. Interest on the Capital Appreciation Authority Bonds compounds semi-annually at interest rates from 7.56 percent to 7.72 percent payable solely at maturity.

The Authority Bonds are not subject to redemption prior to maturity.

Courthouse Revenue Bonds

On June 29, 2007 the Authority issued Revenue Bonds, Series 2007 in the total amount of $18,370,000, of which $3,100,000 is subject to an interest rate of 5.10 percent and $15,270,000 is subject to an interest rate of 5.50 percent payable semi-annually. The bonds were issued to finance the costs of seismic retrofitting, refurbishing, improving and renovating courthouse facilities located within San Bernardino County, fund a reserve fund for the bonds, and pay costs of issuance of the bonds.

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

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

NOTE 4: LONG-TERM DEBT (continued)

The debt service schedule for the current fiscal year required principal and interest payments totaling $1,629,550. The total surcharged revenues received during the fiscal year totaled $1,861,063. Total principal and interest remaining on the bonds is $21,564,475 payable through June 2037.

The $3,100,000 and the $15,270,000 term bonds maturing on June 1, 2017 and June 1, 2037, respectively, are subject to sinking fund installments and mandatory redemption prior to maturity beginning on June 1, 2009 and June 1, 2018, respectively. Total principal of $1,700,000 has been early redeemed.

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

Description	July 1, 2017	Additions	Reductions	June 30, 2018	Due Within One Year
Pension Obligation					
Capital Appreciation Authority Bonds	$ 334,900,000	$ -	$ 61,315,000	$ 273,585,000	$ 64,325,000
Bond Discount	(48,842,992)	-	(18,071,558)	(30,771,434)	(14,456,891)
Courthouse Revenue Bonds	14,050,000	-	870,000	13,180,000	410,000
Total	$ 300,107,008	$ -	$ 44,113,442	$ 255,993,566	$ 50,278,109

The annual requirements to amortize all bonds outstanding at June 30, 2018, including interest payments of $8,384,475, and unaccreted and accreted interest of $229,496,678, over the life of the debt, are as follows:

Description	2019	2020	2021	2022	2023
Pension Obligation Capital Appreciation Authority Bonds	$ 64,325,000	$ 67,485,000	$ 70,800,000	$ 70,975,000	$ -
Courthouse Revenue Bonds	1,134,900	1,137,350	1,133,425	1,133,400	1,132,000
Total	$ 65,459,900	$ 68,622,350	$ 71,933,425	$ 72,108,400	$ 1,132,000

Description	2024 - 2028	2029 - 2033	2034 - 2037	Total
Pension Obligation Capital Appreciation Authority Bonds	$ -	$ -	$ -	$ 273,585,000
Courthouse Revenue Bonds	5,698,175	5,676,975	4,518,250	21,564,475
Total	$ 5,698,175	$ 5,676,975	$ 4,518,250	$ 295,149,475

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

NOTE 5: BOND AGREEMENT/DEBT COVERAGE

In accordance with the bond agreement, if on any surcharge revenue measurement date, the debt service coverage ratio for the immediately prior bond year is equal or greater than 1.5, the Trustee shall transfer excess surcharge revenues to the Improvement Fund to pay for costs of improvements or reimburse the County directly for these costs. If it is less than 1.5, the Trustee shall transfer any remaining amounts in the Debt Service Fund to the Redemption Account for a special mandatory redemption of bonds. If on the subsequent Surcharge Revenue Measurement Date, the coverage ratio is also less than 1.5, the Trustee shall transfer all remaining amounts in the Debt Service Fund and the Improvement Fund to the Redemption Account for a special mandatory redemption of bonds.

The coverage ratio for the immediately prior bond year was 1.587. On June 22, 2018, the Trustee transferred excess surcharge revenues in the amount of $788,749 to the County directly to reimburse improvement costs.

NOTE 6: NET POSITION/DEFICITS

Net position is the residual of all other elements presented in a statement of financial position (assets, deferred outflows of resources, liabilities, and deferred inflows of resources).

Pension obligation: The deficit was caused primarily by accumulative accretion of interest expense exceeding its related revenue. The deficit is projected to be reduced by future years' discount amortization.

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

NOTE 7: NEW PRONOUNCEMENTS

Effective in Current Fiscal Year

GASB Statement No. 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 Authority'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 Authority's financial Statements.

NOTE 7: NEW PRONOUNCEMENTS (*Continued*)

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 Authority'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 Authority'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 Authority has not determined the effect of this Statement.

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

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

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 Authority has not determined the effect of this Statement.

NOTE 7: NEW PRONOUNCEMENTS (*Continued*)

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 Authority 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 Authority has not determined the effect of this Statement.

SCHEDULE ONE

SAN BERNARDINO COUNTY FINANCING AUTHORITY
SCHEDULE OF DEBT SERVICE
FOR THE YEAR ENDED JUNE 30, 2018

PENSION OBLIGATION
CAPITAL APPRECIATION AUTHORITY BONDS

Fiscal Year	Due August 1 Initial Principal	Accreted Interest	Total
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	$ 44,088,322	$ 229,496,678	$ 273,585,000

SAN BERNARDINO COUNTY FINANCING AUTHORITY
SCHEDULE OF DEBT SERVICE
FOR THE YEAR ENDED JUNE 30, 2018

COURTHOUSE REVENUE BONDS

Fiscal Year	Due December 1 Interest	Due June 1 Principal	Due June 1 Interest	Total
2018-19	$ 362,450	$ 410,000	$ 362,450	$ 1,134,900
2019-20	351,175	435,000	351,175	1,137,350
2020-21	339,213	455,000	339,212	1,133,425
2021-22	326,700	480,000	326,700	1,133,400
2022-23	313,500	505,000	313,500	1,132,000
2023-24	299,613	540,000	299,612	1,139,225
2024-25	284,762	565,000	284,763	1,134,525
2025-26	269,225	600,000	269,225	1,138,450
2026-27	252,725	635,000	252,725	1,140,450
2027-28	235,263	675,000	235,262	1,145,525
2028-29	216,700	710,000	216,700	1,143,400
2029-30	197,175	745,000	197,175	1,139,350
2030-31	176,688	780,000	176,687	1,133,375
2031-32	155,237	820,000	155,238	1,130,475
2032-33	132,687	865,000	132,688	1,130,375
2033-34	108,900	915,000	108,900	1,132,800
2034-35	83,738	965,000	83,737	1,132,475
2035-36	57,200	1,015,000	57,200	1,129,400
2036-37	29,287	1,065,000	29,288	1,123,575
TOTALS	$ 4,192,238	$ 13,180,000	$ 4,192,237	$ 21,564,475

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

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Supervisors and Audit Committee
San Bernardino County Financing Authority
San Bernardino, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of each major fund of the San Bernardino County Financing Authority (Authority), a component unit of the County of San Bernardino, California, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic 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 Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California
November 15, 2018