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, 2016

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

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INDEPENDENT AUDITORS' REPORT

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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, 2016, 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 Authority'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 Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of the San Bernardino County Financing Authority as of June 30, 2016, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Emphasis of Matter

As discussed in Note 7, the Authority implemented Governmental Accounting Standards Board (GASB) Statements No. 72, *Fair Value Measurement and Application*, effective July 1, 2015. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The schedules of debt service are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2016, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California
December 16, 2016

Exhibit A

SAN BERNARDINO COUNTY FINANCING AUTHORITY
STATEMENT OF NET POSITION
JUNE 30, 2016

	Pension Obligation	Courthouse Project	Combined
ASSETS			
Current assets			
Cash and cash equivalents	$ 3,855	$ 1,520,434	$ 1,524,289
Cash-restricted	-	244,109	244,109
Interest receivable	-	262	262
Receivables:			
Due from County	55,043,182	-	55,043,182
Due from AQMD	3,046,084	-	3,046,084
Total current assets	58,093,121	1,764,805	59,857,926
Noncurrent assets			
Receivables:			
Due from County	251,550,949	-	251,550,949
Due from AQMD	12,129,436	-	12,129,436
Total noncurrent assets	263,680,385	-	263,680,385
Total assets	321,773,506	1,764,805	323,538,311
LIABILITIES			
Current liabilities			
Interest payable	-	67,260	67,260
Current portion of bonds	58,450,000	655,000	59,105,000
Current portion of bond discount	(21,198,376)	-	(21,198,376)
Total current liabilities	37,251,624	722,260	37,973,884
Noncurrent liabilities			
Bonds (net of current portion)	334,900,000	14,050,000	348,950,000
Bond discount	(48,842,992)	-	(48,842,992)
Total noncurrent liabilities	286,057,008	14,050,000	300,107,008
Total liabilities	323,308,632	14,772,260	338,080,892
NET POSITION:			
Unrestricted	(1,535,126)	(13,007,455)	(14,542,581)
TOTAL NET POSITION (DEFICIT):	$ (1,535,126)	$ (13,007,455)	$ (14,542,581)

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

Exhibit B

SAN BERNARDINO COUNTY FINANCING AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016

	Pension Obligation	Courthouse Project	Combined
NONOPERATING REVENUES			
Interest and dividends	$ 282,206	$ 1,586	$ 283,792
Accretion of interest income	23,884,745	-	23,884,745
Surcharge revenue	-	1,583,139	1,583,139
Total nonoperating revenues	24,166,951	1,584,725	25,751,676
NONOPERATING EXPENSES			
Interest	-	835,551	835,551
Accretion of interest expense	23,884,745	-	23,884,745
Other expenses	3,794	1,700	5,494
Total nonoperating expenses	23,888,539	837,251	24,725,790
Changes in net position	278,412	747,474	1,025,886
Net position (deficit) - Beginning of year	(1,813,538)	(13,754,929)	(15,568,467)
Net position (deficit) - End of year	$ (1,535,126)	$ (13,007,455)	$ (14,542,581)

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, 2016

	Pension Obligation	Courthouse Project	Combined
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Principal payments on bonds	$ (55,720,000)	$ (830,000)	$ (56,550,000)
Interest paid on bonds	-	(839,223)	(839,223)
Surcharges received	-	1,583,139	1,583,139
Net cash flows provided by or (used) for noncapital financing activities	(55,720,000)	(86,084)	(55,806,084)
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment income	87	1,338	1,425
Proceeds from sales of investments	55,720,000	-	55,720,000
Other expenses	-	(1,700)	(1,700)
Net cash flows provided by or (used) for investing activities	55,720,087	(362)	55,719,725
Increase (Decrease) in cash and cash equivalents	87	(86,446)	(86,359)
Cash and cash equivalents - Beginning of year	3,768	1,850,989	1,854,757
Cash and cash equivalents - End of year	$ 3,855	$ 1,764,543	$ 1,768,398

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 the newly implemented GASB Statement No. 72, *Fair Value Measurement and Application.* Accordingly, the classification of such assets has been changed and reported as receivables, effective as of fiscal year ended June 30, 2016.

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, 2016 was $1,768,398, 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, 2016.

Credit Risk

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

Restricted Cash

Restricted cash of $244,109 is held by a trustee for a special mandatory redemption of the Courthouse revenue bonds to occur on December 1, 2016, pursuant to the Trust Indenture.

NOTE 3: RECEIVABLES

Due to the implementation of GASB Statement No. 72, *Fair Value Measurement and Application,* items previously reported as investments are now reported as 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, 2016, the total receivables balance was $321,769,651. Of this amount, $58,089,266 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 $1,669,223. The total surcharged revenues received during the fiscal year totaled $1,583,139. Total principal and interest remaining on the bonds is $24,954,795 payable through June 2037.

The $3,100,000 and $15,270,000 term bonds maturing on June 1, 2017 and June 1, 2037, respectively, are subject to sinking fund installments and mandatory redemption prior to maturity beginning on June 1, 2009 and June 1, 2018, respectively. Total principal of $980,000 has been early redeemed.

The following is a summary of changes in the Bonds for the fiscal year ended June 30, 2016:

Description	July 1, 2015	Additions	Reductions	June 30, 2016	Due Within One Year
Pension Obligation					
Capital Appreciation Authority Bonds	$ 449,070,000	$ -	$ 55,720,000	$ 393,350,000	$ 58,450,000
Bond Discount	(93,926,113)	-	(23,884,745)	(70,041,368)	(21,198,376)
Courthouse Revenue Bonds	15,535,000	-	830,000	14,705,000	655,000
Total	$ 370,678,887	$ -	$ 32,665,255	$ 338,013,632	$ 37,906,624

The annual requirements to amortize all bonds outstanding at June 30, 2016, including interest payments of $10,249,795, and unaccreted and accreted interest of $324,983,294, over the life of the debt, are as follows:

Description	2017	2018	2019	2020	2021
Pension Obligation					
Capital Appreciation Authority Bonds	$ 58,450,000	$ 61,315,000	$ 64,325,000	$ 67,485,000	$ 70,800,000
Courthouse Revenue Bonds	1,456,345	1,177,750	1,175,475	1,182,100	1,177,075
Total	$ 59,906,345	$ 62,492,750	$ 65,500,475	$ 68,667,100	$ 71,977,075

Description	2022 - 2026	2027 - 2031	2032 - 2036	2037	Total
Pension Obligation					
Capital Appreciation Authority Bonds	$ 70,975,000	$ -	$ -	$ -	$ 393,350,000
Courthouse Revenue Bonds	5,879,350	5,886,075	5,854,850	1,165,775	24,954,795
Total	$ 76,854,350	$ 5,886,075	$ 5,854,850	$ 1,165,775	$ 418,304,795

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 1.277, thus the remaining amount of $244,109 in the Debt Service Fund was transferred to the Redemption account for the special mandatory redemption of the bonds to occur on December 1, 2016, which is the next scheduled interest payment date.

NOTE 6: NET POSITION/DEFICITS

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

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

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

NOTE 7: NEW PRONOUNCEMENTS

Effective in Current Fiscal Year

GASB Statement No. 72 – In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. The objective of the statement is to address accounting and financial reporting issues related to fair value measurements. The Statement is effective for periods beginning after June 15, 2015. The Authority has implemented this Statement as of July 1, 2015. The effect of this implementation resulted in items previously reported as investments to be reported as receivables.

NOTE 7: NEW PRONOUNCEMENTS (*Continued*)

GASB Statement No. 76 – In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.* The objective of this Statement is to identify – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted accounting principles (GAAP). The Statement is effective for periods beginning after June 15, 2015. The Authority has implemented this Statement as of July 1, 2015.

GASB Statement No. 79 – In December 2015, GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants.* The objective of this Statement is to address for certain external investment pools and their participants the accounting and financial reporting implications that result from changes in the regulatory provisions referenced by previous accounting and financial reporting standards. The provisions of this Statement are effective for reporting periods beginning after June 15, 2015 - except for certain provisions related to portfolio quality and the provision related to the monthly shadow price calculation, which are effective for reporting periods beginning after December 15, 2015. The Statement did not have an effect on the Authority's financial statements.

Effective in Future Fiscal Years

GASB Statement No. 74 – In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The Statement is effective for the fiscal year ending June 30, 2017. The Authority has not determined the effect of this Statement.

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 the fiscal year ending June 30, 2018. The Authority has not determined the effect of this Statement.

GASB Statement No. 77 – In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures.* The objective of this Statement is to provide financial statement users with essential information about the nature and magnitude of the reduction in tax revenues through tax abatement programs. The Statement is effective for periods beginning after December 15, 2015. The Authority has not determined the effect of this Statement.

NOTE 7: NEW PRONOUNCEMENTS (*Continued*)

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

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

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

SAN BERNARDINO COUNTY FINANCING AUTHORITY
SCHEDULE OF DEBT SERVICE
FOR THE YEAR ENDED JUNE 30, 2016

PENSION OBLIGATION
CAPITAL APPRECIATION AUTHORITY BONDS

	Due August 1		
Fiscal Year	Initial Principal	Accreted Interest	Total
2016-17	12,319,506	46,130,494	58,450,000
2017-18	11,958,878	49,356,122	61,315,000
2018-19	11,608,089	52,716,911	64,325,000
2019-20	11,265,271	56,219,729	67,485,000
2020-21	10,982,496	59,817,504	70,800,000
2021-22	10,232,466	60,742,534	70,975,000
TOTALS	$ 68,366,706	$ 324,983,294	$ 393,350,000

SAN BERNARDINO COUNTY FINANCING AUTHORITY
SCHEDULE OF DEBT SERVICE
FOR THE YEAR ENDED JUNE 30, 2016

COURTHOUSE REVENUE BONDS

Fiscal Year	Due December 1 Principal	Due December 1 Interest	Due June 1 Principal	Due June 1 Interest	Total
2016-17	240,000	403,558	415,000	396,957	1,455,515
2017-18		386,375	405,000	386,375	1,177,750
2018-19		375,238	425,000	375,237	1,175,475
2019-20		363,550	455,000	363,550	1,182,100
2020-21		351,038	475,000	351,037	1,177,075
2021-22		337,975	500,000	337,975	1,175,950
2022-23		324,225	525,000	324,225	1,173,450
2023-24		309,788	560,000	309,787	1,179,575
2024-25		294,387	585,000	294,388	1,173,775
2025-26		278,300	620,000	278,300	1,176,600
2026-27		261,250	655,000	261,250	1,177,500
2027-28		243,237	695,000	243,238	1,181,475
2028-29		224,125	730,000	224,125	1,178,250
2029-30		204,050	770,000	204,050	1,178,100
2030-31		182,875	805,000	182,875	1,170,750
2031-32		160,737	845,000	160,738	1,166,475
2032-33		137,500	895,000	137,500	1,170,000
2033-34		112,887	945,000	112,888	1,170,775
2034-35		86,900	1,000,000	86,900	1,173,800
2035-36		59,400	1,055,000	59,400	1,173,800
2036-37		30,387	1,105,000	30,388	1,165,775
TOTALS	$ 240,000	$ 5,127,782	$ 14,465,000	$ 5,121,183	$ 24,953,965

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 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, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 16, 2016. Our opinion included an emphasis-of-matter paragraph regarding the Authority's adoption of Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application,* effective July 1, 2015.

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 Authority'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 over financial reporting 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 Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California
December 16, 2016